AboitizPower

1 3 APR 2018

SECURITIES AND EXCHANGE COMMISSION
Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City, 1307

ATTENTION : **DIR. VICENTE GRACIANO P. FELIZMENIO JR.**
Markets and Securities Regulation Department

via PSE EDGE
PHILIPPINE STOCK EXCHANGE, INC.
PSE Tower, 28th Street cor. 5th Avenue,
Bonifacio Global City, Taguig City

ATTENTION : **MR. JOSE VALERIANO B. ZUÑO III**
OIC – Head, Disclosure Department

via electronic mail
PHILIPPINE DEALING & EXCHANGE CORP.
Market Regulatory Services Group
37/F, Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas, Makati City

ATTENTION : **MS. ERIKA GRACE C. ALULOD**
Head – Issuer Compliance and Disclosures Department

Gentlemen:

Attached is the SEC Form 17-A (Annual Report 2017) of Aboitiz Power Corporation for your files.

Kindly acknowledge receipt hereof.

Thank you.

Very truly yours,

ABOITIZ POWER CORPORATION
By:

MANUEL ALBERTO R. COLAYCO
Corporate Secretary

COVER SHEET

C 1 9 9 8 0 0 1 3 4

S.E.C. Registration Number

A B O I T I Z P O W E R C O R P O R A T I O N

(Company's Full Name)

3 2 N D S T R E E T , B O N I F A C I O G L O B A L

C I T Y , T A G U I G C I T Y , M E T R O M A N I L A

P H I L I P P I N E S

(Business Address: No. Street City / Town / Province)

MANUEL ALBERTO R. COLAYCO

Contact Person

Contact Person

02- 886-2338

Company Telephone Number

1 2 / 3 1	Annual Report 1 7 - A	3rd Monday of May 0 5 / 2 1
Month *Day* Fiscal Year	FORM TYPE	*Month* *Day* Annual Meeting

N/A

Secondary License Type, if Applicable

SEC

Dept. Requiring this Doc

N/A

Amended Articles Number/Section

Total No. of Stockholders	Domestic	Foreign
	x	

- -

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = Pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the year ended **2017**

2. SEC Identification Number **C199800134** 3. BIR TIN **200-652-460-000**

4. Exact name of registrant as specified in its charter **Aboitiz Power Corporation**

5. **Philippines**
Province, country or other jurisdiction of incorporation

6. Industry Classification Code

7. **32nd Street, Bonifacio Global City, Taguig City** **1634**
Address of principal office Postal Code

8. **(02) 886-2800**
Issuer's telephone number, including area code

9. **N.A.**
Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Section 4 and 8 of the RSA.

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	**7,358,604,307**
Total Debt (as of December 31, 2017)	**₱205,996,054,000.00**

11. Are any or all of the securities listed on a Stock Exchange?

Yes (✓) No ( )

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange **Common**

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Securities Regulation Code (SRC) and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes (✓) No ( )

(b) has been subject to such filing requirements for the past 90 days.

Yes (✓) No ( )

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

    For 2017, aggregate voting stock of registrant held outside of its affiliates and/or officers and employees totaled 1,385,561,277 shares (for details please refer to the attached notes to financial statements and Schedule H of this report) while its average market price per share was ₱41.55.

    Based on this data, total market value of registrant's voting stock not held by its affiliates and/or officers and employees was computed to be ₱57,570,071,059.35.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the registrant has filed all documents and reports required to be filed by Section 17 of the RSA subsequent to the distribution of securities under a plan confirmed by a court or the SEC.

    Yes ( ) No (✓)

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

    (a) Any annual report to security holders;

    (b) Any information statement filed pursuant to SRC Rule 20;

    (c) Any prospectus filed pursuant to SRC Rule 8.1.

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PART 1 – BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Business Development

Incorporated in 1998, AboitizPower is a publicly-listed holding company that, through its Subsidiaries and Affiliates, is a leader in the Philippine power industry and has interests in a number of privately-owned generation companies, retail electricity supply services, and distribution utilities. AEV owns 76.88% of the outstanding capital stock of AboitizPower as of March 28, 2018.

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 Southern Philippines when it acquired Davao Light & Power Company, Inc. (Davao Light), which is 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, which was the policy being promoted by 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 ("Bakun AC Plant").

AboitizPower was incorporated on February 13, 1998 as a holding company for the Aboitiz Group's investments in power generation and distribution. However, in order to prepare for growth in the power generation industry, AboitizPower was repositioned in the third quarter of 2003 as a holding company that owned power generation assets only. The divestment by AboitizPower of its power distribution assets was achieved through a property dividend declaration in the form of AboitizPower's ownership interests in the different power distribution companies. The property dividend declaration effectively transferred direct control over the Aboitiz Group's power distribution business to AEV. Further, in 2005, AboitizPower consolidated its investments in mini-hydroelectric plants in a single company by transferring all of HEDC's and Cleanergy's mini-hydroelectric assets to Hedcor, Inc. (Hedcor).

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 (PSALM) Corporation. The price offered was US$530 million (mn). PSALM turned over possession and control of the Magat Plant to SN Aboitiz Power-Magat on April 26, 2007.

In a share swap agreement with AEV on January 20, 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:

(a) An effective 55% equity interest in VECO, which is the second largest privately-owned distribution utility in the Philippines in terms of customers and annual GWh sales and is the largest distribution utility in the Visayas region;

(b) 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;

(c) An effective 64% ownership interest in Subic EnerZone Corporation (SEZ), which manages the Power Distribution System of the Subic Bay Metropolitan Authority (SBMA); and

(d) 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.

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.

On April 20, 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 TPI, acquired the remaining 50% interest in EAUC from El Paso Philippines.

On June 8, 2007, as part of the reorganization of the power-related assets of the Aboitiz Group, the Company acquired from its Affiliate, Aboitiz Land, Inc. (AboitizLand), 100% interest in Mactan Enerzone Corporation (MEZ), which owns and operates the Power Distribution System in MEPZ II in Mactan, Cebu, and 60% interest in Balamban Enerzone Corporation (BEZ), which owns and operates the Power Distribution System in West Cebu Industrial Park-Special Economic Zone (WCIP-SEZ) in Balamban, 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.

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 July 16, 2007.

In August 2007, the Company, together with Vivant Energy Corporation (VEC), 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"). TPI and Vivant Integrated Generation Corporation (VIGC) thereafter 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.

On November 15, 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 in STEAG Power 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.

On November 28, 2007, SN Aboitiz Power–Benguet, Inc. (SN Aboitiz Power–Benguet), the consortium between AboitizPower and SN Power AS of Norway, submitted the highest bid for the Ambuklao-Binga Hydroelectric Power Complex, then 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.

In 2007, AboitizPower entered into an agreement to buy the 20% equity of Team Philippines Industrial Power II Corporation (formerly: Mirant (Phils.) Industrial Power II Corp.) (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%.

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%.

On May 26, 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 July 30, 2008. Currently, the Tiwi-MakBan Geothermal Facilities have a sustainable capacity of approximately 693.2 MW.

Therma Luzon, Inc. (TLI), a wholly-owned 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 August 28, 2009 ("Pagbilao Plant"). It assumed dispatch control of the Pagbilao Plant on October 1, 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.

AboitizPower, through its wholly-owned Subsidiary, Therma Marine, Inc. (TMI), assumed ownership over Mobile 1 and Mobile 2, both barge-mounted diesel-powered generation plants, on February 6, 2010 and March 1, 2010, respectively. TMI acquired these power barges from PSALM for US$30 mn through a negotiated bid concluded on July 31, 2009. Each of the power barges 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.

On May 27, 2011, Therma Mobile, Inc. (TMO), a wholly-owned 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 had undergone rehabilitation in July 2011, and started commercial operations on November 12, 2013 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.

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

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 January 29, 2014. This allowed AESI to sell 40 MW of geothermal power from ULGPP beginning January 1, 2015.

On March 31, 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 under the Naga Power Plant Land-Based Gas Turbine Land Lease Agreement, 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 right-to-top, and to declare the said right-to-top null and void. PSALM, SPC, 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. The Supreme Court has denied the motions filed by SPC with finality and issued an Entry of Judgement on January 9, 2017. SPC filed with the Supreme Court a Motion for Leave to File and Admit Motion for Reconsideration dated December 9, 2016, and a Supplemental Motion/Petition for Release to the en Banc dated January 16, 2017. These were denied by the Supreme Court in a Resolution dated April 26, 2017.

On May 15, 2014, TPI entered into a Joint Venture Agreement with TPEC Holdings Corporation to form Pagbilao Energy Corporation (PEC). PEC is the project company that owns and operates the 400-MW Pagbilao Unit 3 (Pag3), located in the same site as the existing 700-MW Pagbilao Units 1 and 2 coal-fired thermal power plants in Pagbilao Quezon. PEC started commercial operations in March 2018.

On June 19, 2014, AboitizPower acquired 100% ownership interest in Lima Utilities Corporation, now Lima Enerzone Corporation (LEZ), from Lima Land, Inc. (Lima Land), a wholly-owned Subsidiary of AboitizLand. LEZ is the Distribution Utility serving the Lima Technology Center (LTC) located in Lipa City, Batangas. LEZ manages a 50-megavolt ampere (MVA) substation with dual power supply system connected through a 69-kilovolt (kV) transmission line of the NPC. The LEZ substation is directly connected to the Grid in Batangas City with an alternate connection to the MakBan geothermal line.

On August 28, 2014, the Company through its Subsidiary, TPI, signed a Shareholders' Agreement allowing the Vivant Group to own no more than 20% of the issued and outstanding shares of Therma Visayas, Inc. (TVI), the project company for the construction of the 2x150 MW circulating fluidized bed (CFB) coal-fired power plant in Barangay Bato, Toledo City, Cebu. Construction of Units 1 and 2 is underway with targeted commercial operations targeted in 2018.

On August 29, 2014, the SEC approved AboitizPower's application for the issuance of fixed-rate corporate retail bonds with an aggregate principal amount of up to ₱10 bn. The 2014 Bonds, which received the highest possible rating of "PRS Aaa" rating from the PhilRatings, were issued simultaneously in two series, the 7-year bonds with a fixed-interest rate of 5.205% per annum, and the 12-year bonds with a fixed-interest rate of 6.10% per annum. The 2014 Bonds are listed with the PDEx.

On August 18, 2015, AboitizPower, through its holding company for its renewable assets, Aboitiz Renewables, Inc. (ARI), entered into a Shareholders' 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. Their project vehicle, San Carlos Sun Power, Inc. (Sacasun), has undertaken the acquisition, development, and exploration of the 59-Megawatt peak (MWp) solar photovoltaic power generation project in San Carlos City, Negros Occidental. Subsequently, Sunedison, Inc. (SUNE), the parent company of Sunedison Philippines, filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. ARI thereafter filed default notices against Sunedison Philippines on July 15, 2016, and on December 29, 2016, acquired Sacasun's loan from BDO Unibank, Inc. (BDO). On December 4, 2017, AboitizPower International acquired SunE Solar B.V.'s (SunE Solar) equity interest in Sunedison Philippines, resulting in the divestment by SUNE and its subsidiaries' participation in the Sacasun Project.

On September 18, 2015, TSI declared full commercial operations of the first of its two 150-MW units of the planned 300-MW CFB 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 February 2, 2016.

In 2015, AboitizPower explored the following potential projects in pursuit of its undertaking to expand its business in Asia: a 127-MW hydropower generation project along the Lariang River in Central Sulawesi, Indonesia, and a 2x55 MW Greenfield geothermal plant in East Java Province, Indonesia. On January 31, 2017, after reviewing its overall capital commitments, AboitizPower decided to exit from the latter project and allow its partner, PT Medco Power Indonesia, to proceed with the project.

On October 3, 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 Coal Plant Ltd. Co. (GNPower Mariveles or GMCP) and GNPower Dinginin Ltd. Co. (GNPower Dinginin or GNPD). On October 4, 2016, the Purchase and Sale Agreements for the acquisition was finalized, and the acquisition was completed on December 27, 2016, Philippine time, upon receipt of the approvals from the Philippine Competition Commission (PCC) and the Philippine Board of Investments (BOI). On August 29, 2017, GMCP signed a Notes Facility Agreement with a consortium of lenders in the amount of up to US$800 mn. The proceeds of the notes will be used by GMCP to refinance its existing loans and for other general corporate purposes. On December 12, 2017, GNPD achieved financial close for the project financing of the second unit of its 2x668MW super-critical coal fired power plant in Dinginin, Bataan. TPI is also restructuring its share ownership in GNPD and GMCP, through the transfer of direct ownership of GNPD and GMCP from the offshore Subsidiaries of TPI to TPI itself, and the eventual dissolution and liquidation of the offshore intermediary Subsidiaries that own the GNPD and GMPC shares. As of March 31, 2018, TPI directly owns 66.01% of the partnership interest in GMCP and 50% of the partnership interest in GNPD.

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.

On January 15, 2018, Aseagas, a wholly-owned Subsidiary of AboitizPower, announced that it will permantly cease operations of its 8.8-MW biomass plant in Lian, Batangas ("Aseagas Plant"). Aseagas has earlier suspended its commissioning on November 24, 2017 due to the unavailability of the supply of organic effluent wastewater from its supplier, Absolut Distillers, Inc. Aseagas also prepaid its outstanding loan with the Development Bank of the Philippines amounting to ₱3.7 bn. Despite the closure of the Aseagas Plant, AboitizPower expects to remain ontrack to add some 500 MW of attributable capacity in 2018, mainly from baseload and hydropower plants, pursuant to the Company's 2020 target of 4,000-MW of net attributable capacity.

In 2018, AboitizPower is set to enter the rooftop solar space through APX1 in order to further expand the Company's significant renewable energy portfolio under its Cleanergy brand. AboitizPower's portfolio under the Cleanergy brand includes its geothermal, run-of-river hydro, and large hydropower facilities. AboitizPower first ventured into the solar market in 2016 with Sacasun. To date, AboitizPower has 1,272 MW of net sellable capacity, through its partners, under its Cleanergy brand. The Company is pushing for a balanced mix strategy – maximizing Cleanergy while taking advantage of the reliability and cost efficiency of thermal power plants.

Neither AboitizPower nor any of its Subsidiaries has ever been the subject of any bankruptcy, receivership or similar proceedings.

Neither AboitizPowernoranyofits Subsidiaries hasbeenthesubject ofanymaterial reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

(2) Business of Issuer

With investments in power generation, retail electricity supply, and power distribution throughout the Philippines, AboitizPower is considered one of the leading Filipino-owned companies in the power industry. Based on SEC's parameters of what constitutes a significant Subsidiary under Item XX of Annex B of SRC Rule 12, AboitizPower's significant Subsidiaries at present are ARI and TPI. (Please refer to Annex "A" hereof for AboitizPower's corporate structure.)

(a) Description of Registrant

(i) Principal Products

GENERATION OF ELECTRICITY

Since its incorporation in 1998, AboitizPower has accumulated interests in both renewable and non-renewable generation plants. As of 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 December 31, 2017 compared to 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	821	776	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-Benguet	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
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.

Renewables

Aboitiz Renewables, Inc. (ARI)

Since the start of its operations in 1998, AboitizPower has been committed to developing expertise in renewable energy technologies. The Company 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. As such, a significant component of AboitizPower's future projects is expected to focus on those that will allow the Company to leverage its experience in renewable energy, while maintaining its 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. ARI was incorporated on January 19, 1995. AboitizPower, through and/or with ARI, owns equity interests in the following Generation Companies, among others:

(a) 100% equity interest in Luzon Hydro Corporation (LHC), which operates the 70-MW Bakun AC Plant in Ilocos Sur in northern Luzon;
(b) 100% equity interest in Hedcor, which operates 13 mini-hydroelectric plants (each with less than 10 MW in installed capacity) with a total capacity of 37.90 MW located in Benguet Province in northern Luzon and in Davao City in southeastern Mindanao;
(c) 100% equity interest in Hedcor Sibulan, Inc. (Hedcor Sibulan), which operates the 49-MW Sibulan HEPP and Tudaya 1 HEPP in Davao del Sur;
(d) 100% equity interest in Hedcor Tudaya, Inc. (Hedcor Tudaya), which operates the 7-MW Tudaya 2 HEPP in Davao del Sur;
(e) 100% equity interest in Hedcor Sabangan, Inc. (Hedcor Sabangan), which operates the 14-MW Sabangan run-of-river HEPP in Sabangan, Mountain Province;
(f) 100% equity interest in Hedcor Bukidnon, Inc. (Hedcor Bukidnon), which is currently building a 68-MW run-of-river HEPP in Manolo Fortich, Bukidnon;
(g) 83.33% equity interest in Manila-Oslo Renewable Enterprise, Inc. (MORE), which owns SN Aboitiz

Power-Magat, the company that operates the 360-MW Magat HEPP and the 8.5-MW Maris Plant in Isabela in northern Luzon; and SN Aboitiz Power-Benguet, the company that operates the 245-MW Ambuklao-Binga Hydroelectric Power Complex in northern Luzon;

(h) 100% equity interest in APRI, which owns and operates the 390-MW Tiwi-MakBan geothermal facilities located in Albay, Laguna and Batangas; 100% beneficial ownership interest in Sacasun, the company that owns and operates the 59-MWp utility-scale solar photovoltaic solar project in San Carlos City, Negros Occidental; and

(i) 100% equity interest in Aseagas, the company that owns the biomass plant in Lian, Batangas, which has ceased operations.

Run-of-River Hydros

Luzon Hydro Corporation (LHC)

Incorporated on September 14, 1994, LHC owns, operates and manages the 70-MW Bakun AC run-of-river hydropower plant located in Amilongan, Alilem, Ilocos Sur.

LHC was ARI's joint venture company 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 MOA granting ARI full ownership over LHC. ARI assumed full ownership and control of LHC on May 10, 2011.

The Bakun AC Plant was constructed and operated under the government's BOT scheme. Energy produced by the Bakun AC Plant, approximately 254 GWh annually, is delivered and taken up by NPC pursuant to a Power Purchase Agreement ("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 AC 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 AC Plant to NPC in February 2026, free from liens and without the payment of any compensation by NPC.

The IPPA contract for the Bakun AC 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 AC Plant on September 2012. LHC also replaced two 15-year old power transformers in February 2016 to improve reliability and to enable the plant to continuously produce clean and renewable energy and supply it to the Luzon Grid.

The Bakun AC Plant received its latest ISO certification, ISO 55001:2014 or the Asset Management Standard, last December 2017. It is also currently ISO-certified on Quality, Environmental, Operational Health and Safety, and Information Security.

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

Hedcor, Inc. (Hedcor)

Hedcor owns, operates, and manages run-of-river hydropower plants in northern Luzon and Davao with a combined installed capacity of 37.90 MW.

Hedcor was incorporated on October 10, 1986 by ACO as 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. 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 commercial operations in April 2012, is selling under the Feed-in-Tariff (FIT) mechanism through a Renewable Energy Payment Agreement (REPA) with National Transmission Corporation (Transco). The remaining electricity is being sold through the Wholesale Electricity Spot Market

(WESM).

Northern Luzon's climate is classified as having two pronounced seasons - 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, Hedcor'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)

Incorporated on December 2, 2005, Hedcor Sibulan owns, operates and manages the 49.2-MW hydroelectric power plants located in Sibulan, Santa Cruz, Davao del Sur ("Sibulan Plants").

The Sibulan Plants have generated 49.2 MW of clean and renewable energy for Davao since 2010. It is composed of three (3) 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 Tudaya Hydro 1 was renewed with the Energy Regulatory Commission (ERC) on March 10, 2014, and for the Sibulan Hydro A and B plants on May 18, 2015. The energy produced by the Sibulan Plants 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 Plants 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)

Incorporated on January 17, 2011, Hedcor Tudaya owns, operates and manages the 7-MW Tudaya Hydro 2 run-of-river hydropower plant in Astorga, Santa Cruz, Davao del Sur ("Tudaya Hydro 2"). 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.

Together with Hedcor Sibulan, Hedcor Tudaya was awarded the very first ISO certification for Asset Management or the ISO 55001:2014 standard in the Philippines in 2017, certifying 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 Tudaya.

Hedcor Sabangan, Inc. (Hedcor Sabangan)

Incorporated on January 17, 2011, Hedcor Sabangan owns, operates and manages the 14-MW Sabangan run-of-river HEPP in Sabangan, Mountain Province ("Sabangan Plant"). The Sabangan Plant has been commercially operating since June 2015, and is selling under the FIT mechanism through a REPA with Transco. The plant is a pioneer hydropower plant in the Mountain Province region, harnessing the power of the Chico River.

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

Hedcor Bukidnon, Inc. (Hedcor Bukidnon)

Incoporated on January 17, 2011, Hedcor Bukidnon is the project company for the 68.8-MW Manolo Fortich hydroelectric power project located in Manolo Fortich, Bukidnon.

The project is composed of the 43.4-MW Manolo Fortich Hydro 1 and the 25.4-MW Manolo Fortich Hydro 2 plants, which will 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, with an estimated total project cost of ₱13 bn, began in 2015. Unit 1 and Unit 2 are expected to be completed in 2018.

On September 2015, Hedcor Bukidnon obtained loans and credit accommodations from a consortium of lender-banks in the amount of up to ₱10 bn to finance the development, construction, operation, and maintenance of the project. BPI Capital Corporation acted as Mandated Lead Arranger and Bookrunner, while BPI-AMTG acted as Trustee and Facility Agent.

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

Large Hydros

SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat)

Incorporated on November 29, 2005, SN Aboitiz Power-Magat is the owner and operator of the 360-MW Magat HEPP ("Magat Plant") located at the border of Ramon, Province of Isabela and Alfonso Lista, Ifugao in Northern Luzon, and the 8.5-MW run-of-river Maris Main Canal 1 HEPP ("Maris Plant") located in Brgy. Ambatali in Ramon, Isabela.

The Magat Plant was completed in 1983 and was acquired by SN Aboitiz Power-Magat on December 14, 2006 by winning a bidding process conducted by PSALM. As a hydroelectric facility that can be started up in a short period of time, the Magat Plant is 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, which AboitizPower believes gives it a competitive advantage in terms of economic dispatch order versus other fossil fuel-fired power plants that have significant marginal costs. The Magat Plant has a nameplate capacity of 360 MW but is capable of producing up to 380 MW.

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, selling a significant portion of its available capacity to the WESM 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.

In September 2007, SN Aboitiz Power-Magat obtained a US$380 mn loan from a consortium of international and domestic financial institutions. The US$380 mn loan consisted of a dollar tranche of up to US$152 mn, and a peso tranche of up to ₱10.1 bn. The financing agreement was hailed as the region's first-ever project finance debt granted to a merchant power plant. It won Project Finance International's

Power Deal of the Year, and Asset's Best Project Finance Award and Best Privatization Award. The loan was used to partially finance the deferred balance of the purchase price of the Magat Plant under the Asset Purchase Agreement with PSALM. Part of the loan proceeds was also used to pay SN Aboitiz Power-Magat's US$159 mn loan from AEV and advances from its shareholders which were used to acquire the Magat Plant. In 2012, SN Aboitiz Power-Magat secured top-up financing of ₱5 bn for its recapitalization requirements and general corporate purposes.

As a hallmark of innovation in revenue generation, SN Aboitiz Power-Magat garnered an AS contract with NGCP on October 12, 2009, a first for a privately-owned plant. These services are necessary to maintain power quality, reliability and stability of the Grid.

SN Aboitiz Power-Magat obtained the BOI's approval of its application as new operator of the Magat Plant with a pioneer status. This entitled the company to an income tax holiday (ITH) until July 11, 2013. On November 6, 2012, the BOI approved SN Aboitiz Power-Magat's application for a one-year extension of its ITH holiday until July 11, 2014. After the lapse of the extended ITH, the company became subject to income tax.

SN Aboitiz Power-Magat completed the half-life refurbishment of the last unit of the Magat Plant (Unit 1) in June 2014. In 2009, SN Aboitiz Power-Magat began the refurbishment project of Unit 2, which was completed in January 2018. Work on Unit 4 followed in November 2010 and was completed in 2011, while the refurbishment of Unit 3 was completed in August 2013. These projects involved the replacement of power transformers and related equipment, as well as automation of its control systems. These aimed to overhaul the plant's electro-mechanical equipment and avert operational inefficiencies that usually occur in HEPPs after more than 25 years of operation. Half-life refurbishment is a good industry practice to ensure that the plants remain available throughout their lifespan.

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, 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. SN Aboitiz Power-Magat elected to avail the 10% corporate income tax rate incentives 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.

On October 7, 2016, SN Aboitiz Power-Magat signed a Notes Facility Agreement with BPI and Chinabank for the issuance of fixed-rate corporate notes in the amount of ₱19 bn. SN Aboitiz Power-Magat appointed BPI-AMTG as Facility Agent, BPI Capital Corporation as Mandated Lead Arranger and Bookrunner, and China Bank Capital Corporation as Joint Lead Arranger. The proceeds of the loan were used by the company to repay its existing loans, finance its recapitalization and fund other general corporate purposes. The simultaneous drawdown of the new notes facility and full payment of all outstanding senior loans under the project financing were completed on October 17, 2016.

The Ancillary Services Procurement Agreement (ASPA) between SN Aboitiz Power-Magat and NGCP, which was entered into on March 2013, expired on July 26, 2016 ("2013 ASPA"). On August 24, 2016, the company and NGCP jointly filed a new ASPA with the ERC. On December 5, 2016, ERC issued the Provisional Authority (PA) to execute the new ASPA with the official effectivity period of February 7, 2017 to February 6, 2022. The new ASPA has the same AS volume, price and schedule, terms and conditions as the 2013 ASPA. SN Aboitiz Power-Magat, in particular, was able to overcome changes in NGCP measurement protocols and secure full 95 MW certification for three of its four units.

The La Niña phenomenon experienced during the last five (5) months of 2016 carried over its effect in the Magat dam watershed into the first half of 2017, with inflows during this period higher by 116% compared to historical normal. In the second half of 2017, the Magat River went to its normal inflow rate that resulted to the Magat Plant ending the year at 30% higher than the normal water availability and 37% higher compared to the 2016 water year.

Driven by higher water inflows, the Magat Plant's total sold capacity from spot energy generation and AS increased by 56% in 2017 at 2.46 terawatt-hour (TWh) from 1.6 TWh in 2016. This is equivalent to sold capacity factor of 75% in 2017 compared to 46% in 2016. This also results in higher spot and AS revenue of ₱7.06 bn in 2017, or 50.4% higher than the revenue of ₱4.69 bn in 2016. Bilateral Contract Quantity (BCQ) revenue in 2017 associated with SN Aboitiz Power-Magat is ₱698 mn, or 23.3% lower than in 2016.

SN Aboitiz Power-Magat was the project partner of the National Irrigation Administration (NIA) in the Maris Optimization Project in Ramon, Isabela. The project involved the installation of an additional layer of stoplogs on the Maris Re- regulating Dam, which added some 8 mn cubic meters of storage in the Maris Reservoir. The additional storage would improve dam operational safety and irrigation water delivery for the NIA. The project broke ground on November 2014 and was completed on March 22, 2016. Turnover to NIA was done on June 1, 2016.

The Maris Plant is the first power plant constructed by SN Aboitiz Power-Magat since it acquired the assets via privatization. It is composed of two units of Kaplan pit type turbines with generator nameplate capacity of 4.25 MW each. Construction of the US$47 mn Maris Plant began in late 2015. The plant re-utilizes the water coming from the Magat Plant through the re-regulating dam located downstream of Magat. The water then flows into the Maris Main (South) Irrigation Canal. In 2017, the Maris Plant was awarded with the Corporate Safety Milestone Award by the Safety and Health Association of the Philippine Energy Sector, Inc. (SHAPES) for accumulating at least one million man-hours without lost time accident. Unit 1 was commissioned on October 24, 2017 while Unit 2 was commissioned on November 6, 2017.

SN Aboitiz Power-Magat 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 in 2017. The company has consistently shown outstanding workplace safety and health performance, receving the Corporate Safety and Health Excellence Award during the 12th Energy Safety and Health Conference in 2016. In 2017, the company received the Corporate Safety Milestone Award for the Magat Plant and the 2017 Safety and Health Association of the Philippine Energy Sector, Inc. (SHAPES) Outstanding Safety and Health Professionals for its health and safety team.

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. (SN Aboitiz Power-Benguet)

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.

In August 2008, SN Aboitiz Power-Benguet signed a US$375-mn loan agreement with a consortium of local and foreign banks where US$160 mn was taken up as US Dollar financing and US$215 mn as Philippine Peso financing. Proceeds from the loan were used to partially finance the purchase price, rehabilitate the power plant complex, and refinance SN Aboitiz Power-Benguet's existing advances from its shareholders with respect to the acquisition of assets.

Also in 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 which 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 December 2, 2014 and was completed on February 23, 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.

On September 21, 2015, SN Aboitiz Power-Benguet refinanced its existing peso credit facility from BDO and BPI. The new syndicated 15-year term loan was in the amount of ₱15 bn. The company also increased its previous US$375 mn credit facility signed in August 2008 to US$436.23 mn. The increased US dollar credit facility was availed by the company from its remaining lenders, Nordic Investment Bank (NIB), International Finance Corporation (IFC), BDO, and BPI at better commercial terms and lower interest rate. The incremental increase of the proceeds of the peso credit facility was used to pay existing loans and advances used for the rehabilitation and refurbishment of both the Ambuklao and Binga Plants.

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 which 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.

On October 25, 2016, SN Aboitiz Power-Benguet and the Province of Benguet amicably settled and entered into a compromise agreement on a real property tax (RPT) dispute that has reached ₱157.7 mn. The amount represents three years of tax benefits to the municipalities of Bokod and Itogon and Benguet province. The MOA/Compromise Agreement executed by the company with the Province of Benguet was approved by the Local Board of Assessment Appeals (LBAA) of Benguet via a Decision based on Compromise Agreement dated December 9, 2016.

The former ASPAs for the Ambuklao and Binga Plants, entered into between SN Aboitiz Power-Benguet and NGCP, expired on July 25, 2016 and March 25, 2017, respectively. On separate joint applications on August 24, 2016 and March 6, 2017, NGCP and SN Aboitiz Power-Benguet filed the new ASPAs for the Ambuklao and Binga Plants with the ERC. The ERC issued the Provisional Authority (PA) to execute the new ASPAs with the official effectivity period of December 26, 2016 to December 25, 2021 for the Ambuklao Plant, and from September 26, 2017 to September 25, 2022 for the Binga Plant. Both ASPAs have the same AS volume, price and schedule, terms and conditions as the former ASPAs.

The La Niña phenomenon during the last five (5) months of 2016 was also sustained in Ambuklao and Binga dam watersheds in the first half of 2017, as well as in the adjacent Magat dam watershed. Inflows during the first half of 2017 were higher by 45% against its historical normal for the Ambuklao and Binga dams. However, the second half of 2017 was drier by 32% compared to historical normal in Benguet. This resulted to an overall 21% lower than normal water availability at year–end 2017. Water availability during 2017 is also 18.5% lower than during 2016.

Despite lower inflow to the Ambuklao reservoir in 2017 as compared to 2016, the Ambuklao Plant's total sold capacity from spot energy generation and Ancillary Services (AS) 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.

Similarly, 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.

The resulting combined spot and AS revenue of the Ambuklao and Binga Plants for 2017 was ₱5.29 bn, which was 14% higher than the revenue of ₱4.64 bn in 2016. BCQ revenue in 2017 associated with SN Aboitiz Power-Benguet was ₱707 mn, 36% lower than that of 2016.

Both the 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. SN Aboitiz Power-Benguet is working its way towards attaining ISO 55001 certification for asset management.

In 2016, the Ambuklao and Binga Plants were awarded the Gawad ng Kaligtasan at Kalusugan (GKK) Award given by the Department of Labor and Employment (DOLE), a recognition received for three straight years. During the same year, both plants also received the Corporate Safety and Health Excellence Award during the 12th Energy Safety and Health Conference for their outstanding workplace safety and health performance.

In 2017, both the Ambuklao and Binga plants qualified for the Hall of Fame in the 2017 SHAPES Corporate Safety and Health Excellence Awards. SN Aboitiz Power-Benguet's health and safety team members were given recognition as 2017 SHAPES Outstanding Safety and Health Professionals. The company also received a special award for Enhanced Corporate Viability at the 11th National Convention on Labor-Management Cooperation held in Cebu on November 24, 2017. This award recognizes the company’s Kaibigan Committee's innovative adoption of systems and procedures on "human resources development, relationship-building, and accountability toward workplace excellence leading to company growth." SN Aboitiz Power-Benguet also received an award as a finalist in the search for outstanding labor-management cooperation for industrial peace.

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.

SN Aboitiz Power-Generation, Inc. (SN Aboitiz Power-Gen)

Incorporated on March 10, 2011, SN Aboitiz Power-Gen is the company that implements the SN Aboitiz Power Group’s Greenfield Development Program. This program aims to grow the SN Aboitiz Power Group’s renewable energy portfolio by looking at potential hydroelectric power projects in the Philippines, primarily within its current host communities in Northern Luzon.

There is a pipeline of projects in various stages from initial prospecting, pre-feasibility, feasibility, construction, including the recently completed Maris Plant which was transferred to SN Aboitiz Power-Magat. By the end of 2017, the significant project is the proposed 380-MW Alimit Hydropower Complex Project in Ifugao. Presently, SN Aboitiz Power-Gen is gaining some momentum in the permitting process, with the company expected to continue working with the government, indigenous peoples' representatives, and industry partners.

The company was awarded the 2017 Corporate Safety Milestone Award for its proposed Alimit project, which accumulated at least one million man-hours without lost time incident. It was recognized for the safe conduct of activities associated with its feasibility study.

SN Aboitiz Power-Gen is a joint venture between ARI and SN Power. It is currently 60% owned by MORE with the remaining 40% owned by SN Power Philippines.

Geothermal

AP Renewables, Inc. (APRI)

Incorporated on March 9, 2007, APRI is one of the leading renewable power companies in the country. It owns and operates the Tiwi-MakBan geothermal facilities located in Tiwi, Albay, Bay and Calauan, Laguna; and Sto. Tomas, Batangas ("Tiwi-MakBan Plants") with a total potential capacity of 693.2 MW. The Tiwi-MakBan Plants were acquired by APRI from PSALM in July 2008 and were formally turned over to APRI on May 25, 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).

On May 26, 2013, APRI's steam supply contract with the Philippine Geothermal Production Company, Inc. (PGPC) shifted to a Geothermal Resources Sales Contract (GRSC). The GRSC is one of the assumed contracts of APRI as a result of the acquisition of the Tiwi-MakBan Plants. Under the GRSC, the effective steam price payable to PGPC is indexed to coal prices. The GRSC will expire on September 20, 2021.

On August 13, 2013, APRI and PGPC entered into an Interim Agreement amending the GRSC to restructure 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 a mutually beneficial steam off-take agreement.

In 2013, APRI successfully completed major refurbishment activities on the fourteen (14) generation units at the Tiwi-MakBan Plants. Significant improvements in reliability and steam usage efficiency have been achieved following the completion of the aforesaid activities. In July 2016, APRI likewise completed the rehabilitation and commissioning of the 6-MW Binary Plant 1 located in MakBan. The Binary Plant 1 utilizes waste heat from spent geothermal brine to run turbines prior to injection of the brine to the underground reservoir. APRI continues to implement specialized geothermal technology including steam path modification and gas removal system to improve steam usage at the plant level.

In February 2016, APRI signed an Omnibus Agreement with the Asian Development Bank (ADB), BPI, and the Credit Guarantee & Investment Facility (CGIF), to avail of the combined credit facilities of ADB and BPI up to the amount of ₱12.5 bn. The issuance was certified as a Climate Bond by the Climate Bond Initiative and is the first issuance of its kind in Asia.

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.

Solar

Maaraw Holdings San Carlos, Inc. (Maaraw San Carlos) 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 SunE Solar, 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.

AboitizPower is set to enter the rooftop solar space aimed at further expanding the Company's already significant renewable energy portfolio under its Cleanergy brand, through Aboitiz Power Distributed Energy, Inc. (APX1).

APX1 was incorporated in November 2016 to engage in the business of operating light and power systems. In July 2017, the SEC approved the application of Kookabura Equity Ventures, Inc. (KEVI) to amend its Articles of Incorporation in order to change its corporate name to Aboitiz Power Distributed Renewables Inc. (APX2) and to amend its primary purpose to include the business of operating light and power systems. KEVI was incorporated on May 20, 2002.

In their first full year of operations, APX1 and APX2 focused on building internal capability to serve various market segments, attracting top technical talent for PhotoVoltaic (PV) solar technology, and defining synergies with other teams and products within the AboitizPower Group. With increasing customer demand for renewable energy, AboitizPower believes that APX1 and APX2 are poised to advance a growing pipeline of potential opportunities in the Rooftop Solar space. APX1 is looking to complete several key projects in Luzon and Visayas in 2018, with a strategy of integrating these projects with the Group's existing Open Access customers.

AboitizPower, through ARI, beneficially owns 100% of each of APX1 and APX2.

Biogas

Aseagas Corporation (Aseagas)

Aseagas owns an 8.8-MW biomass plant located in Lian, Batangas. On January 15, 2018, the company 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. (Absolut).

Incorporated on June 5, 2012, Aseagas was established as a waste-to-energy business. Its first project was the construction of a liquid biomethane fuel plant. The company entered into an agreement with Absolut for the supply of organic effluent wastewater to be utilized as raw material.

Due to the slump in oil prices at the end of 2014, Aseagas shifted its business model from producing liquid biomethane fuel for vehicles to producing biogas for power generation. In the same year, the company entered into a Notes Facility and Security Agreement in the amount of up to ₱2 bn with the Development Bank of the Philippines (DBP) to finance the construction of its biomass plant. On December 4, 2017, it prepaid its outstanding loan with DBP in the amount of ₱2.368 bn.

AboitizPower, through its wholly-owned Subsiary ARI, effectively owns 100% of Aseagas.

Non-Renewables

Therma Power, Inc. (TPI)

Incorporated on October 26, 2007, TPI is a wholly-owned Subsidiary of AboitizPower and is the latter's holding company for its non-renewable energy projects. AboitizPower, through and/or with TPI, has equity interests in the following generation companies, among others:

(a) 100% equity interest in TMI, owner and operator of 100-MW Mobile 1 barge-mounted power plant in Maco, Compostela Valley and 100-MW Mobile 2 barge-mounted power plant in Nasipit, Agusan del Norte;

(b) 100% equity interest in TMO, owner and operator of Mobile 3–6 barge-mounted power plants in Navotas Fishport, Manila, with a total generating capacity of 242 MW;

(c) 100% equity interest in EAUC, owner and operator of a 43-MW Bunker C-fired power plant in MEPZ 1, Mactan, Cebu;

(d) 100% equity interest in TLI, the IPPA of the 700-MW contracted capacity of the Pagbilao Plant located in Quezon Province;

(e) 100% equity interest in TSI, owner and operator of a 300 MW CFB coal-fired power plant in Toril, Davao City;

(f) 100% equity interest in TPVI, the project company that bidded for the privatization of the Naga power plant, located in Naga City, Cebu;

(g) 80% equity interest in TVI, which is currently building a 300-MW coal-fired power plant in Toledo City, Cebu;

(h) 66.07% beneficial ownership interest as of March 31, 2018 in GN Power Mariveles, owner and operator of an approximately 2x316 MW (net) pulverized coal-fired electric power generation facility in Mariveles, Bataan;

(i) 50% beneficial ownership interest as of March 31, 2018 in GN Power Dinginin, which is currently building a 2x668 MW (net) supercritical coal-fired power plant in Bataan;

(j) 50% equity interest in PEC, owner and operator of the 400-MW (net) coal-fired power plant in Pagbilao, Quezon Province;

(k) 26.4% beneficial ownership interest in Cebu Energy, which operates a 3x82-MW coal-fired power power plant in Toledo City, Cebu; and

(l) 25% equity interest in RP Energy, which proposes to build and operate a 2x300-MW coal-fired power plant at the Redondo Peninsula located in the Subic Bay Freeport Zone (SBFZ).

Oil Group

Therma Marine, Inc. (TMI)

Incorporated on November 12, 2008, 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 February 6, 2010 and March 1, 2010, respectively, after the successful conclusion of the US$30 mn negotiated bid for the barges on July 31, 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 and dispatchable reserve 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 March 1, 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 that expired on May 27, 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. (TMO)

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.

TMO acquired the barges from Duracom Mobile Power Corporation and East Asia Diesel Power Corporation on May 27, 2011. The barges have undergone rehabilitation on July 2011, and started commercial operations on November 12, 2013 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. The company has an existing PSA with MERALCO.

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

The company 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. During this period, TMO's engines and transmission lines were still undergoing rehabilitation after having been non-operational for the five years. PEMC's petition is pending before the Supreme Court.

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

East Asia Utilities Corporation (EAUC)

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 incorporated on February 18, 1993 and began supplying power through the WESM on December 26, 2010. On April 26, 2011, EAUC entered into an Electric Power Purchase Agreement (EPPA) with the Philippine Economic Zone Authority (PEZA) to purchase 22 MW electric power. EAUC also signed a PSA with AdventEnergy for the remaining
21.5 MW capacity effective February 21, 2017.

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

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

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 (CPPC)

Incorporated on July 13, 1994, CPPC owns and operates a 70-MW Bunker C-fired power plant located in the Old VECO Compound, Cebu City ("CPPC Plant"). 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 61.72 MW of power to VECO.

On April 20, 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.

AboitizPower beneficially owns 60% of CPPC.

Southern Philippines Power Corporation (SPPC)

Incorporated on March 15, 1996, SPPC owns and operates a 55-MW Bunker C-fired power plant ("SPPC Plant") located in Alabel, Sarangani, a municipality outside General Santos City in Southern Mindanao.

The SPPC Plant was developed by SPPC on a build-own-operate basis, under the terms of 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.

SPPC is a joint venture company among AboitizPower, Alsing Power Holdings, Inc., and Tomen Power (Singapore) Pte. Ltd. AboitizPower has 20% equity interest in SPPC.

Western Mindanao Power Corporation (WMPC)

Incorporated on March 15, 1996, WMPC 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 of 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.

WMPC is a joint venture company among AboitizPower, Alsing Power Holdings, Inc., and Tomen Power (Singapore) Pte. Ltd. AboitizPower has a 20% equity interest in WMPC.

Coal Group

Therma Luzon, Inc. (TLI)

TLI has been 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") since October 1, 2009, when it became the first IPPA in the country. TLI was incorporated on October 20, 2008.

As the IPPA for the Pagbilao Plant, 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 has been contracted to various cooperatives, private distribution utilities, directly connected customers, and to 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 and 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)

Incorporated on April 30, 2012, PEC owns and operates the third coal-fired power plant within the Pagbilao Plant facilities located in Pagbilao, Quezon, with a net capacity of 400 MW ("Pag3").

Pursuant to the Joint Development Agreement entered into by TPI and TeaM Energy effective May 31, 2012, PEC was formed as a separate vehicle for 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. On May 15, 2014, 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.

During the course of PEC's business permit application for calendar year 2018, the Municipality of Pagbilao required PEC to execute a MOA implementing corporate social responsibility (CSR) programs for an amount above the company's budget. Upon the company's refusal, on February 27, 2018, the Municipality of Pagbilao issued a Cease and Desist Order (CDO) against PEC and refused to issue its business permit. PEC filed an application for injunction and obtained a Temporary Restraining Order (TRO) from the RTC of Lucena City to prevent the municipality from implementing what PEC believes to be an unwarranted cease and desist order. On March 2, 2018, the RTC issued a TRO valid for 20 days from February 28, 2018. On March 7, 2018, the Municipality of Pagbilao revoked the CDO, and on hearing on the same date, the parties moved for the dismissal of the case, which the Court granted.

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. (TSI)

Incorporated on November 18, 2008, TSI owns and operates the 300-MW (2x150MW) CFB coal-fired power plant located both in Barangay Binugao, Toril District, Davao City and Barangay Inawayan, Sta. Cruz, Davao del Sur.

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)

TVI is the project company that is constructing a 340-MW (2x170 MW) CFB coal-fired power plant located in Barangay Bato, Toledo City, Cebu.

The company was incorporated on October 15, 1997 as Vesper Industrial & Development Corporation (VIDC), a joint venture company of A. Soriano Corporation (Anscor) and Tokuyama Corporation (Tokuyama). In December 2011, AboitizPower through its wholly-owned Subsidiary, TPI, acquired all of the shares in VIDC owned by Anscor and Tokuyama, and thereafter renamed VIDC to Therma Visayas, Inc. The Vivant 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. Currently, the company is undertaking the task of connecting to the Grid and energization of its plant. Target commercial operations for Units 1 and 2 is on May 2018 and August 2018, respectively.

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 (Cebu Energy)

Incorporated on November 28, 2007, Abovant is a joint venture company formed as the holding company for shares in Cebu Energy. Abovant is 60% owned by TPI and 40% owned by VIGC of the Vivant Group. Cebu Energy was incorporated on December 5, 2008.

Abovant and Global Formosa Power Holdings, Inc. (Global Formosa), a joint venture between Global Business Power Corporation and Flat World Limited, 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 much-needed power to the province of Cebu and its neighboring province, Bohol.

Abovant has a 44% stake in Cebu Energy, while Global Formosa owns the remaining 56% stake. Consequently, AboitizPower, through TPI, holds a 26.4% effective ownership interest in Cebu Energy.

Redondo Peninsula Energy, Inc. (RP Energy)

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).

STEAG State Power Inc. (STEAG Power)

Incorporated on December 19, 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 November 15, 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 currently hold the remaining 51% and 15% equity, respectively, in STEAG Power.

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

AboitizPower has 34% equity interest in STEAG Power.

GNPower Mariveles Coal Plant Ltd. Co. (GNPowerMariveles or GMCP)

GNPower Mariveles is a private limited partnership organized on May 13, 2007 and established to undertake the development, construction, operation, and ownership of an approximately 2x316 MW (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 January 29, 2010. It was declared commercially available in the market in 2013 and currently supplies electric capacity to the Luzon and Visayas markets.

The electricity produced by the Mariveles Project is exported through a 230kV high voltage transmission line owned and operated by 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, through its designated RES.

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.

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, GNPower Dinginin has already signed Power Purchase and Sale Agreements with highly-rated distribution utilities and RES.

GNPower 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 GNPower 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 GNPower 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 GNPower Dinginin. The restructuring involves the transfer of direct ownership of GNPower Dinginin from the offshore subsidiaries of TPI to TPI itself, and the eventual dissolution and liquidation of the offshore intermediary subsidiaries that own the GNPower Dinginin shares. After the restructuring, TPI directly owns a 50% partnership interest in GNPower Dinginin.

GNPower Dinginin is co-developed by Power Partners, ACEHI, and TPI. AboitizPower, through TPI, effectively owns a 50% partnership interest in GNPower Dinginin, as of March 31, 2018.

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 10% of Davao Light's requirements as of December 31, 2017. Cotabato Light maintains a stand-by 9.927-MW Bunker C-fired power plant capable of supplying approximately 14% of its requirements as of December 31, 2017.

Future Projects

Before undertaking a new power generation project, the Company conducts an assessment of the proposed project. Factors taken into consideration include the proposed project's land use requirements, access to a power grid, fuel supply arrangements (if relevant), availability of water, local requirements for permits and licenses, acceptability of the project to the communities and people it will affect, ability of the project to generate electricity at a competitive cost, and the existence of potential purchasers of the electricity generated. For the development of a new power project, the Company, its partners, and suppliers are required to obtain all national and local permits and approvals before the commencement of construction and commercial operations, including those related to the project site, construction, the environment, land use planning/zoning, operations licenses, and other related approvals.

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 (8) 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 December 31, 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 each of the past three (3) 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
TOTAL	**6,955,108**	**6,746,171**	**6,225,771**	**1,258**	**1,230**	**1,136**	**954,300**	**916,876**	**881,944**

Visayan Electric Company, Inc. (VECO)

Incorporated on February 22, 1961, VECO is the second largest privately-owned distribution utility in the Philippines in terms of customer size and annual MWh sales. It supplies electricity to the greater part of Metro Cebu, an area covering 674 square kilometers (sq. kms.) and with a population of approximately 1.7 mn. To date, VECO has nineteen (19) power substations and one (1) mobile substation that serve the power needs of the cities of Cebu, Mandaue, Talisay, and Naga, and the municipalities of Minglanilla, San Fernando, Consolacion, and

Liloan. As of December 31, 2017, VECO served a total of 422,814 customers and had a peak demand of 504 MW.

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 twenty five (25) years starting 1978 and was conditionally renewed for another twenty five (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, directly and through its predecessors-in-interest, has been in the business of distributing electricity in Cebu since 1905. In the early 1900s, the predecessors-in-interest of the Aboitiz Group acquired a 20% interest in VECO's predecessor-in-interest, the Visayan Electric Company, S.A. Since that time, the Aboitiz Group's ownership interest in VECO has increased from 20% to its current ownership interest of 55.25%, which is directly held by AboitizPower.

In April 2004, AEV, Vivant, and Hijos de F. Escaño Inc. (Hijos) entered into a Shareholders' Cooperation Agreement that sets out guidelines for VECO's day-to-day operations and the relationship among VECO's shareholders, including restrictions on share transfers (the grant of the right of first refusal in the event of a transfer to a third party and the right to transfer to Affiliates, subject to certain conditions), board composition and structure, proceedings of directors and shareholders, minority shareholder rights, dividend policy termination and non-compete obligations. Under the terms of the agreement, day-to-day operations and management of VECO were initially assumed by AEV, and eventually by AboitizPower after it acquired AEV's ownership interest in VECO in January 2007. To guarantee compliance with their respective obligations under the Shareholders' Cooperation Agreement, AboitizPower and Vivant were each required to place in escrow 5% of the shares in VECO registered in their names. The escrow shares will be forfeited in the event that a shareholder group violates the terms of the Shareholders' Cooperation Agreement.

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 under the PBR for the regulatory period July 1, 2010 to June 30, 2014.

On March 2013, VECO filed an application for the approval of its proposed translation into distribution rates to the different customer classes for the fourth regulatory year with the ERC. The five-month recovery due to the delay of the implementation in the third regulatory year is included in the application for the fourth regulatory year. The application was approved by the ERC on July 10, 2013 and VECO was able to implement the new distribution rates on time. The approved distribution rates for the fourth regulatory year were to be applicable only for July 2013 up to June 2014 billings. In the first quarter of 2014, VECO was scheduled to undergo the PBR reset process to ensure that the new rates would be approved and can be applied by July 2014. The ERC, however, deferred all PBR reset processes. VECO has since continued to apply the rates approved for the fourth regulatory period even beyond June 2014.

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 ten years.

To address VECO's long-term power supply requirement, VECO entered into an EPPA with Cebu Energy on October 16, 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 20 MW starting March of 2015 to cover the increase in demand within its franchise area. However, the 20-MW contract was terminated in 2016 due to the inability of the transmission grid to wheel power from the plant to VECO.

On December 26, 2010, VECO signed a five-year PSA with Green Core Geothermal, Inc. (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 December 25, 2011 and an additional 15 MW starting December 25, 2012. This addressed NPC's reduced power supply under its contract with VECO. The first and second 15-MW contract with GCGI expired last December 26, 2016.

On December 25, 2014, the Contract for the Supply of Electric Energy (CSEE) between VECO and PSALM expired. Consequently, VECO entered into PSAs with AESI, Vivant Energy Solutions, and Unified Leyte Geothermal Energy Inc. (ULGEI) for 40 MW, 17 MW, and 5 MW baseload supply, respectively. The 5-MW contract with ULGEI was also terminated in 2016 due to 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 have commenced, the company entered into a PSA with South Luzon Power Generation Company (SLPGC) for 50 MW in 2016.

Starting December 26, 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 contracts to account for the continued migration of Contestable Customers. VECO's PSAs with TVI is pending with the ERC for approval.

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. (Davao Light)

Davao Light is the third largest privately-owned electric distribution utility in the country in terms of customer size and annual kWh sales. Davao Light's franchise area covers 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 sq. kms. As of December 2017, Davao Light served a total of 384,434 customers, with an average peak demand recorded at 404,196 kW.

Davao Light was incorporated on October 11, 1929, and was acquired by the Aboitiz Group in 1946. 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.

The large percentage of Davao Light's power supply comes from renewable energy sources from the NPC-PSALM, Hedcor Sibulan, and Hedcor's Talomo plant, which comprised 52.29% of Davao Light's power mix.

Due to the high growth of new locators within the franchise area, Davao Light accelerated the upgrades for the distribution network infrastructure to meet increasing demand. On July 5, 2017, the company upgraded its Don Ramon Substation by adding additional capacity of 100 MVA, increasing its overall capacity to 200 MVA.

On December 10, 2017, Davao Light also energized its 9.5-kilometer 69-kV line connecting ERA Substation to DRA Substation. To ensure reliability and to cater growing demand in the northern part of its franchise area, the company upgraded its San Vicente Substation after the successful energization and loading of the newly installed 33 MVA power transformer of the said substation.

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.

On November 28, 2016, Davao Light signed a 60-MW Power Supply Contract (PSC) with San Miguel Consolidated Power Corporation, subject to ERC approval. This PSC is intended to replace the firm supply contracts with SPPC and TMI, which are expiring in 2018. Moreover, Davao Light also signed non-firm supply contracts with TMI and WMPC on October and November 2017, respectively, with a total capacity of 105 MW, intended to supply Davao Light's power requirements during the drought months when the supply coming from NPC-PSALM is very limited.

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.

In July 2017, Davao Light donated a new and improved investment promotion website to Davao City Investment Promotion Center to further promote the city's economic interests. The website adheres to Global Investment Promotions Best Practices in content presentation and user interface, search engine optimization, and back-end data analytics, in the hopes of facilitating business opportunities for local and foreign investors. Davao Light aims to bring more investments into its franchise area through partnerships with the local government units.

The company is currently owned 99.93% by AboitizPower.

Cotabato Light and Power Company (Cotabato Light)

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 sq. kms. As of December 2017, Cotabato Light's peak demand was recorded at 28.60 MW and is serving a total of 41,110 customers.

Incorporated on April 23, 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 June 16, 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) system.

Cotabato Light maintains a standby Bunker C-fired plant with dependable capacity of 5.85 MW, capable of supplying approximately 20% of its franchise area requirements. The standby plant is capable of supplying electricity in case of power supply problems with PSALM, its other power suppliers, or the NGCP, and to stabilize voltage when necessary.

As of December 2017, Cotabato Light's systems loss stands at 8.84%, higher than the systems loss cap of 8.5%, as implemented by the ERC. The company continuously strives to improve its systems and processes in order to reduce systems loss.

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 April 1, 2013 to March 1, 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. The company is continuously innovating its systems and processes to reduce systems loss. 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 99.9374% of Cotabato Light.

San Fernando Electric Light & Power Co., Inc. (SFELAPCO)

SFELAPCO's franchise in the City of San Fernando, Pampanga covers an area of 78.514 sq. kms. and includes 402.92 and 662.74 circuit-kilometers on its 13.8-kV and 240-volt distribution lines, respectively. SFELAPCO also 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. As of December 2017, SFELAPCO's peak demand was recorded at 116,477 kW, and was serving a total of 101,423 customers.

SFELAPCO was incorporated on May 17, 1927 and was granted a municipal franchise in 1927. In 1961, RA 3207 was passed by Congress granting SFELAPCO a legislative franchise to distribute electricity for a period of 50 years ending in June 2011. SFELAPCO's current legislative franchise was granted through RA 9967, for another 25 years commencing on March 24, 2010.

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 October 1, 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 owns an effective interest of 43.78% in SFELAPCO.

Subic EnerZone Corporation (SEZ)

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 was 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%.

On July 6, 2011, the ERC released its final determination on SEZ's application for approval of its maximum average price (MAP), Annual Revenue Requirement (ARR), and Performance Incentive Scheme (PIS) for the period October 2011 to September 2015. The approved MAP for the first regulatory year, as translated into new rates per customer class, was implemented in January 2012.

SEZ saw a smooth transition in implementing new PBR power rates during 2012. In July 2012, ERC certified SEZ as a Local RES.

For SEZ's second regulatory year covering October 1, 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 October 1, 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)

MEZ was incorporated on February 19, 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 June 8, 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 SN Aboitiz Power-Magat and GCGI pursuant to a CSEE. Under the said contract, GCGI is required to provide 4.957 MW to MEZ base load. SN Aboitiz Power-Magat is required to supply 4.957 MW with 50% load factor, as based on projections provided by MEPZ II locators under their respective PSCs with MEZ.

As of December 31, 2017, MEZ recorded peak demand at 21.12 MW, and served a total of 83 customers, consisting of 51 captive industrial locators, 26 captive commercial locators, and six industrial locators under RES.

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)

BEZ was incorporated on February 19, 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 Tsuneishi Heavy Industries (Cebu), Inc. (THICI), the modular fabrication facility of Aboitiz Construction International, Inc. (formerly: Metaphil International, Inc.) and recently, Austal Philippines Pty. Limited.

On May 4, 2007, CIPDI declared property dividends to its stockholders in the form of equity in BEZ. On June 8, 2007, AboitizPower entered into an agreement to acquire AboitizLand's 60% equity stake in BEZ, represented by 4,301,766 common shares. 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 March 7, 2008, AboitizPower purchased THC's 40% equity in BEZ.

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.

BEZ's peak demand for 2017 was recorded at 26.517 MW. As of year-end 2017, it has served 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 Enerzone Corporation (LEZ)

LEZ was incorporated as Lima Utilities Corporation on June 5, 1997 to serve and provide locators within the Lima Technology Center (LTC) with a reliable and stable power supply. In 2017, Lima Enerzone's peak demand was recorded at 35 MW, and has served 101 industrial and commercial customers, and 527 residential customers.

LEZ was originally 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, LEZ and Lima Land became wholly-owned Subsidiaries 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, AboitizPower as the new shareholder of the company, sought the SEC's approval to change LEZ's corporate name to Lima Enerzone Corporation. The application was approved by the SEC on October 14, 2014.

LEZ's responsive interface ensures that customers receive power that fully meets their business requirements. As 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. On December 10, 2017, LEZ completed an additional 50-MVA power transformer, and is now capable of serving the increasing demand for future locators and expansions. This will also allow LEZ to provide reliable and flexible power to LTC.

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 MEZ.

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 RES licensed by the ERC.

Aboitiz Energy Solutions, Inc. (AESI)

On November 9, 2009, AESI, a wholly-owned Subsidiary of AboitizPower, was granted a license to act as a RES, which license was renewed on October 29, 2012 for another five (5) years. Its application for renewal of RES license has been duly filed, and is currently pending with the ERC. At the start of commercial operations of Open Access on June 26, 2013, AESI served 42 customers. For the year 2017, AESI supplied retail electricity to a total of 167 customers, with total energy consumption of 1,630.67 mn kWh.

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. AESI was able to deliver a total of 326.05 mn kWh to its off-taker, VECO, for the year 2017.

AboitizPower owns a 100% equity interest in AESI.

Adventenergy, Inc. (AdventEnergy)

Incorporated on August 14, 2008, AdventEnergy, a wholly-owned Subsidiary of AboitizPower, is a RES company that sells, brokers, markets, or aggregates 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, and is currently pending with the ERC. The company was specifically formed to serve Contestable Customers 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.

During 2017, AdventEnergy supplied retail electricity to 70 customers with a total consumption of 1,393.38 mn kWh.

AboitizPower owns a 100% equity interest in AdventEnergy.

Prism Energy, Inc. (Prism Energy)

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

Prism Energy is envisioned to serve Contestable Customers in the Visayas region. As a RES, Prism Energy will provide its customers with contract options for electricity supply to be based on their operating requirements.

During 2017, Prism Energy supplied retail electricity to 13 customers with a total energy consumption of 38.88 mn kWh.

AboitizPower owns a 60% equity interest in Prism Energy.

SN Aboitiz Power – Res, Inc. (SN Aboitiz Power - RES)

Incorporated on December 23, 2009, SN Aboitiz Power – RES is the RES arm of the SN Aboitiz Power Group. SN Aboitiz Power – RES caters to the Contestable Customer sector and electricity consumers using an average of at least 1 MW in the last twelve months across all industries under Open Access. It offers energy supply packages tailored to its 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 the 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.

From a single customer in 2013, SN Aboitiz Power – RES has grown its customer base to 25 by the end of 2017, with a significant number of closed deals signed in 2016 and 2017. This growth can be attributed to the strategic focus of SN Aboitiz Power – RES on four major industry segments that allow it to tailor supply packages to customer segment needs and preferences.

Despite the challenging regulatory landscape in the Contestable Market, SN Aboitiz Power – RES was still able to steadily carve an expanding market share. As of December 31, 2017, SN Aboitiz Power – RES accounts for 262 GWh or 16.8% of BCQ volumes which contributed ₱79 mn or 6% of BCQ net revenue.

SN Aboitiz Power – RES is a joint venture between ARI and SN Power. It is currently 60% owned by MORE with the remaining 40% owned by SN Power Philippines.

(ii) Sales

The operations of AboitizPower and its Subsidiaries and Affiliates are based only in the Philippines.

Comparative amounts of revenue, profitability and identifiable assets are as follows:

	2017	2016	2015
Gross Income	₱119,391	₱89,163	₱85,174
Operating Income	34,174	26,310	24,687
Total Assets	₱361,477	₱356,891	₱242,489

Note: Values are in Million Pesos. Operating Income is operating revenue net of operating expenses.

Comparative amounts of revenue contributionby business grouping are as follows:

	2017		2016		2015	
Power Generation	₱78,252	31%	₱51,469	48%	₱47,137	46%
Power Distribution	44,392	54%	44,666	41%	41,379	41%
Retail Electricity Supply	19,971	14%	10,453	10%	12,151	12%
Services	1,407	1%	1,296	1%	991	1%
Total Revenue	**₱144,021**	**100%**	**₱107,884**	**100%**	**₱101,658**	**100%**
Less: Eliminations	(24,630)		(18,721)		(₱16,484)	

Net Revenue	**₱119,391**		**₱89,163**		**₱85,174**	

Note: Values are in Millions.

(iii) Distribution Methods of the Products or Services

The Generation Companies sell their capacities and energy through an IPPA with the NPC/PSALM, bilateral PSAs with the NPC, private distribution utilities, electric cooperatives, RES or other large end-users, and through the WESM. There are also Subsidiaries and Affiliates providing ancillary services through ASPAs with NGCP.

Currently, SN Aboitiz Power-Magat, SN Aboitiz Power-Benguet, and TLI have ASPAs with NGCP as AS providers to the Luzon Grid. The SN Aboitiz Power Group delivers regulating, contingency and dispatchable reserves, as well as blackstart service through its three power plants. TLI offers contingency reserve under its ASPA. In 2017, TMI signed and ASPA with NGCP, which is currently pending ERC approval.

On December 22, 2015, the Central Scheduling and Dispatch of Energy and Contracted Reserves ("Central Scheduling"), as promulgated by the DOE, was put into operation. With the Central Scheduling, ERC-approved ASPA holders submit reserve offers to WESM in consonance with their ancillary schedules from NGCP because of their ASPA nominations to NGCP under the terms of their respective ASPAs. Settlement for reserves remains to be between NGCP and ancillary providers.

In addition, the Hedcor Tudaya Hydro 2, Hedcor Irisan Hydro 1, and Hedcor Sabangan plants, all in commercial operations, have been approved for inclusion in the FIT system for run-of-river HEPPs. Hedcor, Hedcor Tudaya, and Hedcor Sabangan, the companies that own and operate the foregoing plants, have entered into REPAs with Transco, in its capacity as FIT- All Administrator, for the collection and payment of the FIT. The power generated by Hedcor Tudaya 2 is covered by a Renewable Energy Supply Agreement.

AboitizPower's Generation Companies have transmission service agreements with the NGCP for the 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 andsubstations. 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. These contracts allow the Distribution Utilities to use the NGCP's transmission facilities to receive power from their respective Independent Power Producers (IPP), the NPC, or PSALM for distribution to their respective customers. 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-based competitive rate.

(iv) New Products/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.

(v) 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 GNPower Mariveles brought a considerable increase in its capacity in 2017. Furthermore, its simultaneous acquisition of 40% beneficial ownership in GNPower 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 GNPower 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.

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 Utilities 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 to prove 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. 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 June 25, 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 June 25, 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 twelve (12) months may be allowed to choose their respective RES effective June 26, 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 the 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.

(vi) Sources of Raw Materials and Supplies

Power Generation Business

The Generation Companies produce energy using the following fuel types: hydropower, geothermal, solar, coal, and oil. In 2017, renewable fuel sources comprised 32% of its production, 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. 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 continues to be 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 May 26, 2013. An interim agreement supplementing the GRSC was subsequently signed to make generation cost more competitive in the market.

Oil-fired plants use Bunker-C fuel to generate electricity. SPPC and WMPC source fuel from Shell and Phoenix Petroleum, respectively. 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 index.

TLI has long-term coal supply contracts for the Pagbilao Plant's annual coal requirements, and is continuously looking for and evaluating alternative energy sources to ensure security of supply. TSI has annual coal supply contracts for its coal plant in Mindanao, while establishing its most competitive and optimum supply mix. GMCP, STEAG, and Cebu Energy also have long-term coal supply agreements.

Distribution Utilities Business

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.

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 PSC with TMI for 15 MW last March 21, 2011, which was provisionally approved by the ERC on May 30, 2011. On February 29, 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 March 1, 2012, TMI has supplied the contract demand of 30 MW to Davao Light. This contract was renewed in 2014. When it expired in 2017, it was extended for one more year. The contract with TMI ends on July 25, 2018. Davao Light and Cotabato Light entered into 25-year PSCs 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 December 25, 2015, the CSEEs of Davao Light and Cotabato Light with PSALM expired. Following negotiations, on December 23, 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 March 1, 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 April 28, 2016 for a period of two years. These were provisionally approved by the ERC on July 11, 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 CPPC's commercial operation date. In 2013 the PPA was extended for another ten (10) years.

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

On December 26, 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 December 25, 2011 and an additional 15 MW starting December 25, 2012. This addressed NPC's reduced power supply under its contract with VECO. The first and second 15-MW contracts with GCGI expired last December 26, 2016. On December 25, 2014, the CSEE between VECO and PSALM expired. Consequently, VECO entered into PSAs with AESI and Vivant Energy Solutions on October 2014, and ULGEI on March 2015, for 40 MW, 17 MW, and 5 MW baseload supply, respectively. The 5 MW 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 December 26, 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 are pending ERC approval.

On September 25, 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.

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:

Distribution Utility	Valid until
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.

(vii) Major 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, the NPC, and 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 the business of AboitizPower. The Distribution Utilities' customers are categorized into four (4) principal categories:

(a) *Industrial customers.* Industrial customers generally consist of large-scale consumers of electricity within a franchise area, such as factories, plantations, and shopping malls.
(b) *Residential customers.* Residential customers are those who are supplied electricity for use in a structure utilized for residential purposes.
(c) *Commercial customers.* Commercial customers include service-oriented businesses, universities, and hospitals.
(d) 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, or special government accounts.

(viii) Transactions with and/or Dependence on Related Parties

AboitizPower and its Subsidiaries (the "Group"), 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 as of the time of the transactions.

Details of the significant account balances of the foregoing related party transactions of the Group can be found in Note 32 of the accompanying consolidated financial statements of the Company.

(ix) Patents, Copyrights, Franchises

Generation Business

Power generation is not considered a public utility operation under the 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.

In its operations, a generation company is required to comply with technical, financial and environmental standards. It shall ensure that facilities connected to the Grid meet the technical design and operation criteria of the Philippine Grid Code, Philippine Distribution Code, Philippine Electrical Code, and the NGCP Act. It shall conform with financial standards to protect public interest and any customer procuring services from the generation company. It shall ensure that its facilities comply with applicable environmental laws, rules and regulations.

AboitizPower's Distribution Utilities, Davao Light and Cotabato Light, have their own generation facilties and are required under the EPIRA to obtain a COC from the ERC for its generation facilities. For IPPAs such as TLI, the COCs issued to the IPPs of the relevant generation facilities are deemed issued in favor of the IPPAs. As such, the IPPAs are also bound to comply with the provisions of the Philippine Grid Code, Philippine Distribution

Code, WESM rules, and applicable rules and regulations of the ERC.

AboitizPower's HEPPs 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 require their holders to comply with the terms of the permit with regard to the use of the water flow and the allowable volume.

AboitizPower, its Subsidiaries and Affiliates are in various stages of development of several projects. Some of these projects have been awarded renewable energy service contracts by the DOE.

The Generation Companies and the Distribution Utilities, Davao Light and Cotabato Light, possess COCs for their power generation businesses, details of which are as follows:

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Name	Fuel	Years of Service/ Term of COC	
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	Ampucao, 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 -	May 4, 2016

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Name	Fuel	Years of Service/ Term of COC	
		Talomo 2A – Unit 2			200 kW		February 14, 2020	
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			
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

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Name	Fuel	Years of Service/ Term of COC	
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 Sur	8.164 MW	Hydro	25	May 18, 2015 - August 9, 2020
		Sibulan A – Unit 2			8.164 MW			
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 VECO 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

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Name	Fuel	Years of Service/ Term of COC	
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			
		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	Phvidec Industrial Estate, Villanueva, Misamis Oriental	400 kW	Diesel	25	March 25, 2015 - March 25, 2020

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Name	Fuel	Years of Service/ Term of COC	
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			
		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

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Name	Fuel	Years of Service/ Term of COC	
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
		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. However, distribution utilities operating within economic zones are not required to obtain a franchise from Congress, but must be duly registered with the PEZA in order to operate within the economic zone.

All distribution utilities are required to submit to the ERC a statement of their compliance with the technical specifications prescribedinthe Philippine Distribution Code, whichprovides therules andregulations for theoperationandmaintenance 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[1]	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 June 16, 2014 by then-President Benigno C. Aquino III.

Retail Electricity Supply Business

For a time, the business of supplying electricity was being undertaken solely by franchised distribution utilities. On July 26, 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, SN Aboitiz Power – RES, and Prism Energy, obtained separate licenses to act as RES and Wholesale Aggregator. AESI, AdventEnergy, and Prism Energy, have each duly filed the corresponding application for renewal of their respective RES licenses.

[1] Pursuant to the Distribution Management Service Agreement (DMSA) with the Subic Bay Metropolitan Authority.

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 No./Date Issued	Certificate of Description	Status
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 spiral rendered in blue.	Original Certificate of Registration was issued on February 10, 2011. 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 February 3, 2017 with the IP Office.

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
					The 10th year Anniversary DAU and application for renewal are due for filing on February 10, 2021.
Cleanergy (Class No. 42)	Aboitiz Power Corporation	October 19, 2001	4-2001-07900 January 13, 2006	Application for the word mark "Cleanergy".	Original Certificate of Registration for the mark CLEANERGY was issued on January 13, 2006. The 3rd year Anniversary Declaration of Actual Use (DAU) was filed on November 11, 2004 with the IP Office. The 5th year Anniversary DAU was filed on December 27, 2011 with the IP Office. The 10th year Anniversary DAU and renewal of registration were filed with the IP Office on January 13, 2016. The 15th DAU is due on January 13, 2021.
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.	Original Certificate of Registration No. 4-2002-06293 was issued on July 16, 2007. The 3rd year Anniversary DAU was filed on June 28, 2005. The 5th year Anniversary DAU was filed on July 15, 2013 with the IP Office. The 10th year Anniversary DAU and application for renewal of registration were filed on July 16, 2017 with the IP Office. The Renewal DAU is due on July 16, 2018.
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 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 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	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.

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
				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.	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". 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.	Original Certificate of Registration was issued on December 22, 2011. The 3rd year Anniversary DAU was filed 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	Original Certificate of Registration was issued on August 20, 2007. The mark was renewed on August 20, 2017. The renewal DAU is due on August 20, 2018.

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
				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.	
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 is due on August 20, 2018.
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 is due on June 4, 2018.

(x) Government Approvals

The discussion on the need for any government approval for any principal products or services of the Company and its Subsidiaries, including COCs obtained by the Generation Companies and franchises obtained by the Distribution Utilities, is included in item (ix) Patents, Copyrights and Franchises.

(xi) Effect of Existing or Probable Government Regulations on the Business

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 ₱			Current	Generation	Transmission						
	kWh consumption	Current cost per kWh		Coal	Diesel/Bunker	Distribution	UCME[2]	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[3] (NEA[4], 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
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

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 Bureau of Internal Revenue (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 zero-rated transactions covered by this refund mechanism are the following:

(i) Sale of raw materials or packaging materials to a nonresident buyer for delivery to a resident local export- oriented enterprise;
(ii) Sale of raw materials or packaging materials to export-oriented enterprise whose export sales exceed seventy percent (70%) of total annual production;
(iii) Those considered export sales under Executive Order No. 226, otherwise known as the Omnibus Investment Code of 1987, and other special laws;
(iv) Services performed by subcontractors and/or contractors in processing, converting, of manufacturing goods for an enterprise whose export sales exceed seventy percent (70%) of total annual production; and
(v) Processing, manufacturing or repacking goods for other persons doing business outside the Philippines which goods are subsequently exported, where the services are paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of Bangko Sentral

[2] Universal Charge of Missionary Electrification
[3] Small Power Utilities Group
[4] National Electrification Administration

ng Pilipinas.

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 December 27, 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 which 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:

(i) Removal of Pmin constraint in the Market Dispatch Optimization Model;
(ii) Five minutes dispatch intervals from one hour;
(iii) Ex-ante pricing only;
(iv) Maintaining the one hour settlement interval for settlement purposes;
(v) Automated pricing corrections;
(vi) Mandatory integration of distribution utilities' sub-transmission network (with material effect) into the Market Network Model (MNM);
(vii) Changing the values and priorities of some of the Constraint Violation Coefficients (CVCs);
(viii) Imposition of WESM offer cap and floor for energy and reserve as determined through joint study by the DOE, ERC and PEMC;
(ix) Implementation of hourly Day-Ahead Projection (DAP) with sensitivities and Hour-Ahead Dispatch (HAD);

(x) Implementation of nodal-based short-term demand forecasting;
(xi) Enhanced training of WESM participants; and
(xii) 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 at December 31, 2017.

(b) Interim Mindanao Electricity Market (IMEM) and WESM Mindanao

On January 9, 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.

(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:

(i) Establishment of the WESM;
(ii) Approval of unbundled transmission and distribution wheeling charges;
(iii) Initial implementation of the cross subsidy removal scheme;
(iv) Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
(v) 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 December 26, 2011 as the Open Access Date when full operations of the Competitive Retail Electricity Market (CREM) in Luzon and Visayas should commence. All electricity end-users with an average monthly peak demand of 1 MW for the twelve months preceding December 26, 2011, as certified by the ERC to be Contestable Customers, were given the right to choose their own electricity suppliers. However, on October 24, 2011, upon the request of MERALCO, the Private Electric Power Operators Association and the Philippine Rural Electric Cooperatives Association, Inc. for re-evaluation of the feasibility of the December 26, 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 therefore.

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 December 26, 2012 as the Open Access Date, while the period from December 26, 2012 to June 25, 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 June 26, 2013 to December 25, 2013 would cover the initial commercial operation of Open Access. From December 26, 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, 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 a petition for declaratory relief with an urgent application for an injunction with the RTC of Pasig on the ground that the revised rules are unconstitutional and invalid.

On October 22, 2014, the ERC issued Resolution No. 17, Series of 2014, which holds 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. Currently, ERC is reviewing the RES Licensing Rules and Rules for Contestability.

On May 12, 2016, the ERC issued Resolution No. 11, Series of 2016, which disallows 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. Further, RES are 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, which establishes the conditions and eligibility requirements for end-users to be part of the Contestable Market.

On May 27, 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 July 13, 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 July 5, 2016 (G.R. No. 225141) and on September 27, 2016 (G.R. No. 226800), respectively.

On October 10, 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 February 21, 2017, the Supreme Court issued a 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.

(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:

(ii) Classification of power projects as one of national significance and imbued with public interest;
(iii) Exemption from VAT on the sale of electricity by generation companies;
(iv) 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;

(v) 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;
(vi) Grant of access to electric cooperatives over the missionary electrification fund collected through universal charges;
(vii) 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;
(viii) Regulation of generation, transmission, distribution, and supply rates to allow RORB up to 12%;
(ix) Classification of power generation and supply sectors as public utilities, which would be required to secure legislative franchises;
(x) 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;
(xi) 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;
(xii) 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;
(xiii) 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;
(xiv) 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;
(xv) Prohibition on distribution utilities, except rural electric cooperatives to recover systems losses and placing a 5% cap on recoverable system loss;
(xvi) Imposition of a uniform franchise tax for distribution utilities equivalent to 3% of gross income in lieu of all taxes;
(xvii) Grant of authority for NPC to generate and sell electricity from remaining assets;
(xviii) 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
(xix) Creation of a consumer advocacy office under the organizational structure of the ERC.

3. Implementation of the Performance-based Rating-setting Regulation (PBR)

On December 13, 2006, the ERC issued the Rules for Setting Distribution Wheeling Rates (RDWR) 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: (a) average duration of power outages; (b) average time of restoration to customers; and (c) 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 June 30, 2014. In addition, the second regulatory period of SEZ and SFELAPCO ended on September 30, 2015. A reset process should have been initiated 18 months prior to the start of the third regulatory period of April 1, 2013 to March 31, 2017 for Cotabato Light, July 1, 2014 to June 30, 2018 for VECO and Davao Light, and October 1, 2015 to September 30, 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 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 said Resolution, the Fourth Regulatory Period shall be as follows:

(a) Cotabato Light: April 1, 2017 to March 31, 2021
(b) Davao Light and VECO: July 1, 2018 to June 30, 2022
(c) SEZ and SFELAPCO: October 1, 2019 to September 30, 2023

On November 21, 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 January 6 and 9, 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. 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 October 5, 2016, the ERC approved the 2016 Edition of the Philippine Grid Code in Resolution No. 22, Series of 2016. Pertinent revisions are as follows:

(a) Redefinition of various reserves;
(b) Inclusion of Run-of-River power plants requirements;
(c) Amendments to Variable Renewable Energy (VRE) requirements;
(d) Changes on definition of Large Generating Plant; and
(e) 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. One of the RE Law's declared policies is to accelerate and develop the use of the country's renewable energy 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 renewable energy 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 renewable energy 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 (7) years of commercial operations; duty-free importations of renewable energy machinery, equipment and materials effective within ten (10) years upon issuance of certification, provided, said machinery, equipment and materials are directly and actually needed and exclusively used in renewable energy facilities; special realty tax rates on civil works, equipment, machinery and other improvements of a registered renewable energy 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 renewable energy 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 renewable energy 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 renewable energy capacities upon the effectivity of the RE Law. Renewable energy producers from intermittent renewable energy 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 renewable energy generators with intermittent renewable energy resources shall be considered “must dispatch” based on available energy and shall enjoy the benefit of priority dispatch. Electricity generated from renewable energy 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 May 25, 2009 (Rules and Regulations Implementing the Renewable Energy Act of 2008), the DOE, the BIR, and the Department of Finance shall, within six (6) months from its issuance, formulate the necessary mechanism and/or guidelines to implement the entitlement to the general incentives and privileges of qualified renewable energy 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 August 6, 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 (PhP/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 October 6, 2015, the ERC issued Resolution No. 14, Series of 2015 adopting the Wind FIT2 rate of ₱7.40/kWh. On September 29, 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 January 6, 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 February 16, 2016, the ERC provisionally approved a FIT-All of ₱0.1240 per kWh. In a Decision dated May 9, 2017, the ERC authorized Transco to collect an additional FIT- All of ₱0.0590 per kWh, thereby bringing the FIT-All to ₱0.1830 per kWh.

In 2013, the ERC had issued the rules enabling the net metering program for renewable energy. The rules, among others, seek to encourage end-users to participate in renewable energy generation by requiring distribution utilities, upon the request of a distribution end-user with an installed renewable energy 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, (iii) prescribes the eligible renewable energy facilities and the compliance mechanism, (iv) monitor the compliance of mandated electric power industry participants, and (v) 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. This 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. Information gathering is currently being done to study the proposed bills further.

7. Proposed 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. To date, public consultations on the proposed rules were concluded and the Company is still awaiting the final rules from the ERC.

On October 20, 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 Competitive Supply Process (CSPs). ERC Resolution 13-2015 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.

On February 9, 2018, the DOE issued Department Circular No. DC2018-02-0003, modifying the existing policy on CSP of power suppy contracting, followed by all distribution utilities. Distribution utilities are now mandated by the DOE to undertake the creation of an independent, five-man third-party bids and awards committee (TPBAC) that will manage the CSP. The circular also allows the distribution utilities to conduct CSP through an accredited third-party auctioneer.

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 orderly trading and ensures the quality of electricity.

As provided in the WESM rules, when reasonably feasible, the WESM Market Operator, in coordination with the WESM 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. To date, the Reserve PCRM is the subject of an application by the WESM Market Operator, which is pending the approval of the ERC.

On December 2, 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 September 12, 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 the Company's Information Statement.

The Joint Resolution aims to address the projected critical power supply situation in Luzon through the expansion of the Interruptible Load Program (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 ERC 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 February 26, 2010, generation companies are enjoined to ensure the availability of their generation facilities at all times subject only to technical constraints duly communicated to the WESM System Operator in accordance with existing rules and procedures. For this purpose, generation companies shall have, among others, the following responsibilities:

(i) 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,

(ii) (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;

(iii) Oil-based generation companies shall maintain an adequate in-country stocks of fuel equivalent to at least fifteen (15) days of running inventory which includes shipments in transit;

(iv) Coal power plants shall ensure the required thirty (30) day coal running inventory which includes shipments in transit;

(v) During scheduled maintenance of the Malampaya natural gas facilities, all affected generation companies shall maintain at least fifteen (15) days of running inventory of alternative fuel and shall operate at full capacity;

(vi) 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;

(vii) All generation companies must notify and coordinate with the WESM System Operator of any planned activity such as the shutdown of its equipment; All generation companies must immediately inform the DOE of any unexpected shutdown or de-rating of the generating facility or unit thereof; and

(viii) 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.

(xii) Amount Spent on 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 may vary depending on the nature of the project.

(xiii) 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, Rachelle Severo, Jillan Jacinto, Eliseo Ingles, Cesar Vicente, and Cheryl Ragsac individually receiving awards for Outstanding Safety Professionals.

The Safety Organization of the Philippines, Inc. (SOPI) 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. (WASPI) 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.

(xiv) Employees

On the parent company level, AboitizPower has a total of 357 employees as of March 31, 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 business group basis, according to employees' function, as of March 31, 2018:

Business Group	Number of Employees						Unionized Employees	Expiry of Collective Bargaining Agreement (CBA)
	Total	Executives	Managers	Supervisors	Rank & File	Fixed Term Employees		
Aboitiz Power	357	71	54	56	174	2	N/A	N/A
Generation Companies								
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)
RES	6	0	2	0	4	0	N/A	N/A
Distribution Utilities	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)
Total No. of Employees	**3,835**	**150**	**293**	**775**	**2,449**	**200**	**622**	

**Under negotiation*

The Company does not anticipate any significant 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.

(xv) Major Risk/s Involved in the 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.

1. Reputation Risk

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

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

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 LGUs.

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

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

2. Competition Risk

As the impact of oversupply of power in the Philippines becomes more evident, the Company continues efforts to market and contract ahead of time, all projected capacities from investments, as well as expiring contracts from existing capacities. This is to ensure that plant operations are optimized, and that revenue and cash flow streams are protected.

3. Open Access and Retail Competition

With Open Access, eligible Contestable Customers may source their electricity from eligible suppliers that have secured a RES license from the ERC. 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. The Distribution Utilities have to adjust the supply obtained from its contracted power generators at a minimal cost impact to customers.

At the same time, AboitizPower's generation assets that have uncontracted capacities will have indirect access to Open Access eligible customers through the Company's licensed RES entities, specifically AESI and AdventEnergy.

4. Electricity Trading Risks

In the face of a more dynamic trading environment, lower electricity market prices due to oversupply, anticipated shortened trading and dispatch interval of five (5) minutes, and the impending take-off of WESM in Mindanao, AboitizPower continues to enhance its trading capabilities by continuing its efforts to upgrade its trading software, infrastructure, processes, and manpower.

5. 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 Companies and Distribution Utilities, while maintaining 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 an understanding how regulations will affect AboitizPower's businesses, as well as planning and preparing for expected changes in regulation, rather than waiting for regulations to be imposed.

Regular dialogues are conducted by AboitizPower's regulatory team, media, non-government organizations, the academe, and organized industry groups such as PIPPA and Philippine Electric Plant Owners Association (PEPOA) to educate various groups about the power industry. The AboitizPower regulatory team will continue to actively participate in consultative processes as well as engage in public discussions on government regulations, their relevance to current business practices and technology changes, with the goal of developing new rules and policies that will be beneficial not just to AboitizPower but to the power industry as a whole.

6. Business Interruption Due to 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 of AboitizPower's facilities, technological infrastructure and systems is strictly performed, 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 for the Coal, Geothermal, Run-of-River Hydro Business Units, and most of the Oil Business Units during 2017. The last Oil Business Unit facility is targeted to go live with Maximo by the second quarter of 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. As a result, AboitizPower and its Business Units have the right insurance solutions to continue their 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. Part of these enhancements are:

(a) Utilization of information disseminated by Weather Philippines Foundation, Inc. to ensure that typhoon preparations of each Business Unit is in place prior to landfall, and tapping of Business Units outside the typhoon path to provide support to the affected Business Units;
(b) Inclusion of emergency exercises related to natural calamities as part of the annual drill roster from flooding to earthquake, as well as evaluation of existing measures in a simulated scenario to ensure that facilities are able to respond effectively and safely; and
(c) Development of new Business Continuity Plans to address newly identified scenarios triggered by changing risks and issues the Company faces.

7. Financial Risks

In the course of its operations, AboitizPower is exposed to the following financial risks:

(a) Interest rate risks resulting from movements in interest rates that may have an impact on outstanding long-term debt;
(b) Credit risks involving possible exposure to counter-party default on its cash and cash equivalents, available- for- sale investments and trade and other receivables;
(c) 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
(d) Foreign exchange (forex) risks in terms of forex fluctuations that may significantly affect its foreign currency- denominated placements, transactions and borrowings.

8. Fuel Supply and Price Risk

AboitizPower's thermal plants - TLI, TSI, and TVI (which is currently in construction phase) - utilize coal; while CPPC, EAUC, TMI, and TMO utilize Bunker-C fuel. These fuel types are exposed to global market price movements and supply challenges.

In 2017, coal prices in the global market temporarily spiked due to policy changes made by and demand from China that affected supply.

For its coal-fired power plants, AboitizPower has put in place a Fuel Committee and a Coal Supply and Freight Contracting strategy to better manage high price volatility of coal, freight prices, and counterparty risk. This includes diversifying to other sources of coal to ensure security of energy supply at competitive prices.

For its diesel-fired generation plants, CPPC, EAUC, TMI, and TMO, AboitizPower pursues the strategy on the fuel supply side ofentering into or renewing their medium-term supply contracts with the leading oil companies in the country.

AboitizPower's exposure to fuel supply and price risk is limited as a result of the utilization of capacity-based contracts for approximately 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.

9. Project Risks

As AboitizPower continues the construction of its ongoing projects in TVI, Pagbilao 3, and Hedcor Manolo Fortich, 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.

In anticipation of commercial operations of the TVI, Pagbilao 3, and Hedcor Manolo Fortich plants in 2018, operational readiness reviews on the aformention projects are also performed.

(b) Requirements as to Certain Issues or Issuers

(i) Debt Issues

(a) Ten Billion Fixed-Rate Bonds issued in August 2014

On June 17, 2014, the Board of Directors of AboitizPower approved the issuance of up to the aggregate amount of ₱10 bn in retail bonds with tenors of seven (7) and twelve (12) years ("2014 Bonds"). AboitizPower appointed BPI Capital Corporation as the Issue Manager and Lead Underwriter, BPI Asset Management and Trust Group (BPI- AMTG) as the Trustee, and Philippine Depository & Trust Corporation (PDTC) as the Registry and Paying Agent for the transaction. The 2014 Bonds received the highest possible rating of PRS “Aaa” from the Philippine Rating Services Corporation (PhilRatings). The SEC issued the Order of Registration and a Certificate of Permit to Sell Securities on August 29, 2014. The 2014 Bonds were subsequently listed with the Philippine Dealing & Exchange Corporation (PDEx) on September 10, 2014 ("Issue Date").

The 2014 Bonds were issued in two series, the seven-year bonds with a fixed interest rate of 5.205% per annum, and the twelve-year bonds with a fixed interest rate of 6.10% per annum. Interest rate is calculated on a 30/360-day count basis and is paid quarterly in arrears every March 10, June 10, September 10, and December 10 of each year at which the bonds are outstanding, or the subsequent banking day without adjustment if such interest payment date is not a banking day.

The Company has the option, but not the obligation, to redeem in whole (and not in part) any series of the outstanding 2014 Bonds, on the following dates or the immediately succeeding banking day if such date is not a banking day:

	Early Redemption Option Dates
Series A Bonds	5.25 years from Issue Date
	6 years from Issue Date
Series B Bonds	7 years from Issue Date
	8 years from Issue Date
	9 years from Issue Date
	10 years from Issue Date
	11 years from Issue Date

AboitizPower has been paying interest to its bond holders since December 10, 2014.

Use of Proceeds

Following the offer and sale of the 2014 Bonds, AboitizPower received the aggregate amount of ₱10 bn as proceeds from the said debt raising exercise.

As of December 31, 2016, the proceeds from the Bonds were fully utilized for the following projects:

(i) 400 MW (net) Pulverised Coal-Fired Expansion Unit 3 in Pagbilao, Quezon;
(ii) 68 MW Manolo Fortich Hydropower Plant Project;
(iii) 300 MW Cebu Coal Project;
(iv) 300 MW Davao Coal Project; and
(v) 14 MW Sabangan Hydropower Plant Project.

(b) Shelf Registration of Thirty Billion Fixed-Rate Bonds: Series “A” Three Billion Fixed Rate Bonds issued in July 2017

On March 23, 2017, AboitizPower’s Board of Directors approved the issuance of fixed-rate corporate retail bonds in the aggregate amount of up to ₱30 bn ("2017 Bonds"), registered under the shelf registration program of the SEC to be issued in tranches.

Series “A” of the 2017 Bonds has an aggregate amount of ₱3 bn, with a tenor of ten (10) years. AboitizPower engaged BPI Capital Corporation as Issue Manager and Underwriter, BPI-AMTG as Trustee, and PDTC as the Registrar and Paying Agent. On May 16, 2017, PhilRatings assigned an issue credit rating of "PRS Aaa" with Stable Outlook to the first tranche of the 2017 Bonds.

The SEC issued the Order of Registration and Certificate of Permit to Offer Securities for Sale on June 19, 2017.

On July 3, 2017, the Series “A” Bonds were issued with a fixed interest rate of 5.3367% per annum. On the same date, the Series “A” Bonds were listed with PDEx, paving way for the secondary market trading.

Use of Proceeds

Following the offer and sale of the 2017 Bonds, AboitizPower received the aggregate amount of ₱2.97 bn as proceeds from the said debt-raising exercise.

As of December 31, 2017, the proceeds from the 2017 Bonds were utilized for the following projects:

Name of Project	Projected Usage (Per Prospectus)	Actual Usage
Equity infusions into GNPD in 2017	₱2,206,373,000	₱ 1,255,745,000
Equity infusions into GNPD in 2018	764,395,125	–
Bond issuance costs	29,231,875	32,938,058
TOTAL	**₱3,000,000,000**	**₱ 1,288,683,058**

Item 2. Properties

The Company’s head office is located at the 32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines. The office space occupied by the Company is leased from a third party. As a holding company, the Company does not utilize significant amounts of office space.

The Company plans to continually participate in future biddings for new or existing projects, and to develop projects that become available to it.

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:

PROPERTY, PLANT AND EQUIPMENT AS OF DECEMBER 31	2017	2016
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	1,400,941	1,359,708
Office Furniture, Fixtures and Equipment	921,680	826,632
Leasehold Improvements	2,760,085	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	53,617,374	42,900,110
Less: Accumulated Depreciation and Amortization	44,853,683	37,234,106
TOTAL	**₱204,025,303**	**₱192,976,388**

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	Description	Location/Address	Condition
APRI	Geothermal power plants	Tiwi, Albay, Caluan, Laguna; and Sto. Tomas, Batangas	In use for operations
Aseagas	Raw land and improvements	Lian, Batangas	Ceased operations
Hedcor	Hydropower plants	Kivas, Banengneng, Benguet; Beckel, La Trinidad, Benguet, Bineng, La Trinidad, Benguet; Sal-angan, Ampucao, Itogon, Benguet; and Bakun, Benguet	In use for operations
Hedcor Sibulan	Hydropower plant	Santa Cruz, Sibulan, Davao del Sur	In use for operations
Hedcor Tudaya	Hydropower plant	Santa Cruz, Sibulan, Davao del Sur	In use for operations
Hedcor Sabangan	Hydropower plant	Namatec, Sabangan, Mountain Province	In use for operations
CPPC	Bunker-C thermal power plant	Cebu City, Cebu	In use for operations
EAUC	Bunker-C thermal power plant	Lapu-Lapu City, Cebu	In use for operations
TMI	Barge-mounted diesel power plants	Nasipit, Agusan del Norte and Barangay San Roque, Maco, Compostela Valley	In use for operations
TMO	Barge-mounted diesel power plants	Navotas Fishport, Manila	In use for operations
TSI	Coal-fired thermal power plants	Davao City and Davao del Sur	In use for operations
TVI	Land	Bato, Toledo, Cebu	For plant site
GNPower Mariveles	Coal-fired thermal power plants	Mariveles, Bataan	In use for operations
Cotabato Light	Industrial land, buildings/ plants, equipment, and machineries	Sinsuat Avenue, Cotabato City	In use for operations
Davao Light	Industrial land, buildings/ plants, equipment, and machineries	P. Reyes Street, Davao City and Bajada, Davao City	In use for operations
VECO	Industrial land, buildings/ plants, equipment, and machineries	Jakosalem Street, Cebu City and J. Panis Street, Cebu City	In use for operations
LEZ	Industrial land, buildings/plants, equipment, and machineries	Lipa City and Malvar, Batangas	In use for operations
BEZ	Industrial land, buildings/plants, equipment, and machineries	Balamban, Cebu	In use for operations

Item 3. Legal Proceedings

Material Pending 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.

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 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 Supreme Court dismissed LHC's Petition for Certiorari for failure to show that the CTA En Banc committed grave abuse of discretion.

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. The case is still pending for resolution.

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 CBAArenderedadecisiondenying LHC'sappeal. On November 14, 2012, LHCfiledits 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 on April 4, 2016, which the Supreme Court 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 Supreme Court requiring LHC to file a reply to respondents' comment. LHC's Reply was filed on March 10, 2017. No further orders were received from the Supreme Court.

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 PCC. 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. To date, TMO’s Petition is still pending before 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. To date, APRI's Petition is still pending before the CA.

Consolidated Regulated Price Case against the Energy Regulatory Commission, Petition for Review on 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. To date, the motions for reconsideration and motions to intervene are still pending resolution with 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.

GR SP No. 212686 entitled "Sergio R. Osmeña III, vs. Power Sector Assets & Liabilities Management Corporation, Emmanuel R. Ledesma, Jr., SPC Power Corporation and Therma Power Visayas, Inc.", Supreme Court
June 13, 2014

On March 31, 2014, PSALM declared TPVI as the highest bidder in the bidding for the sale of the 153.1-MW NPPC. A Notice of Award was issued to TPVI on April 30, 2014.

However, SPC Power Corporation (SPC), the other bidder, exercised its Right-to-Top under the Naga Power Plant/ Land-based Gas Turbine Land Lease Agreement (LBGT LLA) with PSALM to top TPVI's winning bid. PSALM's Board of Directors declared SPC as the winning bidder and issued a Notice of Award and Certificate of Effectivity in its favor. An APA and a Land Lease Agreement (LLA) for the NPPC were executed between PSALM and SPC.

Senator Sergio R. Osmeña III filed a petition for certiorari and prohibition to enjoin PSALM from implementing SPC's Right-to-Top in connection with the NPPC bidding and to have the said Right-to-Top be declared null and void. PSALM, SPC, and TPVI were impleaded as respondents.

In its September 28, 2015 Decision, the Supreme Court declared the Right-to-Top as null and void, and annulled and set aside the APA and LLA for the NPPC executed in favor of SPC. The Supreme Court held that SPC's Right-to-Top is void for lack of a valid interest or right to the object over which the right of first refusal is to be exercised. SPC filed a Motion for Reconsideration, which was denied by the Supreme Court in a Resolution dated December 29, 2015.

SPC subsequently filed with the Supreme Court a "Motion for Leave to File and Admit the Attached Urgent Motion for Second Reconsideration and/or Referral to the En Banc with attached Urgent Motion for Second Reconsideration" both dated February 1, 2016.

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.

On October 5, 2016, the Supreme Court issued a Resolution which directed that the Notice of Award in favor of TPVI be reinstated, and for PSALM to execute the NPPC APA and LLA with TPVI with dispatch.

On October 26, 2016, SPC filed an Urgent Motion for Reconsideration in response to the October 5, 2016 Resolution. The Supreme Court denied it with finality in a Resolution dated November 28, 2016.

Subsequently, SPC filed, among others, its Motion for Leave to File and Admit the attached Motion for Reconsideration dated December 9, 2016 and Supplemental Motion/Petition for Referral to the En Banc dated January 16, 2017.

On February 14, 2017, TPVI thru counsel, received a copy of the Entry of Judgement dated January 9, 2017, which states that the September 28, 2015 Decision and October 5, 2016 Resolution have become final and executory on November 28, 2016, and been recorded in the Book of Entries of Judgement.

As regards the 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, they were denied by the Supreme Court in a Resolution dated April 26, 2017.

Civil Case No. 2018-21 Entitled "Pagbilao Energy Corporation vs. the Municipality of Pagbilao, Quezon and Hon. Shierre Ann Portes-Palicpic, 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.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

(1) 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 quarter 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	N/A	N/A	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 March 28, 2018 is ₱38.70 per share.

(2) Holder

As of March 28, 2018, AboitizPower has 628 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 March 28, 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)	907,486,195	12.33%
3) PCD Nominee Corporation (Foreign)	522,016,185	7.09%
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., Inc.	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) Ramon Aboitiz Foundation, Inc.	3,900,000	0.05%
17) Tris Management Corporation	3,130,359	0.04%
18) Tinkerbell Management Corporation	3,042,454	0.04%
19) Cal Management Corporation	3,036,798	0.04%
20) Anabelle O. Aboitiz	2,920,035	0.04%
SUBTOTAL	**7,204,235,296**	**97.90%**
Other Stockholders	**154,369,011**	**2.10%**
TOTAL SHARES	**7,358,604,307**	**100.00%**
NET ISSUED AND OUTSTANDING SHARES	**7,358,604,307**	**100.00%**

(3) 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	₱10.00 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 November 28, 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.

(4) Recent Sales of Unregistered or Exempt Securities including Recent Issuance 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.

Item 6. Management's Discussion and Analysis or Plan of Action

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the Company's consolidated financial condition and results of operations and certain trends, risks, and uncertainties that may affect its business. The critical accounting policies section discloses certain accounting policies and management judgments that are material to the Company's results of operations and financial condition for the periods presented in this report. The discussion and analysis of the Company's results of operations is presented in three comparative sections: the year ended December 31, 2017 compared with the year ended December 31, 2016, the year ended December 31, 2016 compared with the year ended December 31, 2015, the year ended December 31, 2015 compared with the year ended December 31, 2014.

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 Registrant, Aboitiz Power Corporation (AboitizPower or 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.** Represents the Group's share in the undistributed earnings or losses of its investees for each reporting period subsequent to acquisition of said investment, net of goodwill impairment cost, if any. Goodwill is the difference between the purchase price of an investment and the investor's share in the value of the net identifiable assets of the investee at the date of acquisition. Share in Net Earnings of Associates and Joint Ventures 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.

Year Ended December 31, 2017 versus Year Ended December 31, 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 GNPower 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 GNPower 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 83% of the EBITDA contributions from the Company's business segments. This was driven by the full-year fresh contribution from GNPower 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 GNPower 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 GNPower 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)
Increase in interest income	(156,523)
Increase in interest expense	(3,543,769)
Decrease in share in net earnings of associates and joint ventures	1,056,654
Increase in other income	(3,373,212)
Lower 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 GNPower Mariveles accounted for 96% 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 GNPower 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 GNPower 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 GNPower 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 GNPower 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 GNPower 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 approximately ₱16 bn on TPI's bridge financing obtained in 2016 to fund the acquisitions of GNPower Mariveles and GNPower 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 80% 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 made during the year.
(h) Due to the refinancing of GNPower 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 GNPower Mariveles and GNPower 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 GNPower 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 ₱912 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 approximately ₱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. ***340-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 GNPower 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 Aguinaldo, 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:

(ii) Cotabato Light: April 1, 2017 to March 31, 2021
(iii) Davao Light and VECO: July 1, 2018 to June 30, 2022
(iv) 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.

Capital Expenditure for 2018

AboitizPower is allotting ₱62 bn for capital expenditure in 2018, of which 82% is for new thermal projects, 3% for new renewable projects, and 15% for exploratory and operating activities.

Year Ended December 31, 2016 versus Year Ended December 31, 2015

The table below shows the comparative figures of the top five key performance indicators for 2016 and 2015.

Key Performance Indicators	2016	2015
Amounts in thousands of ₱s, except for financial ratios		
SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	**3,641,210**	**3,979,947**
EBITDA	**37,842,865**	**33,664,121**
CASH FLOW GENERATED:		
Net cash flows from operating activities	**29,887,980**	25,199,597
Net cash flows used in investing activities	**(81,380,348)**	(8,902,646)
Net cash flows from/ (used in) financing activities	**47,483,228**	(5,448,755)
Net (Decrease)/Increase in Cash & Cash Equivalents	**(4,009,140)**	**10,848,19**
Cash & Cash Equivalents, Beginning	**51,098,269**	40,231,875
Cash & Cash Equivalents, End	**47,094,741**	51,098,269
CURRENT RATIO	**2.25**	**3.12**
DEBT-TO-EQUITY RATIO	**2.18**	**1.39**

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 12% 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 GNPower-Mariveles and GNPower 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.

<u>Power Generation</u>

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 GNPower-Mariveles (604-MW) and GNPower 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	**₱17,603,797**
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	2,398,785
Consolidated Net Income Attributable to Equity Holders of the Parent for 2016	**₱20,002,582**

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 VECO 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 deprecation of the TSI assets) were incurred. This was offset by a ₱1.22 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 ₱112.29 bn or 46%. 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 to the take up of the trade receivables at newly consolidated Subsidiary GNPower 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 GNPower 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 GNPower Mariveles.
(e) Investments and advances increased mainly as a result of the acquisition of a minority interest in GNPower 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 GNPower Mariveles, the resulting consolidation of its Property, Plant and Equipment (PPE) led to an increase of 43% (from ₱134.81 bn in 2015 to ₱192.63 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 ₱36.05 bn as the Company recognized ₱36.27 bn of provisional goodwill resulting from the acquisition of GNPower Mariveles, net of ₱169 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 GNPower 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 GNPower 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 262% (from ₱585 mn in 2015 to ₱2.12 bn in 2016). The increase was driven by the take up of deferred tax assets at newly consolidated GNPower 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 ₱11.01 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 73% from ₱140.88 bn as of December 31, 2015 to ₱243.15 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 GNPower 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 170% (from ₱58.38 bn in 2015 to ₱157.72 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 GNPower Mariveles and GNPower 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 GNPower 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 GNPower-Mariveles, and a minority interest in GNPower 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.

Year Ended December 31, 2015 versus Year Ended December 31, 2014

The table below shows the comparative figures of the top five key performance indicators for 2015 and 2014.

Key Performance Indicators	2015	2014
Amounts in thousands of ₱s, except for financial ratios		
SHARE IN NET EARNINGS OF ASSOCIATES	**3,979,947**	**4,009,488**
EBITDA	**33,664,121**	**31,765,156**
CASH FLOW GENERATED:		
Net cash flows from operating activities	25,199,597	23,437,979
Net cash flows used in investing activities	(8,902,646)	(12,979,595)
Net cash flows used in financing activities	(5,448,755)	(1,618,932)
Net Increase in Cash & Cash Equivalents	**31,765,156**	**8,839,452**
Cash & Cash Equivalents, Beginning	40,231,875	31,383,499

Cash & Cash Equivalents, End	51,098,269	40,231,875
CURRENT RATIO	**3.12**	**3.36**
DEBT-TO-EQUITY RATIO	**1.39**	**1.26**

Share in net earnings of associates for the 2015 dropped slightly by a percent mainly due to lower income contributions from SN Aboitiz Power-Benguet as a result of lower selling prices on its new contract for ancillary services. The expiration of the income tax holding at SN Aboitiz Power-Magat also affected its contributions for the year.

Consolidated EBITDA increased by 6% versus last year consistent with the higher income recognized this year.

The Group generated an additional ₱1.76 bn in cash from operations in 2015 as compared to 2014 and managed to return the same levels of cash dividends to its shareholders in 2015. Financial resources were also used to continue the construction of various greenfield projects.

Current ratio at the end of 2015 was 3.12x compared to 3.36x at year-end 2014 primarily due to an increase in current liabilities.

Debt-to-equity ratio as of December 31, 2015 was at 1.39, higher than 1.26 as of December 31, 2014 as the Group's total liabilities increased.

Results of Operations

The Company grew its full year income by 5%, from ₱16.71 bn in 2014 to ₱17.60 bn in 2015. A non-recurring loss of ₱762 mn was recognized in 2015 versus last year's loss of ₱136 mn. This was primarily due to the revaluation of consolidated dollar-denominated assets and liabilities resulting from the movement of the peso-dollar exchange rates. Adjusting for these one-offs, the Company's core net income for 2015 amounted to ₱18.37 bn, up by 9% year-on-year (YoY).

Power Generation

The generation business continues to contribute significantly to the Company's bottom line in 2015. For 2015, it represented 79% of earning contributions from business segments, recording an income share of ₱13.92 bn, up 3% YoY. Netting out the effects of non-recurring foreign exchange losses, the generation business recorded ₱14.81 bn of income in 2015.

For 2015, attributable net generation rose by 11% YoY from 11,272 GWh to 12,550 GWh, as electricity sold through bilateral contracts expanded by 18% to 11,383 GWh. Correspondingly, this shifted sales from the spot market to the contracted market. Spot sales decreased by 28% from 1,612 GWh to 1,168 GWh. In 2015, sales through bilateral contracts made up 91% of total energy sold.

Capacity sales went up by 6% to 1,900 MW in 2015, driven by sales through bilateral contracts and ancillary services. Available capacity to sell was augmented by new capacities from TSI and Hedcor Sabangan, Inc. (Hedcor Sabangan). Higher dispatch from the oil plants also added to the increase in capacity sales. Meanwhile, APRI continued to experience a decline in steam supply, which slightly offset the growth in capacities from the other plants.

Net attributable selling capacity stood at at 2,532 MW at end-2015 as the Company saw the completion of the construction of the 14 MW Sabangan run-of-river hydroelectric plant and the first unit of TSI during the year.

Power Distribution

The power distribution business registered a 19% increase in earnings contribution during 2015, from ₱3.20 bn in 2014 to ₱3.81 bn. This accounted for 21% of earnings contribution from business segments.

The gross margin on a per kWh basis in 2015 declined to ₱1.61 from ₱1.71 in 2014. This was due to higher operating costs at Davao Light as it ran its embedded power plant to mitigate the shortfall in power supply that not only affected its franchise area, but the whole Mindanao Grid. The overall improved performance is primarily due to higher electricity sales, which grew by 6% YoY from 4,480 GWh to 4,759 GWh, as energy sales grew across all customer segments. The power distribution business income contribution for 2015 was augmented by the full year contributions of LEZ.

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 5% from ₱16.71 bn in 2014 to ₱17.60 bn in 2015. The movements in line items are shown below to account for the increase:

Consolidated Net Income Attributable to Equity Holders of the Parent for 2014	**₱16,705,184**
Increase in operating revenues	(1,585,434)
Increase in operating expenses	3,921,252
Decrease in share in net earnings of associates	374,378
Increase in interest income	(639,761)
Increase in interest expense	(29,541)
Increase in other income	(928,564)
Higher provision for taxes	(165,580)
Increase in income attributable to non-controlling interests	(48,137)
Total	898,613
Consolidated Net Income Attributable to Equity Holders of the Parent for 2015	**₱17,603,797**

Operating Revenues
(2% decrease from ₱86.76 bn to ₱85.17 bn)

Operating revenues from the Generation segment decreased by 10% from ₱36.88 bn in 2014 to ₱33.37 bn. The lower passed-on fuel costs on the selling prices from the thermal and geothermal power plants resulted in a decrease in selling prices and consequently revenues. Lower volumes sold from APRI also contributed to the decline. The drop in selling prices was mitigated by higher volumes sold during 2015.

The distribution segment also increased its operating revenues from ₱39.98 bn in 2014 to ₱41.38 bn in 2015. The 4% increase in operating revenues from the sale of power from the distribution group, was due to an increase in electricity sales.

Higher revenues were also recognized during 2015 from the Group's RES-Licensed companies, (AESI and AdventEnergy), which began their operations after the start of Open Access.

Operating Expenses
(6% decrease from ₱64.41 bn to ₱60.49 bn)

The main driver for the drop in operating expenses during 2015 was the lower cost of generated power, as fuel costs dropped significantly during the year.

Cost of purchased power also decreased by 6% during 2015 as less downtime led to lower requirements to replace internally generated power. Also, the price of purchased power during 2015 was lower due to lower spot prices.

Interest Income
(79% increase from ₱472 mn to ₱846 mn)

Increase is mainly due to higher average cash and cash equivalent balances at the Parent Company and at the intermediate holding companies, ARI and TPI.

Interest Expense and Other Financing Costs
(11% increase from ₱5.99 bn to ₱6.63 bn)

The increase was primarily due to the full-year interest burden on the bond offering of the Parent Company undertaken in September 2014, as well as higher interest expenses on bank loans and various project loan facilities.

Share in Net Earnings of Associates and Joint Ventures
(1% decrease from ₱4.01 bn to ₱3.98 bn)

The decline in the share in net earnings of associates and joint ventures was due to the lower contribution from SN Aboitiz Power-Benguet as lower selling prices during the year on a new ancillary contract reduced its revenues.

Other Income (Expenses) – net
(Decrease from ₱592 mn other income to ₱337 mn other expense)

The shift from other income to other expense was primarily due to higher unrealized foreign exchange losses in 2015 resulting from the restatement of TLI's dollar-denominated debt on its monthly obligations to PSALM (accounted as a finance lease obligation). This was net of the unrealized gains on net fair value changes of derivatives recognized during the year.

Provision for Taxes
(5% increase from ₱3.42 bn to ₱3.59 bn)

The higher income recognized during the year lead to higher provision for taxes.

Net Income Attributable to Non-controlling Interests
(4% increase from ₱1.30 bn to ₱ 1.35 bn)

The increase was mainly due to higher income attributable to non-controlling interests of Abovant Holdings, Inc. and at TVI.

Consolidated Statements of Comprehensive Income

The recognition of net actuarial losses recognized during the year resulted in lower total net other comprehensive income for 2015 at ₱226 mn (compared to ₱260 mn in the previous year). This brought total consolidated comprehensive income to ₱19.18 bn for the year.

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

Assets

Total assets (as of December 31, 2015 compared to December 31, 2014) increased by ₱25.73 bn, or 12%. The major movements of the accounts leading to the increase were as follows:

(a) Cash and cash equivalents grew by 27% (from ₱40.23 bn in 2014 to ₱51.10 bn in 2015). Cash flows from operating activities increased over 2014 while cash used for investing activities was supported by proceeds from redemption of preferred shares. This was offset by higher cash used for financing activities, as higher interest expenses were paid this year.
(b) Trade and other receivables increased by 11% (from ₱12.33 bn in 2014 to ₱13.69 bn in 2015), primarily due to advance payments made to contractors for project mobilization which were offset against future progress billings.
(c) Derivative assets increased significantly at the end of 2015 as new forward contracts were entered into to hedge the foreign currency risk arising from the forecasted US$-denominated payments under an EPC contract related to the construction of a power plant.
(d) Inventories decreased by 6% (from ₱2.17 bn in 2014 to ₱2.04 bn in 2015) due to lower cost of purchased fuel for the Company's thermal plants.
(e) Other current assets was higher by 75% (from ₱1.94 bn in 2014 to ₱3.39 bn in 2015). VAT input was

reclassified from non-current to current as it is was expected that these VAT inputs could be offset against VAT output generated as a major subsidiary went into commercial operations.

(f) Investments and advances decreased mainly as a result of redemption of preferred shares made during 2015 by MORE amounting to ₱2.65 bn.

(g) PPE increased by 13% (from ₱119.65 bn in 2014 to ₱134.81 bn in 2015) as the Group continued the construction of its coal plants in Davao under TSI, Pagbilao 3 under PEC, and its hydro facilities under Hedcor Sabangan; and started the construction of its hydro plant under Hedcor Bukidnon, and coal plant under TVI.

(h) Intangible asset – service concession rights decreased by 5% mainly due to amortization expense charged during the year.

(i) Investment properties decreased by ₱25 mn after a sale made by the Company.

(j) Net pension assets' decrease of ₱44 mn was mainly due to actuarial losses recognized by the group during 2015.

(k) Deferred income tax assets (DTA) increased by 140% (from ₱244 mn in 2014 to ₱585 mn in 2015) mainly due to the corresponding deferred tax benefits recognized on the unrealized foreign exchange losses, actuarial losses on defined benefit plans, impairment provisions, and net operating loss carry-over (NOLCO) generated by the Group during the 2015.

(l) Other noncurrent assets decreased by 12% (from ₱10.66 bn in 2014 to ₱9.39 bn in 2015), mainly due to the reclassification of input VAT from noncurrent to current assets.

Liabilities

Consolidated liabilities increased by 17%, from ₱120.68 bn as of December 31, 2014 to ₱140.88 bn as of December 31, 2015. The major movements of the accounts leading to the increase were as follows:

(a) Bank loan balances increased by ₱2.47 bn mainly due to new loans availed by TSI, TMO, Hedcor, Inc., Davao Light, and VECO.

(b) Trade and other payables increased by 11% (from ₱12.78 bn in 2014 to ₱14.14 bn in 2015) mainly due to higher payables to contractors for on-going construction.

(c) Income tax payable increased by 41% (from ₱604 mn in 2014 to ₱853 mn in 2015) primarily due to higher tax payables of the Group.

(d) Total long-term debt increased by 36% (from ₱42.78 bn in 2014 to ₱58.38 bn in 2015). The increase was mainly attributable to new project financing availed of by TVI to finance the construction of a coal plant in Toledo, Cebu and by Hedcor Bukidnon to construct a hydro plant. Contributing to the increase were drawdowns made during the year by TSI and PEC on their existing project debt facilities.

(e) Customers' deposits increased by 12% (₱5.69 bn in 2014 to ₱6.38 bn in 2015) mainly due to an increase in deposits for Davao Light and VECO resulting from the growth in thier customer base during 2015, as well as additional deposits from retail supply customers in 2015.

(f) Asset retirement obligation increased by 28% (₱2.35 bn in 2014 to ₱3.02 bn in 2015) due to additional provision and interest accreted during the year.

(g) Pension liability increased by 21% (₱406 mn in 2014 to ₱493 mn in 2015) on account of additional retirement costs net of retirement contributions made by certain subsidiaries during the year.

(h) Deferred income tax liabilities (DTL) decreased by 10% (₱1.25 bn in 2014 to ₱1.13 bn in 2015) mainly due to the reversal of deferred tax provisions on unrealized forex gains recognized during the year.

Equity

Equity attributable to equity shareholders of the parent increased by 6% (from ₱91.96 bn in 2014 to ₱97.57 bn in 2015), driven mainly by the recognition of income during the year net of ₱12.22 bn of dividends declared and paid to the Company's shareholders.

Material Changes in Liquidity and Cash Reserves of Registrant

Cash generated from operations continued to drive the overall increase in the Group's cash position. With EBITDA increasing by 6% during 2015, cash generated from the Group's operations brought in ₱25.20 bn for that year.

The Group utilized less cash for investing activities during 2015, totalling ₱8.90 bn versus ₱12.98 bn in 2014. This was mainly due to cash proceeds from the redemption of preferred shares. The Company continued to spend heavily on capital expenditures during 2015 to fund ongoing construction of various greenfield projects.

The significant net cash outflows relating to financing activities during the year of ₱5.45 bn was due to dividend payments to shareholders of ₱12.22 bn, payments made by TLI to PSALM on its finance lease obligations and interest payments net of proceeds from project financing facilities.

As of December 31, 2015, the Group's cash and cash equivalents increased from ₱40.23 bn as of the end of 2014 to ₱51.10 bn.

Financial Ratios

On a consolidated basis, current ratio moved from 3.36x to 3.12x during 2015. This was mainly due to the 34% increase in current liabilities, which outpaced the 24% increase in current assets. Current liabilities in turn increased due to higher bank loans and trade and other payables.

Consolidated debt to equity ratio stood at 1.39x as of end-2015 compared to 1.26x as of December 31, 2014. This was due to the Company's increasing debt position through project financing as it pursued its strategy to grow the business.

Item 7. Financial Statements

The consolidated financial statements of AboitizPower are incorporated herein by reference. The schedules listed in the accompanying Index to Supplementary schedules are filed as part of this SEC Form 17-A.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Information on Independent Public Accountant

External Audit Fees and Services

The following table sets out the aggregate fees billed to the Company for each of the last two years for professional services rendered by SGV.

Fee Type	2017	2016
Audit Fees		
Audit Fees	₱442,000.00	₱403,000.00
Audit Related Fees	31,500.00	-
Total	**473,500.00**	**403,000.00**
Non-Audit Fees		
Financial and Tax Due Diligence Fees	7,480,000.00	-
Bond Related Fees	3,500,000.00	-
Total	**10,980,000.00**	-
Total Audit and Non-Audit Fees	**₱11,453,500.00**	**₱403,000.00**

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.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

(a) Directors and Officers for 2017-2018

(1) Directors for 2017-2018

Below is the list of AboitizPower's directors for 20176-2018 with their corresponding positions and offices held for the past five (5) years. The directors assumed their directorship during AboitizPower's Annual Stockholders' Meeting in 2017 for a term of one (1) year.

ENRIQUE M. ABOITIZ
Chairman of the Board of Directors
Chairman – Board Risk and Reputation Management Committee

Mr. Enrique M. Aboitiz, 64 years old, Filipino, has served as Director and Chairman of the Board of Directors of AboitizPower since May 18, 2009. He was appointed Chairman of the Board Risk and Reputation Management Committee since May 16, 2011. Mr. Aboitiz is currently Director of AEV, a publicly-listed company, and Aboitiz & Company, Inc. (ACO). He graduated with 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.

JON RAMON ABOITIZ
Vice Chairman of the Board of Directors
Chairman – Board Corporate Governance Committee

Mr. Jon Ramon Aboitiz, 69 years old, Filipino, has been Director of AboitizPower since February 13, 1998 and Vice Chairman since May 18, 2009. He was appointed Chairman of the Board Corporate Governance Committee on May 19, 2008. He served as Chairman of the Board from 1998 to 2008.

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), and Vice Chairman of Union Bank of the Philippines (UnionBank). He is also the Chairman of UnionBank's Executive Committee and Risk Management Committee, and Vice Chairman 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.

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.

ERRAMON I.ABOITIZ
Director
Chief Executive Officer
Member – Board Corporate Governance Committee

Mr. Erramon I. Aboitiz, 61 years old, Filipino, has served as Chief Executive Officerand Directorof AboitizPowersince February 13, 1998. He is amember of the Board Corporate Governance Committee since May 17, 2010.

Mr. Aboitiz is currently the President & 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 Aboitiz Land, Inc. (AboitizLand); Chairman of the Board of Directors of the following companies: Aboitiz Infracapital, Inc. (Aboitiz Infracapital), San Fernando Electric Light and Power Co., Inc. (SFELAPCO), the SN Aboitiz Power Group, Manila-Oslo Renewable Enterprise, Inc. (MORE), Therma Power, Inc. (TPI), CRH Aboitiz Holdings, Inc. (CRH Aboitiz); and Vice Chairman of Republic Cement and Building Materials, Inc. (RCBM). He is also Director of UnionBank, a publicly-listed company, AEV International Pte. Ltd. (AEV International), AboitizPower International Pte. Ltd. (AboitizPower International), Aboitiz Renewables, Inc. (ARI), Archipelago Insurance Pte. Ltd. (Archipelago Insurance), Apo Agua Infrastructura, Inc. (Apo Agua), Cotabato Light & Power Company (Cotabato Light), Davao Light and Power Company, Inc. (Davao Light), PETNET, Inc. (PETNET), and Pilmico Foods Corporation (Pilmico). Lastly, he is Chairman of the Board of Trustees of Aboitiz Foundation, Inc. (Aboitiz Foundation), and is a director of the Philippine Disaster Recovery Foundation.

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.

ANTONIO R. MORAZA
Director
President and Chief Operating Officer[5]
Member – Board Audit Committee
– Board Risk and Reputation Management Committee

Mr. Antonio R. Moraza, 61 years old, Filipino, has been Director of AboitizPower since February 13, 1998 and President and Chief Operating Officer since May 19, 2014. He has been a member of the Board Audit Committee and the Board Risk and Reputation Management Committee since May 19, 2014.

Mr. Moraza has been a Director of AEV, a publicly-listed company, since May 2009. He is also Chairman of the Board of Directors of Abovant Holdings, Inc. (Abovant), Cebu Private Power Corporation (CPPC), Cotabato Light, Davao Light, Pagbilao Energy Corporation (PEC), Pilmico, Pilmico Animal Nutrition Coporation (PANC), Therma South, Inc. (TSI), and Therma Visayas, Inc. (TVI). Mr. Moraza is likewise Director and Senior Vice President of ACO; President of TPI; President and Chief Executive Officer of ARI; and Director of Hedcor Bukidnon, Inc. (Hedcor Bukidnon), Hedcor Sabangan, Inc. (Hedcor Sabangan), Hedcor Sibulan, Inc. (Hedcor Sibulan), Hedcor Tudaya, Inc. (Hedcor Tudaya), Hedcor, Inc. (Hedcor), Luzon Hydro Corporation (LHC), Redondo Peninsula Energy, Inc. (RP Energy), the SN Aboitiz Power Group, STEAG State Power, Inc. (STEAG Power), Southern Philippines Power Corporation (SPPC), Therma Marine, Inc. (TMI), Therma Mobile, Inc. (TMO), and Western Mindanao Power Corporation (WMPC). He holds directorship and management positions in GNPower Mariveles Coal Plant Ltd. Co. (GMCP) and GNPower Dinginin Ltd. Co. (GNPD) and its holding companies. He is also Trustee of Aboitiz Foundation.

Mr. Moraza holds a Bachelor of Science degree in Business Management from Ateneo de Manila University. He is not connected with any government agency or instrumentality.

MIKEL A. ABOITIZ
Director
Member – Board Audit Committee
– Board Risk and Reputation Management Committee

Mr. Mikel A. Aboitiz, 63 years old, Filipino, has been Director of AboitizPower since February 13, 1998. He was appointed as member of the Company's Board Audit Committee on October 26, 2007, and of the Board Risk and Reputation Management Committee on May 19, 2014. 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

[5] Effective June 1, 2018, Mr. Emmanuel V. Rubio will replace Mr. Moraza as the Company's Chief Operating Officer. Mr. Moraza will remain as the Company's President.

Trustee and Vice Chairman of RAFI. 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.

JAIME JOSE Y. ABOITIZ
Director
Executive Vice President and Chief Operating Officer – Power Distribution Group

Mr. Jaime Jose Y. Aboitiz, 56 yearsold, Filipino, was Directorof 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 which he held since August 14, 2008.

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 President and Chief Executive Officer of Abovant, Cotabato Light, SEZ, and Davao Light; President of Mactan Enerzone Corporation (MEZ), Lima Enerzone Corporation (LEZ), Balamban Enerzone Corporation (BEZ), and Visayan Electric Company, Inc. (VECO); and Director of ARI, CPPC, SFELAPCO, AboitizLand, Cebu Industrial Park Developers, Inc. (CIPDI), Hedcor, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor Bukidnon, Tsuneishi Heavy Industries (Cebu), Inc. (THICI), and Hijos de F. Escano, Inc. (Hijos).

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.

ROMEO L. BERNARDO
Lead Independent Director
Member – Board Audit Committee
– Board Corporate Governance Committee
– Board Risk and Reputation Management Committee
– Board Related Party Transactions Committee

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.

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.

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.

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 Economicsfrom 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.

CARLOS C. EJERCITO
Independent Director
Chairman – Board Audit Committee
Member – Board Corporate Governance Committee
– Board Risk and Reputation Management Committee
– Board Related Party Transactions Committee

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.

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 & Gamble Philippines, Inc. He was a member of the Board of Governors of the Management Association of the Philippines.

Mr. Ejercito graduated *cum laude* 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.

ALFONSO A. UY
Independent Director
Chairman – Board Related Party Transactions Committee
Member – Board Audit Committee
– Board Corporate Governance Committee
– Board Risk and Reputation Management Committee

Mr. Alfonso A. Uy, 78 years old, Filipino, has been an Independent Director of AboitizPower since May 20, 2013, and has been a member of its Board Audit Committee, Board Risk and Reputation Management Committee, and Board Corporate Governance Committee on the same date. He was elected as Chairman of the Board Related Party Transactions Committee on May 15, 2017.

Mr. Uy currently serves as Chairman of the Boards of La Filipina Uy Gongco Corporation, Philippine Foremost Milling Corporation, Mindanao Grain Processing Corporation, Amigo Shipping Corporation, Amigo Terrace Hotel, Amigo Agro-Industrial Development Corporation, Excel Farm Corporation, and Capiz Sugar Central. He is a Director of State Properties, Inc., State Investment Trust, Inc., STEAG Power, BDO Private Bank, and Global Business Power Corporation. He is President of Uygongco Foundation, Inc., Adviser for Metrobank Foundation, Inc., and Chairman Emeritus of the Iloilo Economic Development

Foundation.

Mr. Uy has served in various capacities in government and non- governmental organizations, including President of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc., and Member of the City Council of Iloilo City. He is a recipient of various awards, including the Dr. Jose Rizal Award for Excellence in Business and Commerce, Outstanding Chemical Engineer Award of the Philippine Institute of Chemical Engineers, and the Professional of the Year Award in the field of Chemical Engineering by the Philippine Regulatory Commission for the year 2005.

Mr. Uy graduated magna cum laude from Central Philippine University with a degree in Bachelor of Science in Chemical Engineering. He is a licensed Chemical Engineer. He is not connected with any government agency or instrumentality. He is not a director of any other publicly listed company.

Nominations for Independent Directors and Procedure for Nomination

The procedure for the nomination and election of the Independent Directors is in accordance with Rule 38 of the Securities Regulation Code ("SRC Rule 38"), AboitizPower's Amended By-Laws, and the Guidelines. The Guidelines were approved by the AboitizPower Board on May 15, 2007 and disclosed to all stockholders. On June 14, 2007, AboitizPower initially adopted and incorporated the provisions of SRC Rule 38 in its Amended By-Laws. Thereafter, the AboitizPower Board approved the Amended Guidelines for the Nomination and Election of Independent Directors (the "Amended Guidelines") on March 23, 2017, which was disclosed to all stockholders.

Nominations for Independent Directors were opened beginning January 1, 2018 and the table for nominations was closed on February 15, 2018, in accordance with Section C(1) of the Guidelines.

SRC Rule 38 further requires that the Board Corporate Governance Committee meet to pre-screen all nominees and submit a Final List of Nominees to the Corporate Secretary, so that such list will be included in the Company's Preliminary and Definitive Information Statements. Only nominees whose names appear on the Final List shall be eligible for election as Independent Directors. No other nominations shall be entertained after the Final List of nominees has been prepared. The name of the person or group of persons who nominates an Independent Director shall be identified in such report including any relationship with the nominee.

In approving the nominations for Independent Directors, the Board Corporate Governance Committee considered the guidelines on the nominations of Independent Directors prescribed in SRC Rule 38, the Amended Guidelines, and AboitizPower's Revised Manual on Corporate Governance (the "Manual"). The Manual was approved by the AboitizPower Board of Directors on August 14, 2002 and disclosed to its shareholders. The Board Corporate Governance Committee took over the functions of the Board Nominations and Compensation Committee, pursuant to an amendment of the Manual in 2009. The Chairman of the Board Corporate Governance Committee is Mr. Jon Ramon Aboitiz. The voting members are Messrs. Erramon I. Aboitiz, Carlos C. Ejercito, Romeo L. Bernardo, and Alfonso A. Uy, while the ex-officio non-voting members are Ms. M. Jasmine S. Oporto[6] and Mr. Xavier Jose Y. Aboitiz.

No nominations for Independent Director shall be accepted at the floor during the Annual Stockholders' Meeting at which such nominee is to be elected. Independent Directors shall be elected in the Annual Stockholders' Meeting during which other members of the Board are to be elected.

Messrs. Romeo L. Bernardo, Carlos C. Ejercito, and Eric O. Recto are the nominees for Independent Directors of AboitizPower for 2018-2019. Mr. Recto is being nominated for the first time. They are neither officers nor employees of AboitizPower or any of its Affiliates, and do not have any relationship with AboitizPower which would interfere with the exercise of independent judgment in carrying out the responsibilities of an Independent Director. Attached as Annexes "B-1," "B-2", and "B-3" are the Certifications of Qualification as Independent Director of Messrs. Bernardo, Ejercito, and Recto, respectively.

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[6] Mr. Joseph Trillana T. Gonzales replaced Ms. M. Jasmine S. Oporto as ex-officio voting member of the Board Corporate Governance Committee effective March 1, 2018.

AboitizPower stockholders, Ms. Vicenta G. Aboyme, Mr. Cris C. Fernandez, and Ms. Maria G. Sandalo, have respectively nominated Messrs. Bernardo, Ejercito, and Recto as AboitizPower's Independent Directors. None of the nominating stockholders has any relation to Messrs. Bernardo, Ejercito, and Recto

Other Nominees for Election as Members of the Board of Directors

As conveyed to the Corporate Secretary, the following have been nominated as members of the Board for the ensuing year 2018-2019:

Enrique M. Aboitiz
Jon Ramon Aboitiz
Erramon I. Aboitiz
Antonio R. Moraza
Mikel A. Aboitiz
Jaime Jose Y. Aboitiz

Pursuant to Section 7, Article I of the Amended By-Laws of AboitizPower, nominations for members of the Board, other than Independent Directors, for the ensuing year must be received by the Corporate Secretary no less than fifteen (15) working days prior to the Annual Stockholders' Meeting on May 21, 2018, or not later than April 27, 2018.

All other information regarding the positions and offices by the abovementioned nominees, except for Mr. Eric O. Recto, are integrated in Item 5 (a)(1) above. Mr. Eric O. Recto is being nominated to the board for the first time.

Below is the profile of Mr. Recto, including the positions and offices he has held for the past five (5) years:

ERIC O. RECTO

Mr. Eric O. Recto, 54 years old, Filipino, was nominated as an Independent Director of AboitizPower. 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 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.

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.

Mr. Recto earned his Bachelor of Science Degree in Industrial Engineering from the University of the Philippines Diliman. He completed his Masters 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.

(2) Officers for 2017-2018

Below is the list of AboitizPower's officers for 2017-2018 with their corresponding positions and offices held for the past five (5) years. Unless otherwise indicated, the officers assumed their positions during AboitizPower's annual organizational meeting in 2017 for a term of one (1) year.

ENRIQUE M. ABOITIZ
Chairman of the Board of Directors
Chairman – Board Risk and Reputation Management Committee

Mr. Enrique M. Aboitiz, 64 years old, Filipino, has served as Director and Chairman of the Board of

Directors of AboitizPower since May 18, 2009. He was appointed Chairman of the Board Risk and Reputation Management Committee since May 16, 2011. Mr. Aboitiz is currently Director of AEV, a publicly-listed company, and ACO. He graduated with 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.

JON RAMON ABOITIZ
Vice Chairman of the Board of Directors
Chairman – Board Corporate Governance Committee

Mr. Jon Ramon Aboitiz, 69 years old, Filipino, has been Director of AboitizPower since February 13, 1998 and Vice Chairman since May 18, 2009. He was appointed Chairman of the Board Corporate Governance Committee on May 19, 2008. He served as the Company's Chairman of the Board from 1998 to 2008.

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 and ICTSI, and Vice Chairman of Unionbank. He is also the Chairman of UnionBank's Executive Committee and Risk Management Committee, and Vice Chairman 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 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.

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.

ERRAMON I.ABOITIZ
Chief Executive Officer
Member – Board Corporate Governance Committee

Mr. Erramon I. Aboitiz, 61 years old, Filipino, has served as Chief Executive Officer and Director of AboitizPower since February 13, 1998. He is a member of the Board Corporate Governance Committee since May 17, 2010.

Mr. Aboitiz is currently the President & 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 of Directors of the following companies: Aboitiz InfraCapital, SFELAPCO, the SN Aboitiz Power Group, MORE, TPI, CRH Aboitiz; and Vice Chairman of RCBM. He is also Director of UnionBank, a publicly-listed company, AEV International, AboitizPower International, ARI, Archipelago Insurance, Apo Agua, Cotabato Light, Davao Light, PETNET, and Pilmico. Lastly, he is Chairman of the Board of Trustees of Aboitiz Foudation, and is a director of the Philippine Disaster Recovery Foundation.

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.

ANTONIO R. MORAZA
President and Chief Operating Officer
Member – Board Risk and Reputation Management Committee
– Board Audit Committee

Mr. Antonio R. Moraza, 61 years old, Filipino, has been Director of AboitizPower since February 13, 1998 and President and Chief Operating Officer since May 19, 2014. He has been a member of the Board Audit Committee and the Board Risk and Reputation Management Committee since May 19, 2014.

Mr. Moraza has been a Director of AEV, a publicly-listed company, since May 2009. He is also Chairman of the Board of Directors of Abovant, CPPC, Cotabato Light, Davao Light, PEC, Pilmico, PANC, TSI, and TVI. Mr. Moraza is likewise Director and Senior Vice President of ACO; President of TPI; President and Chief Executive Officer of ARI; and Director of Hedcor Bukidnon, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor, LHC, RP Energy, the SN Aboitiz Power Group, STEAG Power, SPPC, TMI, TMO and WMPC. He holds directorship and management positions in GMCP and GNPD and its holding companies. He is also Trustee of Aboitiz Foundation.

Mr. Moraza holds a Bachelor of Science degree in Business Management from Ateneo de Manila University. He is not connected with any government agency or instrumentality.

JAIME JOSE Y. ABOITIZ
Executive Vice President and Chief Operating Officer– Power Distribution Group

Mr. Jaime Jose Y. Aboitiz, 56 years old, Filipino, was Director of AboitizPower from 2004 to April 2007, and was re-elected as Director on May 18, 2009 up to the present. He is also AboitizPower's Executive Vice President and Chief Operating Officer-Power Distribution Group, a position which he held since August 14, 2008.

Mr. Aboitiz is a member of the Board of Advisers of ACO, Chairman of the Board of ACI, and a Trustee of Aboitiz Foundation. He is also President and Chief Executive Officer of Abovant, Cotabato Light, SEZ and Davao Light; President of MEZ, LEZ, BEZ, and VECO; Director of ARI, CPPC, SFELAPCO, AboitizLand, CIPDI, Hedcor, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor Bukidnon, THICI, and Hijos.

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.

LUIS MIGUEL O. ABOITIZ
Executive Vice President and Chief Operating Officer – Corporate Business Group [7]

Mr. Luis Miguel O. Aboitiz, 53 years old, Filipino, has been AboitizPower's Executive Vice President and Chief Operating Officer-Corporate Business Group from January 1, 2016. He was AboitizPower's Senior Vice President- Power Marketing and Trading from 2009 to 2015.

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 Chairman of the Board of AP Renewables, Inc. (APRI); Director and President of MORE; and Director of Abovant, STEAG Power, ARI, TPI, Pilmico, PANC, RP Energy, TSI, TLI, TVI, PEC, Aboitiz InfraCapital, Hedcor Sabangan, Hedcor Bukidnon, 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. (PIPPA), and Director of Semiconductors and Electronics Industries in the Philippines, Inc.

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.

[7] Mr. Luis Miguel O. Aboitiz will assume the position of Chief Strategy Officer effective June 1, 2018.

EMMANUEL V. RUBIO

Executive Vice President and Chief Operating Officer – Power Generation Group[8]

Mr. Emmanuel V. Rubio, 53 years old, Filipino, has been AboitizPower's Executive Vice President and Chief Operating Officer - Power Generation Group since May 19, 2014.

Mr. Rubio is currently Chairman of East Asia Utilities Corporation (EAUC), San Carlos Sun Power, Inc. (Sacasun), TMI, TMO, LHC, Hedcor, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, and Hedcor Bukidnon; Director and Chief Executive Officer of APRI; Director of ARI, Abovant, Cebu Energy, CPPC, PEC, STEAG Power, TLI, TPI, TSI, TVI, 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 Philippine Electricity Market Corporation (PEMC).

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.

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 is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.

JUAN ANTONIO E. BERNAD

Executive Vice President for Strategy and Regulatory

Mr. Juan Antonio E. Bernad, 61 years old, Filipino, has been AboitizPower's Executive Vice President for Strategy and Regulatory 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.

Since 1995, Mr. Bernad has been Senior Vice President of AEV, a publicly listed company. He was AEV's Senior Vice President - Electricity Regulatory Affairs from 2004 to 2007 and Senior Vice President - Chief Financial Officer from 1995 to 2004. Mr. Bernardo 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.

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.

GABRIEL T. MAÑALAC

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 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

[8] Effective June 1, 2018, Mr. Emmanuel V. Rubio will replace Mr. Antonio R. Moraza as Chief Operating Officer of AboitizPower and Mr. Felino M. Bernardo will replace Mr. Rubio as Executive Vice President and Chief Operating Officer – Power Generation Group. Mr. Bernardo is currently the President and Chief Operating Officer of APRI. Mr. Bernardo is not related to Mr. Romeo L. Bernardo, Independent Director.

in 2004. He is also Vice President and Treasurer of Davao Light and Treasurer of Cotabato Light.

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.

SUSAN V. VALDEZ
Senior Vice President and Chief Reputation and Risk Management Officer
Ex-officio Member – Board Risk and Reputation Management Committee

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.

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.

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.

LIZA LUV T. MONTELIBANO
Senior Vice President and Chief Financial Officer/Corporate Information Officer
Ex-officio Member – Board Risk and Reputation Management Committee

Ms. Liza Luv T. Montelibano, 42 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 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.

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, MORE, APRI, and AboitizPower International. She holds directorship and management positions in GMCP and GNPD and its holding companies.

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.

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.

MA. CHONA Y. TIU
First Vice President and Chief Financial Officer – Power Distribution Group

Ms. Ma. Chona Y. Tiu, 60 years old, Filipino, was appointed First Vice President and Chief Financial Officer – Power Distribution Group on January 2, 2014.

Ms. Tiu joined the Aboitiz Group in 1977 as a Research Assistant of the Corporate Staff Department of ACO. She rose from the ranks and held various finance positions in different companies within the Aboitiz Group, including Aboitiz Construction Group, Inc. (now ACI) and AboitizLand. Ms. Tiu joined the AboitizPower Group when she was appointed Vice President - Administration and Chief Finance Officer of VECO in 2007. She has been Chief Financial Officer - Power Distribution Group of the Company since March 6, 2009, and Vice President from 2009 to 2013. She is Director, Vice President, and Chief Financial Officer/ Treasurer of BEZ, LEZ, MEZ, SEZ, Davao Light, Cotabato Light, and VECO; and Director of SFELAPCO.

Ms. Tiu graduated with a degree of Bachelor of Science in Business Management from the University of the Philippines Cebu. She obtained her Masters in Management from the same university. She is not connected with any government agency or instrumentality. She is also not a director of a publicly-listed company.

BEVERLY B. TOLENTINO
First Vice President and Chief Financial Officer – Power Generation Group[9]

Ms. Beverly B. Tolentino, 47 years old, Filipino, was appointed First Vice President and Chief Financial Officer – Power Generation Group of AboitizPower on December 4, 2015. She is currently Director and Treasurer of EAUC, TMI and TMO; Chief Finance Officer of Abovant, CPPC, TSI, Hedcor, and PEC; Chief Financial Officer and Treasurer of ARI, APRI, Hedcor Bukidnon, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, and TLI; and Treasurer of LHC, Sacasun, TPI, and TVI.

Ms. Tolentino has extensive local and offshore experiences in general management, finance leadership and controllership roles. She held key positions in the SN Power Group, including Managing Director and Group Business Controller of SN PowerInvest Netherlands BV. Ms. Tolentino is also familiar with the Aboitiz Group, having served as Assistant Vice President - Financial Controller of MORE, and as Assistant Vice President for Finance Systems of Aboitiz Transport System Corporation (now 2Go Group, Inc., a publicly-listed company).

Ms. Tolentino graduated cum laude from Ateneo de Davao University with a Bachelor of Science degree in Commerce, Major in Accounting, and is a Certified Public Accountant. She is not connected with any government agency or instrumentality. She is also not a director of a publicly-listed company.

ALVIN S. ARCO
First Vice President for Regulatory Affairs

Mr. Alvin S. Arco, 57 years old, Filipino, was appointed First Vice President for Regulatory Affairs of AboitizPower on January 2, 2014. He is also Vice President – Regulatory Affairs of Davao Light and Vice President – Finance of Cotabato Light. He was Vice President – Regulatory Affairs of AboitizPower from April 2007 to December 2013. Mr. Arco was Accounting Manager of AboitizPower from 1998 to 1999, Assistant Vice President - Finance from 2000 to 2004, and Vice President - Finance in 2005. He obtained his degree in Accountancy from the University of San Jose-Recoletos, Cebu City, and is a Certified Public Accountant. He is not connected with any government agency or instrumentality. He is also not a director of a publicly-listed company.

[9] Effective April 1, 2018, Ms. Beverly B. Tolentino will transfer to AEV as First Vice President – CSU Finance Planning and Projects. She will be replaced by Ms. Ma. Racquel J. Bustamante as First Vice President and Chief Financial Officer – Power Generation Group, effective July 1, 2018.

JUAN ALEJANDRO A. ABOITIZ
First Vice President for Energy Trading and Sales

Mr. Juan Alejandro A. Aboitiz, 33 years old, Filipino, was appointed First Vice President for Energy Trading and Sales of AboitizPower on July 27, 2017. Prior to this, he served as Assistant Vice President for Corporate Finance of AEV. Mr. Aboitiz first joined the Aboitiz Group in April 2011 as a Management Trainee for the Strategy and Corporate Finance department of AEV. He was also the Department Head for Billing and Collection of VECO from March 2012 to June 2013, and Regulatory Affairs Manager of AboitizPower from July 2013 to June 2014. Prior to joining the Aboitiz Group, he held various positions in SyCip Gorres Velayo & Co. from 2008 to 2011.

Mr. Aboitiz is currently Chairman of the Board of TLI; Chairman and Chief Financial Officer/Treasurer of Adventenergy, Inc. (AdventEnergy), Aboitiz Energy Solutions, Inc (AESI), and Prism Energy, Inc. (Prism); and Director of APRI and SN Aboitiz Power-RES, Inc. (SN Aboitiz Power - RES).

Mr. Aboitiz earned his Bachelor of Science Degree in Accounting from the Loyola Marymount University in Los Angeles, California, U.S.A, and his Masters of Business Administration from The Hong Kong University of Science and Technology. He is not connected with any government agency or instrumentality. He is also not a director of a publicly-listed company.

RALPH T. CRISOLOGO
First Vice President for Project Development

Mr. Ralph T. Crisologo, 58 years old, Filipino, has been AboitizPower's First Vice President for Project Development since December 4, 2015 and will remain in this postion until April 22, 2018. He has over 20 years of experience in the different aspects of the Power Systems Engineering industry, including project development and management, power system operations and planning, plant maintenance and operation, scheduling and dispatch, power supply contracting, and electricity spot market bidding and strategy, among others.

Prior to joining AboitizPower, Mr. Crisologo was a freelance power and energy consultant. He was also the Chief Market Officer of the SN Aboitiz Power Group, and also held key positions in MORE and the SN Power Group Group from 2009 up to March 2015. Mr. Crisologo was also a member of the Rules Change Committee representing the generators group of the Wholesale Electricity Spot Market for three years.

Mr. Crisologo graduated from the University of the Philippines Diliman, with a Bachelor of Science degree in Electrical Engineering. He also graduated at the top of his Management Program at the Asian Institute of Management. He is not connected with any government agency or instrumentality. He is also not a director of a publicly-listed company.

JOSEPH TRILLANA T. GONZALES
First Vice President, General Counsel and Compliance Officer
Ex-officio Member – Board Corporate Governance Committee

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.

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.

Mr. Gonzales was Special Counsel of SyCip Salazar Hernandez & Gatmaitan Law Offices until he joined the Aboitiz Group as Assistant Vice President of the Corporate and Legal Services of ACO in 2007.

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.

DONALD L. LANE
Executive Director for Project Development and Execution

Dr. Donald L. Lane, 59 years old, British, was appointed Executive Director for Project Development and Execution of AboitizPower on December 4, 2015. Prior to this, he held the position of Executive Director – Business Development of AboitizPower since September 3, 2014. He will be retiring from the Company on May 1, 2018.

Dr. Lane has over 25 years of experience in the power business in the Philippines and abroad. Before joining AboitizPower, he was the General Manager for Power at WorleyParsons Resources and Energy for its Southeast Asia Power Hub based in Singapore. Dr. Lane completed his doctorate degree in Mechanical Engineering from Brunel University, Uxbridge, United Kingdom. He is not connected with any government agency or instrumentality. He is also not a director of a publicly-listed company.

JOHN EARL CRIDER, JR.
Executive Director and Chief Technology Officer – Power Generation Group

Mr. John Earl Crider, Jr., 58 years old, American, was appointed Executive Director and Chief Technology Officer – Power Generation Group of AboitizPower on January 23, 2017. He joined the Aboitiz Group in February 2014 as Executive Director of TLI.

Prior to joining the Aboitiz Group, Mr. Crider served as Senior Vice President for Engineering & Operations of Oxbow Carbon from June 2010 to September 2013, and as Executive Vice President of Foster Wheeler Inc. from 2006 to 2010. He has over 35 years of experience in power generation and has worked with a variety of power generation technologies.

Mr. Crider earned his Bachelor of Science Degree in Electrical Engineering Technology from Western Kentucky University in Bowling Green, Kentucky, U.S.A. He is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.

THOMAS J. SLIMAN, JR.
Executive Director for Project Execution

Mr. Thomas J. Sliman, Jr., 58 years old, American, is the Executive Director for Project Execution of AboitizPower since May 15, 2017. Prior to this, he was AboitizPower's Executive Director for Projects since August 1, 2013, Vice President – Business Development since May 17, 2010, and First Vice President for Business Development from 2012 to 2013. He holds directorship and management positions in GMCP and GNPD and its holding companies.

Mr. Sliman has extensive experience in the power industry, both in the Philippines and in the U.S.A. After working for 20 years in the U.S.A. for the Southern Company in various operations and maintenance roles in thermal power plants, he relocated to the Philippines to work with Mirant Philippines and was initially assigned at the Pagbilao and Sual plants as Plant Manager. He was the Executive Vice President – Operations for Mirant Philippines until its sale in 2007. Mr. Sliman previously worked with AboitizPower in 2009 as a consultant during AboitizPower's submission of bid proposals to be the Independent Power Producer Administrator (IPPA) of the Pagbilao and Sual coal-fired power plants.

Mr. Sliman earned his degree in Bachelor of Science in Electrical Engineering from the Mississippi State University in 1983. He had completed approximately 75% of the required coursework for a Masters of Business Administration degree from the University of Southern Mississippi in Long Beach, Mississippi, U.S.A. He is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.

CHRISTOPHER B. SANGSTER
Executive Director – Power Generation Group[10]

Mr. Christopher B. Sangster, 50 years old, Australian, was appointed Executive Director – Power Generation Group of AboitizPower on May 15, 2017. He first joined the Aboitiz Group in May 2008, and served as Executive Director of LHC.

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.

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.

ROBERT MCGREGOR
Executive Director for Business Development[11]

Mr. Robert McGregor, 58 years old, British, was appointed as Executive Director for Business Development of AboitizPower on May 15, 2017. He was Executive Director – Investments of AboitizPower 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.

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.

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.

JOHN ANTHONY CRANE
Senior Director for Business Development

Mr. John Anthony Crane, 53 years old, American, was appointed Senior Director for Business Development of AboitizPower on May 15, 2017. Prior to joining AboitizPower in 2013, he served in senior management roles in Finance and Business Development of US Fortune 500 companies listed on the New York Stock Exchange, including Power and Utilities majors Northeast Utilities System, Inc. (NYSE:NU), and PG&E Corporation, Inc. (NYSE: PCG); and global engineering firm EMCOR (NYSE:EMC). Previously, he was a consultant in the international power, utilities and business infrastructure sectors.

Mr. Crane holds a Bachelor of Arts degree in International Relations from Columbia University in New York, U.S.A. He earned his Masters of Business Administration (Finance) degree from the University of Toronto in Ontario, Canada. He is not connected with any government agency or instrumentality. He is also not a director of a publicly-listed company.

[10] Mr. Christopher B. Sangster has been appointed as Executive Director – Business Development and Project Development and Execution effective May 1, 2018.
[11] Mr. Robert McGregor has been appointed as Executive Director – Chief Investment Officer of AboitizPower effective June 1, 2018.

MANUEL ALBERTO R. COLAYCO
Corporate Secretary

Mr. Manuel Alberto R. Colayco, 48 years old, Filipino, has been Corporate Secretary of AboitizPower since March 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.

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 & 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 & Flom, LLP from 2000 to 2007, and at Romulo Mabanta Buenaventura Sayoc & De Los Angeles from 1996 to 2000.

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.

MAILENE M. DE LA TORRE
Assistant Corporate Secretary

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, APRI, CPPC, EAUC, BEZ, LEZ, Lima Water Corporation (LWC), MEZ, SEZ, Hedcor Bukidnon, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor, LHC, PANC, PFC, PEC, TMI, TMO, TSI, TPI, TVI, and PETNET, as well as Assistant Assistant Corporate Secretary for ACI, Aboitiz Construction International, Inc., CRH Aboitiz, AEV Av, TDHI, TMHI, AboitizLand, Cotabato Light, Davao Light, MORE, the SN Aboitiz Power Group, and VECO.

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 & Blanco Law Office from 2007 to 2010. She graduated cum laude with a Bachelor of Arts 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.

NOREEN MARIE N. VICENCIO
Data Privacy Officer

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.

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.

Period in which the Directors and Executive Officers Should Serve

The directors shall serve for a period of one (1) 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 (1) 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.

(3) Significant Employees

AboitizPower considers the contribution of every employee important to the fulfillment of its goals.

(4) Family Relationships

Messrs. Jaime Jose and Luis Miguel Aboitiz are first cousins. Mr. Juan Alejandro A. Aboitiz is the nephew of Mr. Jaime Jose Y. Aboitiz. 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.

(5) Involvement in Certain Legal Proceedings as of March 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 March 31, 2018, which would put to question his/her ability and integrity to serve AboitizPower and its stockholders.

(6) Parent Company

AboitizPower's parent company is AEV. As of March 28, 2018, AEV owns 76.88% of the voting shares of AboitizPower. In turn, ACO owns, as of March 28, 2018, 48.56% of the voting shares of AEV.

(b) 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.

Item 10. Compensation of Directors and Executive Officers

(a) Summary of Compensation of Executive Officers

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)
Chief Executive Officer and the Four Most Highly Compensated Officers: 1. **ERRAMON I. ABOITIZ** - Chief Executive Officer 2. **ANTONIO R. MORAZA** - President & Chief Operating Officer 3. **JUAN ANTONIO R. BERNAD** - Executive Vice President for Strategy and Regulatory 4. **JAIME JOSE Y. ABOITIZ** - Executive Vice President & Chief Operating Officer – Power Distribution Group 5. **EMMANUEL V. RUBIO** - Executive Vice President & Chief Operating Officer – Power Generation Group				
All above named officers as a group	**Actual 2017**	**₱166,030,000.00**	**₱5,740,000.00**	**₱18,140,000.00**
	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
All other officers and directors as a group	**Actual 2017**	**₱122,710,000.00**	**₱5,910,000.00**	**₱39,660,000.00**
	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 the Securities and Exchange Commision (SEC) on May 16, 2014, defined corporate officers as follows: the Chairman of the Board, the Vice Chairman, the Chief Executive Officer(s), the 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 2017, 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.

(b) Compensation of Directors

(1) 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/member 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	Membersy	Chairman of the Committee
Committee Meeting	₱80,000.00	₱100,000.00

(2) Other Arrangements

Other than payment of a director's allowance and the per diem as stated above, 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.

(c) 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.

(d) Warrants and Options Outstanding

To date, AboitizPower has not granted any stock option to its directors or officers

Item 11. Security Ownership of Certain Record and Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners (more than 5%) as of March 28, 2018

Title of Class	Name, Address of Record Owner, and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held and Nature of Ownership (Record and/or Beneficial)	Percentage of Class Owned
Common	**1. Aboitiz Equity Ventures, Inc.**[12] 32nd Street, Bonifacio Global City, Taguig City (Stockholder)	Aboitiz Equity Ventures, Inc.[13]	Filipino	5,657,530,774 (Record and Beneficial)	76.88%

[12] Aboitiz Equity Ventures, Inc. is the parent company of AboitizPower.
[13] 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.

Title of Class	Name, Address of Record Owner, and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held and Nature of Ownership (Record and/or Beneficial)	Percentage of Class Owned
Common	**2. PCD Nominee Corporation (Filipino)**[14] 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City, 1226 Metro Manila (Stockholder)	PCD participants acting for themselves or for their customers[15]	Filipino	907,486,195 (Record)	12.33%
Common	**3. PCD Nominee Corporation (Foreign)**[16] 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City, 1226 Metro Manila (Stockholder)	PCD participants acting for themselves or for their customers[17]	Non- Filipino	522,016,185 (Record)	7.09%

Aboitiz Equity Ventures, Inc. (AEV) is the public holding and management company of the Aboitiz Group, one of the largest conglomerates in the Philippines. As of March 28, 2018, the following entities own five per centum (5%) or more of AEV:

Title of Class	Name, Address of Stockholder and Beneficial Owner	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares and Nature of Ownership (Record and/ or Beneficial)	Percentage of Class Owned
Common	**1. Aboitiz & Company, Inc.** Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City (Stockholder)	Aboitiz & Company, Inc.	Filipino	2,735,600,915 (Record and Beneficial)	48.56%
Common	**2. PCD Nominee Corporation (Filipino)** 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City, 1226 Metro Manila (Stockholder)	PCD participants acting for themselves or for their customers	Filipino	758,375,561 (Record)	13.46%
Common	**3. PCD Nominee Corporation (Foreign)** 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City, 1226 Metro Manila (Stockholder)	PCD participants acting for themselves or for their customers	Non- Filipino	557,763,421 (Record)	9.90%
Common	**4. Ramon Aboitiz Foundation, Inc.** 35 Lopez Jaena St., Cebu City (Stockholder)	Ramon Aboitiz Foundation, Inc.	Filipino	424,538,863 (Record and Beneficial)	7.54%

[14] The PCD Nominee Corporation (Filipino and Foreign) is not related to the Company.
[15] 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. As advised to the Company, none of the beneficial owners under a PCD participant owns more than 5% of the Company's common shares.
[16] *Supra note 3*
[17] *Supra note 4*.

(2) Security Ownership of Management as of March 28, 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
Common	**Enrique M. Aboitiz** Chairman of the Board	758	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Jon Ramon Aboitiz** Vice Chairman of the Board	33,001	Direct	Filipino	0.00%
		18,014,220	Indirect		0.24%
Common	**Erramon I. Aboitiz** Director/Chief Executive Officer	1,300,001	Direct	Filipino	0.02%
		82,939,214	Indirect		1.13%
Common	**Antonio R. Moraza** Director/President and Chief Operating Officer	1	Direct	Filipino	0.00%
		20,432,299	Indirect		0.28%
Common	**Jaime Jose Y. Aboitiz** Director/Executive Vice President and Chief Operating Officer – Power Distribution	5,367,397	Direct	Filipino	0.07%
		4,719,302	Indirect		0.06%
Common	**Mikel A. Aboitiz** Director	1	Direct	Filipino	0.00%
		17,322,159	Indirect		0.24%
Common	**Romeo L. Bernardo** Lead Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Carlos C. Ejercito** Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Alfonso A. Uy** Independent Director	1,000	Direct	Filipino	0.00%
		49,500	Indirect		0.00%
Common	**Emmanuel V. Rubio** Executive Vice President & Chief Operating Officer – Power Generation Group	89,130	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Juan Antonio E. Bernad** Executive Vice President for Strategy and Regulatory	520,001	Direct	Filipino	0.01%
		488,734	Indirect		0.01%
Common	**Luis Miguel O. Aboitiz** Executive Vice President/Chief Operating Officer – Corporate Business Group	10,354,875	Direct	Filipino	0.14%
		0	Indirect		0.00%
Common	**Gabriel T. Mañalac** Senior Vice President and Group Treasurer	111,139	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Susan V. Valdez** Senior Vice President and Chief Reputation and Risk Management Officer	729,862	Direct	Filipino	0.01%
		0	Indirect		0.00%
Common	**Liza Luv T. Montelibano** SeniorVice President and Chief Financial Officer/Corporate Information Officer	500	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Beverly B. Tolentino** First Vice President and Chief Financial Officer – Power Generation Group	58,534	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Ma. Chona Y. Tiu** First Vice President and Chief Financial Officer – Power Distribution Group	227,250	Direct	Filipino	0.00%
		70,000	Indirect		0.00%

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
Common	**Alvin S. Arco** First Vice President for Regulatory Affairs	36,427	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Juan Alejandro A. Aboitiz** First Vice President for Energy Trading and Sales	184,032	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Ralph T. Crisologo** First Vice President for Project Development	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Joseph Trillana T. Gonzales** First Vice President, General Counsel and Compliance Officer	62,527	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Donald L. Lane** Executive Director for Project Development and Execution	0	Direct	British	0.00%
		0	Indirect		0.00%
Common	**Thomas J. Sliman, Jr.** Executive Director for Project Execution	47,866	Direct	American	0.00%
		0	Indirect		0.00%
Common	**John Earl Crider, Jr.** Executive Director and Chief Technology Officer – Power Generation Group	0	Direct	American	0.00%
		0	Indirect		0.00%
Common	**Chris B. Sangster** Executive Director – Power Generation Group	109,936	Direct	Australian	0.00%
		0	Indirect		0.00%
Common	**Robert McGregor** Executive Director for Business Development	0	Direct	British	0.00%
		5,000	Indirect		0.00%
Common	**John Anthony Crane** Senior Director for Business Development	0	Direct	American	0.00%
		0	Indirect		0.00%
Common	**Manuel Alberto R. Colayco** Corporate Secretary	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Mailene M. de la Torre** Assistant Corporate Secretary	0	Direct	Filipino	0.00%
		5,000	Indirect		0.00%
Common	**Noreen Marie N. Vicencio** Data Privacy Officer	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
	TOTAL	**163,281,666**			2.22%

(3) 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.

(4) Changes in Control

There are no arrangements that may result in a change in control of AboitizPower during the period covered by this report.

Item 12. 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.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Pursuant to Memorandum Circular No. 15, Series of 2017 issued by the Securities and Exchange Commission (SEC), the Company's Integrated Annual Corporate Governance Report (IACGR) will be filed with the SEC on or before May 30, 2018. The IACGR will be available at the Company's website at www.aboitizpower.com. Other reports such as the Company's Annual Corporate Governance Report and the full Corporate Governance Report are also available at the Company's website.

PART V – EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits. None

(b) Reports on SEC Form 17-C

Reports filed by AboitizPower on SEC Form 17-C from April 2017 to March 2018 are as follows:

Date Reported	Disclosure Details
April 19, 2017	Filing of Registration Statement for the Proposed up to ₱30 bn Fixed-Rate Retail Bonds
May 3, 2017	First Quarter 2017 Financial and Operating Results
May 15, 2017	Appointment of Officers and Creation of the Position of Data Privacy Officer
May 15, 2017	Results of the 2017 Annual Stockholders' Meeting
May 15, 2017	Results of the 2017 Organizational Meeting
May 16, 2017	Reciept of "PRS Aaa" Rating from the Philippine Rating Services Corporation on the ₱30 bn Fixed-Rate Retail Bonds
June 16, 2017	Resignation of Officer
June 16, 2017	Receipt of Pre-effective Order issued by the SEC on the Company's Application for the Issuance of up to ₱30 bn Fixed-Rate Retail Bonds under the SEC's Shelf Registration Program
June 19, 2017	Receipt of the Order of Registration and Certificate of Permit to Offer Securities for Sale from the SEC in relation to the Company's Application for the Issuance of up to ₱30 bn Fixed-Rate Retail Bonds
July 3, 2017	Listing with the Philippine Dealing and Exchange Corporation of the Series "A" Bonds equivalent to ₱3 bn
July 11, 2017	Signing of Compromise Agreement with SunE Solar B.V.
July 13, 2017	Press Release: SN Aboitiz Power-Magat Small Hydro on Track to Completion in 2017
July 27, 2017	Appointment of Officer
August 1, 2017	Second Quarter 2017 Financial and Operating Results
August 2, 2017	Press Release: AboitizPower posts ₱9.7 bn net income in first half 2017
August 29, 2017	GNPower Mariveles Holdings, Inc.'s Signing of a Notes Facility Agreement with a Consortium of Lenders in the amount of up to US$800 mn
November 7, 2017	Third Quarter 2017 Financial and Operating Results
November 8, 2017	Press Release: AboitizPower posts 4% hike in nine-month net income to ₱15.7 bn
November 23, 2017	Appointment of New Data Privacy Officer
December 4, 2017	Aseagas Corporation's' Pre-payment of ₱2.368 bn Loan and Plant Shutdown
December 6, 2017	Press Release: AboitizPower to add some 500 MW of capacity in 2018
December 12, 2017	Financial Close of GNPower Dinginin Holdings, Inc.'s Unit 2 Financing
December 19, 2017	Update on the Acquisition of 100% Equity Interest in Sunedison Philippines Helios BV

Date Reported	Disclosure Details
December 29, 2017	Completion of the Acquisition of 100% Equity Interest in Sunedison Philippines Helios BV
December 29, 2017	Therma Power, Inc.'s Partial Pre-Payment of US$320 mn of its Loan under the November 24, 2016 Facility Agreement
January 9, 2018	GNPower Mariveles Holdings, Inc. and GNPower Dinginin Holdings, Inc. Restructuring
January 15, 2018	Press Release: Aseagas shuts down plant
January 30, 2018	Appointment of Compliance Officer
January 30, 2018	Appointment of Corporate Secretary
January 30, 2018	Retirement and Appointment of Officers
February 21, 2018	Nominees to the Board of Directors for 2018-2019
March 1, 2018	Issuance by the Regional Trial Court of Lucena City of a Cease and Desist Order issued against Pagbilao Energy Corporation
March 5, 2018	Extension of Cease and Desist Order issued against Pagbilao Energy Corporation
March 8, 2018	Matters Approved by the Board during its March 8, 2018 Board Meeting
March 8, 2018	Declaration of Regular Cash Dividends
March 8, 2018	Approval of the Amendment of the Company's By-Laws
March 8, 2018	Full Year 2017 Financial and Operating Results
March 8, 2018	Press Release: AboitizPower net income up 2% in 2017
March 8, 2018	Notice and Agenda of AboitizPower's Annual Stockholders' Meeting on May 21, 2018
March 21, 2018	Revocation by the Municipality of Pagbilao of the Cease and Desist Order issued on February 27, 2018 against Pagbilao Energy Corporation
March 22, 2018	Separation of Officer
March 24, 2018	Appointment or Expansion of Existing Roles of Officers pursuant to a Reorganization Plan

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, AboitizPower has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Taguig on 1 1 APR 2018.

By:

ERRAMON I. ABOITIZ
Principal Executive Officer

ANTONIO R. MORAZA
Principal Operating Officer

LIZA LUV T. MONTELIBANO
Principal Financial Officer

MANUEL ALBERTO R. COLAYCO
Corporate Secretary

CRISTINA B. BELORIA
Controller/Principal Accounting Officer

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

NAME	PASSPORT NO.	DATE / PLACE OF ISSUE	CTC NO.	DATE / PLACE OF ISSUE
ERRAMON I. ABOITIZ	P2251997A	March 11, 2017 DFA Cebu	26936151	January 15, 2018 Cebu City
ANTONIO R. MORAZA	P1846946A	February 3, 2017 DFA Cebu	11796065	January 26, 2018 Cebu City
LIZA LUV T. MONTELIBANO	EC1111684	May 16, 2014 DFA NCR South	11962290	January 23, 2018 Manila
MANUEL ALBERTO R. COLAYCO	P0352149A	September 23, 2016 DFA NCR Central	14228019	February 28, 2018 Taguig City
CRISTINA B. BELORIA	EB9946110	January 8, 2014 DFA Cebu	11906816	February 23, 2018 Cebu CIty

who were identified by me through competent evidence of identity to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath/affirmation before me as to such instrument.

Witness my hand and seal this 1 1 APR 2018.

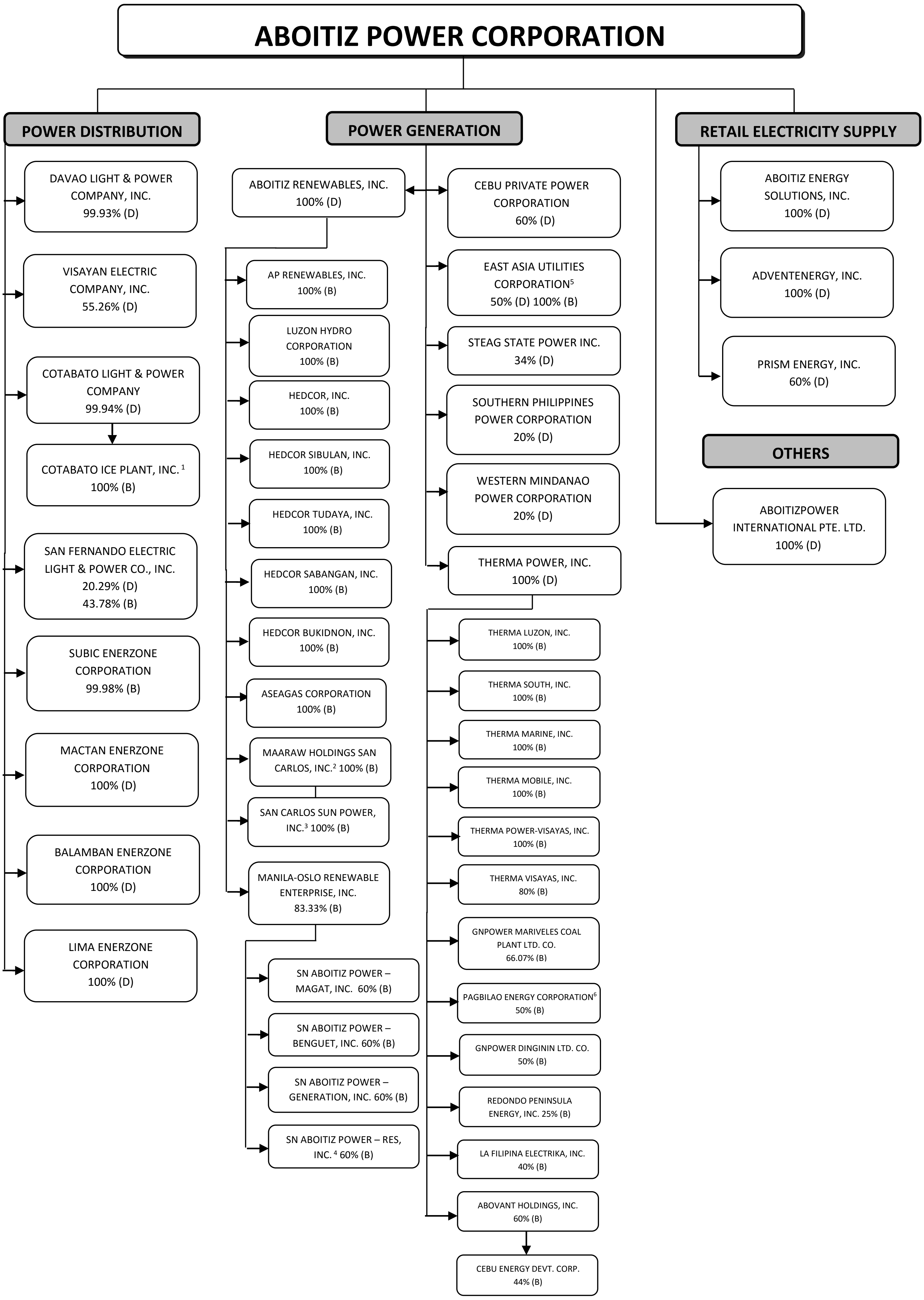
Doc. No. 116;
Page No. 23;
Book No. I;
Series of 2018.

ATTY. SAMMY DAVE A. SANTOS
ROLL NO. 63272
NOTARY PUBLIC
TAGUIG CITY, PHILS.

Atty. Sammy Dave A. Santos
Notary Public for Taguig City
Notarial Commission No. 48
Until December 31, 2019
NAC Tower, 32nd Street, Bonifacio Global City, Taguig City
PTR No. A-3747887; Taguig City; January 8, 2018
IBP OR No. 023446; January 9, 2018
Roll No. 63272
MCLE Compliance No. V-0012594

ANNEX "A"

AS OF MARCH 31, 2018



Legend:

B – Beneficial Ownership

D – Direct Ownership

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[1] *Other services*

[2] *ARI has a 60% direct ownership in Maaraw San Carlos; AboitizPower International has a 40% indirect ownership in Maaraw San Carlos3*

[3] *ARI has a 35% direct ownership (50% indirect ownership) in Sacasun; AboitizPower International has 50% indirect ownership in Sacasun*

[4] *Engages in Retail Electricity Supply Business*

[5] *TPI has a 50% ownership in EAUC*

[6] *Joint operations*

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	1	9	9	8	0	0	1	3	4	

COMPANY NAME

ABOITIZ POWER CORPORATION

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
APFS	CFD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
ap_investor@aboitiz.com	(02) 886-2800	Not Available

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
629	May 21	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Liza Luv T. Montelibano	liza.montelibano@aboitiz.com	(02) 886-2800	Not Available

CONTACT PERSON's ADDRESS

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

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

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

Cebu Extension Office

APR 06 2018

AboitizPower

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

ENRIQUE M. ABOITIZ, JR.
Chairman of the Board

ERRAMON I. ABOITIZ
Chief Executive Officer

LIZA LUV T. MONTELIBANO
SVP & Chief Financial Officer/Corporate Information Officer

Signed this 8th day of March 2018

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

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

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

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

Witness my hand and seal this MAR 19 2018.

Doc. No. 112;

Page No. 124;

Book No. LXXV;

Series of 2018

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

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Parent Company Financial Statements

Opinion

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

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

In preparing the parent company financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 22 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Aboitiz Power Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore

Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-3 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 164-533-282
BIR Accreditation No. 08-001998-71-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621311, January 9, 2018, Makati City

March 8, 2018

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ABOITIZ POWER CORPORATION
PARENT COMPANY BALANCE SHEETS

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

See accompanying Notes to Parent Company Financial Statements.

ABOITIZ POWER CORPORATION

PARENT COMPANY STATEMENTS OF INCOME

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

See accompanying Notes to Parent Company Financial Statements.

ABOITIZ POWER CORPORATION

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying Notes to Parent Company Financial Statements.

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ABOITIZ POWER CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

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

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

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

See accompanying Notes to Parent Company Financial Statements.

ABOITIZ POWER CORPORATION

PARENT COMPANY STATEMENTS OF CASH FLOWS

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

See accompanying Notes to Parent Company Financial Statements.

1. Corporate Information

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

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

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

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

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

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

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

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

- Amendment to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014-2016 cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

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

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

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

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

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

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

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

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

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

Effective January 1, 2018

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

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

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

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

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

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

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

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

- PFRS 9, *Financial Instruments*

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

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

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

  (a) Classification and measurement

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

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

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

  (b) Impairment

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

(c) Hedge accounting

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

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

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

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

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

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

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

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

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

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

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

Effective January 1, 2019

- PFRS 16, *Leases*

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

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

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

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

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

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

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

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

  The interpretation specifically addresses the following:

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

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

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

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Summary of Significant Accounting Policies

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

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Company classifies all other liabilities as noncurrent.

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

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

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

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the parent company financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the parent company financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

Cash and Cash Equivalents

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) investments. For financial liabilities, the Company also classifies them into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every balance sheet date.

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

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

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

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

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

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

b. Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not reclassified or designated as AFS investments or financial assets at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the parent company statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Classification of financial instruments between liability and equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as income or expense. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

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

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

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

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the parent company statement of income.

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

Loans and receivables
For loans and receivables carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

In the case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the parent company statement of income) is removed from the other comprehensive income and recognized in the parent company statement of income. Impairment losses on equity investments are not reversed through the parent company statement of income. Increases in fair value after impairment are recognized directly in the other comprehensive income.

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the parent company balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements whereby the related assets and liabilities are presented gross in the parent company balance sheet. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets
The Company assesses at each balance sheet date whether there is an indication that assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the parent company statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimates of the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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

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

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

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

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

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

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

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

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

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,

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

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

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

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

Value-added Tax (VAT)
Expenses and assets are recognized net of the amount of VAT, except:

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

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

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

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

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

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate,

the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Events After the Reporting Period
Post year-end events that provide additional information about the Company's position at balance sheet date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed when material.

3. Significant Accounting Judgment, Estimates and Assumptions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Cash and Cash Equivalents

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

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

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

5. Trade and Other Receivables

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

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

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

6. Other Current Assets

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

7. Investments and Advances

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

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

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

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

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

Investment in Hedcor Sabangan
In 2016, the Company subscribed additional 70.0 million RPS for ₱70.0 million.

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

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

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

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

Investment in Therma South
In 2016, the Company subscribed additional 106.3 million RPS for₱106.3 million.

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

Investment in AP Int
In 2016, the Company subscribed 2.4 million common shares for ₱120.7 million.

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

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

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

Investment in AAI
AAI redeemed shares attributable to the Company at 8,809 RPS for ₱8.8 million and5,100 RPS for ₱5.1 million in 2017 and 2016, respectively, at ₱1,000 per share.

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

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

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

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

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

**No commercial operations as of December 31, 2017*

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

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

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

8. Property and Equipment

December 31, 2017

	Transportation Equipment	Office Equipment	Communication Equipment	Leasehold Improvements	Total
Cost:					
Balances at beginning of year	**₱54,382,169**	**₱30,697,894**	**₱752,009**	**₱38,667,172**	**₱124,499,244**
Additions	**33,757,861**	**5,161,141**	**–**	**99,486**	**39,018,488**
Disposals	**(6,587,277)**	**(1,025,244)**	**–**	**–**	**(7,612,521)**
Balances at end of year	**81,552,753**	**34,833,791**	**752,009**	**38,766,658**	**155,905,211**
Accumulated Depreciation:					
Balances at beginning of year	**25,905,676**	**24,465,565**	**726,089**	**9,114,587**	**60,211,917**
Depreciation and amortization	**12,053,571**	**4,777,725**	**25,920**	**3,766,687**	**20,623,903**
Disposals	**(4,252,761)**	**(974,572)**	**–**	**–**	**(5,227,333)**
Balances at end of year	**33,706,486**	**28,268,718**	**752,009**	**12,881,274**	**75,608,487**
Net Book Values	**₱47,846,267**	**₱6,565,073**	**₱–**	**₱25,885,384**	**₱80,296,724**

December 31, 2016

	Transportation Equipment	Office Equipment	Communication Equipment	Leasehold Improvements	Total
Cost:					
Balances at beginning of year	₱51,151,971	₱25,150,867	₱752,009	₱26,891,876	₱103,946,723
Additions	11,076,329	5,792,953	–	11,775,296	28,644,578
Disposals	(7,846,131)	(245,926)	–	–	(8,092,057)
Balances at end of year	54,382,169	30,697,894	752,009	38,667,172	124,499,244
Accumulated Depreciation:					
Balances at beginning of year	20,310,679	17,696,096	691,530	6,019,408	44,717,713
Depreciation and amortization	9,753,531	7,006,504	34,559	3,095,179	19,889,773
Disposals	(4,158,534)	(237,035)	–	–	(4,395,569)
Balances at end of year	25,905,676	24,465,565	726,089	9,114,587	60,211,917
Net Book Values	₱28,476,493	₱6,232,329	₱25,920	₱29,552,585	₱64,287,327

The Company recognized a gain of ₱0.4 million and a loss of ₱0.1 million on disposal of property and equipment in 2017 and 2016, respectively.

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

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

9. Other Noncurrent Assets

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

The rollforward analysis of computer software licenses is presented below:

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

10. Project Development Costs

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

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

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

11. Trade and Other Payables

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

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

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

12. Long-term Debts

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

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

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

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

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

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

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

13. Equity

a. Capital Stock

Authorized - ₱1 par value	
Preferred shares - 1,000,000,000 shares	
Common shares - 16,000,000,000 shares	
Issued	
Common shares - 7,358,604,307 shares	₱7,358,604,307

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

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

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

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

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

b. Retained Earnings

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

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

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

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

** Full commercial operations by 1st quarter of 2016*

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

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

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

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

14. Personnel Costs

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

15. Retirement Costs

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

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

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

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

Remeasurement effect to be recognized in other comprehensive income:

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

Pension liability (asset)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rates	100	(₱24,866,826)
	(100)	28,579,547
Future salary increases	100	31,793,587
	(100)	(28,398,059)

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

The Company expects to contribute ₱37.9 million to the defined benefit plans in 2018. The average duration of the defined benefit obligation as of December 31, 2017 is 12.94 years.

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

16. Income Tax

Details of provision for income tax are as follows:

	2017	2016	2015
Current:			
Corporate income tax	**₱10,440,532**	₱22,262,045	₱11,707,926
Final	**18,946,168**	59,664,111	61,308,261
	29,386,700	81,926,156	73,016,187
Deferred	**7,066,011**	(9,298,778)	(10,032,064)
	₱36,452,711	₱72,627,378	₱62,984,123

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

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

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

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

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

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

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

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

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

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

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

17. Related Party Disclosures

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

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

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

a. The Company has management agreements with each of the following subsidiaries: CLPC, Cotabato Ice Plant, Inc. (CIPI), DLPC, and CPPC for which it is entitled to management fees.

b. The Company renders various services to related parties such as technical and legal assistance for various projects, trainings and other services, for which it bills technical and service fees.

c. The Company obtained standby letters of credit (SBLC) and is acting as surety for the benefit of certain subsidiaries, associates and joint ventures in connection with certain loans and credit accommodations. As at December 31, 2017, the Company provided SBLCs for AP Renewables, Inc. (APRI), Cebu Energy Development Corporation (CEDC), Luzon Hydro Corporation (LHC), SN Aboitiz Power-Benguet, Inc. (SNAP B), Therma South, STEAG, and TVI in the amount of ₱8.87 billion. As at December 31, 2016, the Company provided SBLCs for APRI, CEDC, LHC, SNAP B, Therma South, STEAG, and TVI in the amount of ₱10.72 billion.

d. AEV provides human resources, internal audit, legal, treasury and corporate finance services, among others, to the Company and shares with the member companies the business expertise of its highly qualified professionals. Transactions are priced based on agreed rates, and billed costs are always benchmarked to third party rates to ensure competitive pricing. Service Level Agreements are in place to ensure quality of service. This arrangement enables the Company to maximize efficiencies and realize cost synergies.

e. Cash deposits and money market placements with UBP. At prevailing rates, these fixed-rate investments earned interest income amounting to ₱52.09 million and ₱1.27 million in 2017 and 2016, respectively. Outstanding balances amounted ₱1.40 billion and ₱759.0 million as of December 31, 2017, and 2016, respectively.

f. Rentals paid at current market rates to Cebu Praedia Development Corporation (CPDC) for the use of CPDC's properties by the Company's officers and employees.

g. Aviation service fees paid at arm's length basis to AAI for the use of aircraft during travel of the Company's officers and employees.

The above transactions are expected to be settled in cash.

The Company's balance sheets and statements of income include the following accounts resulting from the above transactions with related parties:

Technical, Management and other Service Fees

	Revenue			Receivable			
	2017	2016	2015	**2017**	2016	Terms	Conditions
Subsidiaries							
DLPC	**₱413,733,737**	₱358,114,403	₱309,022,629	**₱75,075,707**	₱41,380,792	30-day, non-interest bearing	Unsecured, no impairment
VECO	**268,615,438**	208,372,134	231,376,925	**67,124,127**	58,546,044	30-day, non-interest bearing	Unsecured, no impairment
AESI	**96,872,719**	33,615,751	39,937,786	**–**	3,081,444	30-day, non-interest bearing	Unsecured, no impairment
GNPower Mariveles Coal Plant Ltd. Co.	**50,813,063**	–	–	**40,510,605**	–	30-day, non-interest bearing	Unsecured, no impairment
CLPC	**39,639,944**	26,539,922	24,588,044	**7,585,989**	3,831,682	30-day, non-interest bearing	Unsecured, no impairment
AI	**39,233,874**	12,769,617	20,163,419	**–**	3,575,493	30-day, non-interest bearing	Unsecured, no impairment
Therma Luzon, Inc. (TLI)	**30,354,526**	34,050,850	39,157,064	**2,529,544**	–	30-day, non-interest bearing	Unsecured, no impairment
CPPC	**20,812,863**	18,499,199	31,096,285	**18,322,609**	18,019,103	30-day, non-interest bearing	Unsecured, no impairment
Therma South	**11,209,783**	125,932,286	16,178,121	**934,149**	3,321,686	30-day, non-interest bearing	Unsecured, no impairment
APRI	**9,103,675**	21,087,671	23,574,517	**758,640**	–	30-day, non-interest bearing	Unsecured, no impairment
SEZC	**8,071,653**	6,001,481	6,447,310	**1,366,644**	1,700,558	30-day, non-interest bearing	Unsecured, no impairment
HI	**7,630,879**	1,469,009	2,581,149	**1,907,720**	134,659	30-day, non-interest bearing	Unsecured, no impairment
ARI	**7,300,000**	–	–	**7,300,000**	–	30-day, non-interest bearing	Unsecured, no impairment
Therma Marine, Inc. (Therma Marine)	**6,330,215**	24,930,741	24,967,128	**5,758,338**	27,922,430	30-day, non-interest bearing	Unsecured, no impairment
LEZ	**6,242,089**	2,326,220	2,020,705	**91,809**	734,261	30-day, non-interest bearing	Unsecured, no impairment
BEZC	**4,512,723**	2,487,401	2,374,554	**208,781**	806,305	30-day, non-interest bearing	Unsecured, no impairment
MEZC	**3,986,055**	2,469,917	2,384,220	**208,781**	780,626	30-day, non-interest bearing	Unsecured, no impairment
EAUC	**2,320,980**	882,500	4,790,000	**195,128**	–	30-day, non-interest bearing	Unsecured, no impairment
Therma Mobile	**2,142,810**	2,883,717	4,567,104	**216,014**	3,229,763	30-day, non-interest bearing	Unsecured, no impairment
TVI	**2,059,983**	6,487,934	11,749,584	**–**	594,727	30-day, non-interest bearing	Unsecured, no impairment
CIPI	**896,063**	875,618	949,457	**159,487**	155,526	30-day, non-interest bearing	Unsecured, no impairment
PEI	**209,822**	–	–	**209,822**	–	30-day, non-interest bearing	Unsecured, no impairment
Associates							
CEDC	**101,367,000**	103,944,750	110,156,662	**7,977,900**	13,972,350	30-day, non-interest bearing	Unsecured, no impairment
SFELAPCO	**72,157,562**	58,119,233	66,274,200	**41,265,932**	21,826,823	30-day, non-interest bearing	Unsecured, no impairment
GNPower Dinginin Ltd. Co.	**40,556,253**	–	–	**40,556,253**	–	30-day, non-interest bearing	Unsecured, no impairment
Redondo Peninsula Energy, Inc. (RPEI)	**–**	5,882,353	–	**–**	–	30-day, non-interest bearing	Unsecured, no impairment
	₱1,246,173,709	₱1,057,742,707	₱974,356,863	**₱320,263,979**	₱203,614,272		

Transportation and Travel

	Expense			Payable		Terms	Conditions
	2017	2016	2015	**2017**	2016		
Parent							
AEV	**₱4,097**	₱143,493	₱149,782	**₱–**	₱32,500	30-day, non-interest bearing	Unsecured
Associate							
AAI	**22,170,057**	22,948,461	20,515,952	**–**	697,306	30-day, non-interest bearing	Unsecured
	₱22,174,154	₱23,091,954	₱20,665,734	**₱–**	₱729,806		

Rent

	Expense			Payable			
	2017	2016	2015	**2017**	2016	Terms	Conditions
Parent							
AEV	**₱1,326,732**	₱4,242,384	₱4,117,608	**₱–**	₱2,465,004	30-day, non-interest bearing	Unsecured
Other Related Parties							
CPDC	**842,044**	724,593	443,078	**–**	84,010	30-day, non-interest bearing	Unsecured
	₱2,168,776	₱4,966,977	₱4,560,686	**₱–**	₱2,549,014		

Professional, Legal and Service Fees

	Expense			Payable			
	2017	2016	2015	**2017**	2016	Terms	Conditions
Parents							
ACO	**₱7,634,588**	₱8,679,181	₱5,057,857	**₱2,674,588**	₱973,099	30-day, non-interest bearing	Unsecured
AEV	**37,966,014**	93,927,125	97,149,126	**–**	17,932,554	30-day, non-interest bearing	Unsecured
	₱45,600,602	₱102,606,306	₱102,206,983	**₱2,674,588**	₱18,905,653		

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

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

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

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

18. Financial Risk Management Objectives and Policies

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

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

Risk Management Structure

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

Financial risk committee

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

Treasury service group

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

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

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

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

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

2017

	Neither past due nor impaired			Past due but not impaired	
	High Grade	**Standard**	**Sub-standard**	**impaired**	**Total**
Cash and cash equivalents	**₱7,825,333**	**₱–**	**₱–**	**₱–**	**₱7,825,333**
Trade and other receivables	**111,978**	**–**	**–**	**407,668**	**519,646**
Derivative asset	**42,510**	**–**	**–**	**–**	**42,510**
AFS investment	**99,375**	**–**	**–**	**–**	**99,375**
Total	**₱8,079,196**	**₱–**	**₱–**	**₱407,668–**	**₱8,486,864**

2016

	Neither past due nor impaired			Past due but not impaired	
	High Grade	Standard	Sub-standard	impaired	Total
Cash and cash equivalents	₱2,713,868	₱–	₱–	₱–	₱2,713,868
Trade and other receivables	446,380	–	–	479,405	925,785
AFS investment	96,689	–	–	–	96,689
Total	₱3,256,937	₱–	₱–	₱479,405	₱3,736,342

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

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

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

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

2017

	Total	Neither past due nor impaired	Past due but not impaired		
			30 days	30 - 60 days	More than 60 days
Cash and cash equivalents	**₱7,825,333**	**₱7,825,333**	**₱–**	**₱–**	**₱–**
Trade and other receivables	**519,646**	**111,978**	**229,479**	**152,262**	**25,927**
Derivative asset	**42,510**	**42,510**	**–**	**–**	**–**
AFS investment	**99,375**	**99,375**	**–**	**–**	**–**
Total	**₱8,486,864**	**₱8,079,196**	**₱229,479**	**₱152,262**	**₱25,927**

2016

	Total	Neither past due nor impaired	Past due but not impaired		
			30 days	30 - 60 days	More than 60 days
Cash and cash equivalents	₱2,713,868	₱2,713,868	₱–	₱–	₱–
Trade and other receivables	925,785	446,380	388,083	21,975	69,347
AFS investment	96,689	96,689	–	–	–
Total	₱3,736,342	₱3,256,937	₱388,083	₱21,975	₱69,347

Liquidity risk

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

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

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

2017

	Total Carrying Value	Contractual undiscounted payments				
		Total	On Demand	Less than 1 year	1 to 5 years	More than 5 years
Other financial liabilities						
Long-term debts	**₱12,901,982**	**₱17,706,453**	**₱–**	**₱711,031**	**₱9,384,396**	**₱7,611,026**
Trade and other payables*	**167,804**	**167,804**	**–**	**167,804**	**–**	**–**
Total	**₱13,069,786**	**₱17,874,257**	**₱–**	**₱878,835**	**₱9,384,396**	**₱7,611,026**

****excluding statutory liabilities***

2016

	Total Carrying Value	Contractual undiscounted payments				
		Total	On Demand	Less than 1 year	1 to 5 years	More than 5 years
Other financial liabilities						
Long-term debts	₱9,922,153	₱13,675,018	₱–	₱558,582	₱8,939,262	₱4,177,174
Trade and other payables*	332,342	332,342	–	332,342	–	–
Total	₱10,254,495	₱14,007,360	₱–	₱890,924	₱8,939,262	₱4,177,174

**excluding statutory liabilities*

Market Risk

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

Foreign exchange risk

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

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

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

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

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

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

Capital management

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

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

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

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

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

19. Financial Instruments

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

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

RA No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. The law provides for the privatization of National Power Corporation (NPC) and the restructuring of the electric power industry. The Implementing Rules and Regulations (IRR) were approved by the Joint Congressional Power Commission on February 27, 2002.
R.A. No. 9136 and the IRR impact the industry as a whole. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

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

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

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

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

21. Note to Statements of Cash Flows

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

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

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

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

VAT

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

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

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

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

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

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

b. Input VAT for 2017

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

Other taxes and licenses

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

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

Withholding taxes

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

Tax Assessment and Cases

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

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C 1 9 9 8 0 0 1 3 4

COMPANY NAME

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS	CFD	-NA-

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
www.aboitizpower.com	(02) 886-2800	None

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
629	May/21	December/31

CONTACT PERSON INFORMATION

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

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

CONTACT PERSON's ADDRESS

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

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

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

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Aboitiz Power Corporation is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

ENRIQUE M. ABOITIZ, JR.
Chairman of the Board

ERRAMON I. ABOITIZ
Chief Executive Officer

LIZA LUV T. MONTELIBANO
SVP & Chief Financial Officer/Corporate Information Officer

Signed this 8th day of March 2018

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

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

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

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

Witness my hand and seal this MAR 19 2018.

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Page No. 124;

Book No. LXVI;

Series of 2018

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

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recoverability of Goodwill

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

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

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

Revenue Recognition of Distribution Utilities

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

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

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

Consolidation Process

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

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

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

Other Information

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

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-3 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 164-533-282
BIR Accreditation No. 08-001998-71-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621311, January 9, 2018, Makati City

March 8, 2018

BUREAU OF INTERNAL REVENUE
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ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2017	2016 (As Restated; Note 9)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱35,699,631**	₱47,094,741
Trade and other receivables (Note 6)	**17,359,828**	15,465,121
Derivative assets (Note 34)	**228,644**	188,417
Inventories (Note 7)	**5,643,607**	4,452,812
Other current assets (Note 8)	**9,029,886**	6,448,096
Total Current Assets	**67,961,596**	73,649,187
Noncurrent Assets		
Investments and advances (Note 10)	**31,248,595**	30,595,989
Property, plant and equipment (Note 12)	**204,025,303**	192,976,388
Intangible assets (Note 13)	**46,344,658**	46,718,057
Derivative assets - net of current portion (Note 34)	**113,297**	103,444
Available-for-sale (AFS) investments - net of allowance for impairment of ₱5,254	**102,999**	100,309
Net pension assets (Note 27)	**56,400**	45,667
Deferred income tax assets (Note 29)	**1,406,796**	1,802,570
Other noncurrent assets (Note 14)	**10,217,355**	11,015,283
Total Noncurrent Assets	**293,515,403**	283,357,707
TOTAL ASSETS	**₱361,476,999**	₱357,006,894
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans (Note 16)	**₱4,717,300**	₱4,155,600
Current portions of:		
Long-term debts (Note 17)	**20,692,751**	7,458,363
Finance lease obligation (Note 35)	**3,316,165**	2,968,491
Long-term obligation on power distribution system (Note 13)	**40,000**	40,000
Derivative liabilities (Note 34)	**47,577**	127,442
Trade and other payables (Note 15)	**19,852,383**	17,398,218
Income tax payable (Note 29)	**646,115**	654,392
Total Current Liabilities	**49,312,291**	32,802,506

(Forward)

	December 31	
	2017	2016 (As Restated; Note 9)
Noncurrent Liabilities		
Noncurrent portions of:		
Long-term debts (Note 17)	**₱131,360,749**	₱151,914,172
Finance lease obligation (Note 35)	**45,909,089**	49,371,713
Long-term obligation on power distribution system (Note 13)	**186,071**	197,248
Derivative liabilities - net of current portion (Note 34)	**–**	233,435
Customers' deposits (Note 18)	**6,094,690**	6,831,242
Asset retirement obligation (Note 19)	**2,959,060**	1,821,577
Net pension liabilities (Note 27)	**361,228**	247,387
Deferred income tax liabilities (Note 29)	**912,601**	1,043,996
Other noncurrent liabilities (Notes 11 and 36)	**402,756**	334,398
Total Noncurrent Liabilities	**188,186,244**	211,995,168
Total Liabilities	**237,498,535**	244,797,674
Equity Attributable to Equity Holders of the Parent		
Paid-in capital (Note 20a)	**19,947,498**	19,947,498
Net unrealized losses on AFS investments	**(625)**	(3,311)
Share in net unrealized valuation gains on AFS investments of an associate (Note 10)	**124,121**	114,920
Cumulative translation adjustments (Note 34)	**113,637**	(78,232)
Share in cumulative translation adjustments of associates and joint ventures (Note 10)	**(144,507)**	(128,203)
Actuarial losses on defined benefit plans (Note 27)	**(601,461)**	(607,913)
Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures (Note 10)	**4,963**	(1,878)
Acquisition of non-controlling interests	**(259,147)**	(259,147)
Excess of cost over net assets of investments (Note 9)	**(421,260)**	(526,883)
Loss on dilution (Note 2)	**(433,157)**	–
Retained earnings (Note 20b)		
Appropriated	**34,060,000**	34,060,000
Unappropriated (Notes 10 and 20c)	**63,006,308**	52,597,568
	115,396,370	105,114,419
Non-controlling Interests	**8,582,094**	7,094,801
Total Equity (Note 20c)	**123,978,464**	112,209,220
TOTAL LIABILITIES AND EQUITY	**₱361,476,999**	₱357,006,894

See accompanying Notes to Consolidated Financial Statements.

BUREAU OF INTERNAL REVENUE
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ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share Amounts)

	Years Ended December 31		
	2017	2016	2015
OPERATING REVENUES			
Sale of power (Notes 21 and 32):			
Generation	**₱57,418,126**	₱35,692,441	₱33,368,797
Distribution	**43,532,403**	44,585,832	41,379,270
Retail electricity supply	**18,065,832**	8,478,789	10,227,771
Technical, management and other fees (Note 32)	**374,942**	406,207	198,114
	119,391,303	89,163,269	85,173,952
OPERATING EXPENSES			
Cost of purchased power (Notes 22 and 32)	**35,392,094**	28,909,987	27,902,180
Cost of generated power (Note 23)	**28,557,756**	17,316,272	18,524,059
Depreciation and amortization (Notes 12 and 13)	**7,596,268**	6,043,527	4,322,000
General and administrative (Note 24)	**7,222,268**	6,613,876	5,818,090
Operations and maintenance (Note 25)	**6,449,188**	3,969,307	3,921,046
	85,217,574	62,852,969	60,487,375
FINANCIAL INCOME (EXPENSES)			
Interest income (Notes 5 and 32)	**927,012**	1,083,535	846,293
Interest expense and other financing costs (Notes 16, 17 and 33)	**(11,247,780)**	(7,704,011)	(6,633,858)
	(10,320,768)	(6,620,476)	(5,787,565)
OTHER INCOME (EXPENSES)			
Share in net earnings of associates and joint ventures (Note 10)	**4,697,864**	3,641,210	3,979,947
Other income (expenses) - net (Note 28)	**(1,704,000)**	1,669,212	(336,639)
	2,993,864	5,310,422	3,643,308
INCOME BEFORE INCOME TAX	**26,846,825**	25,000,246	22,542,320
PROVISION FOR INCOME TAX (Note 29)	**3,858,398**	3,496,140	3,589,669
NET INCOME	**₱22,988,427**	₱21,504,106	₱18,952,651
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱20,416,442**	₱20,002,582	₱17,603,797
Non-controlling interests	**2,571,985**	1,501,524	1,348,854
	₱22,988,427	₱21,504,106	₱18,952,651
EARNINGS PER COMMON SHARE (Note 30)			
Basic and diluted, for income for the year attributable to ordinary equity holders of the parent	**₱2.77**	₱2.72	₱2.39

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the parent	**₱20,416,442**	₱20,002,582	₱17,603,797
Non-controlling interests	**2,571,985**	1,501,524	1,348,854
	22,988,427	21,504,106	18,952,651
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:			
Share in net unrealized valuation gains (losses) on AFS investments of an associate (Note 10)	**9,201**	–	(4,167)
Movement in unrealized gain (loss) on AFS investments	**2,686**	(3,311)	–
Movement in cumulative translation adjustments	**389,254**	(55,357)	147,340
Share in movement in cumulative translation adjustment of associates and joint ventures (Note 10)	**(16,304)**	128,173	119,113
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**384,837**	69,505	262,286
Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:			
Actuarial gain (losses) on defined benefit plans, net of tax (Note 27)	**(13,186)**	1,221	(81,205)
Share in actuarial gains on defined benefit plans of associates and joint ventures, net of tax (Note 10)	**6,841**	496	44,841
Net other comprehensive gain (loss) not to be reclassified to profit or loss in subsequent periods	**(6,345)**	1,717	(36,364)
Total other comprehensive income for the year, net of tax	**378,492**	71,222	225,922
TOTAL COMPREHENSIVE INCOME	**₱23,366,919**	₱21,575,328	₱19,178,573
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱20,617,187**	₱20,124,770	₱17,821,712
Non-controlling interests	**2,749,732**	1,450,558	1,356,861
	₱23,366,919	₱21,575,328	₱19,178,573

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Amounts in Thousands, Except Dividends Per Share Amounts)

	Attributable to Equity Holders of the Parent													
											Retained Earnings			
	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	Appropriated (Note 20b)	Unappropriated (Note 20b)	Non-controlling Interests	Total
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														
Movement in unrealized loss on AFS investments	–	2,686	9,201	–	–	–	–	–	–	–	–	–	–	11,887
Movement in cumulative translation adjustments	–	–	–	191,869	–	–	–	–	–	–	–	–	197,385	389,254
Share in movement in cumulative translation adjustment of associates and joint ventures	–	–	–	–	(16,304)	–	–	–	–	–	–	–	–	(16,304)
Actuarial gains (losses) on defined benefit plans, net of tax	–	–	–	–	–	6,452	–	–	–	–	–	–	(19,638)	(13,186)
Share in actuarial gains on defined benefit plans of associates and joint ventures	–	–	–	–	–	–	6,841	–	–	–	–	–	–	6,841
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

	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)	Retained Earnings Appropriated (Note 20b)	Retained Earnings Unappropriated (Note 20b)	Non-controlling Interests (As Restated; Note9)	Total
	Attributable to Equity Holders of the Parent												
Balances at January 1, 2016	₱19,947,498	₱–	₱114,920	₱185,431	(₱256,376)	(₱609,066)	(₱3,748)	(₱259,147)	(₱421,260)	₱20,900,000	₱57,970,269	₱4,045,046	₱101,613,567
Net income for the year	–	–	–	–	–	–	–	–	–	–	20,002,582	1,501,524	21,504,106
Other comprehensive income								–	–	–	–		
Movement in unrealized loss on AFS investments	–	(3,311)	–	–	–	–	–	–	–	–	–	–	(3,311)
Movement in cumulative translation adjustments	–	–	–	(5,697)	–	–	–	–	–	–	–	(49,660)	(55,357)
Share in movement in cumulative translation adjustment of associates and joint ventures	–	–	–	–	128,173	–	–	–	–	–	–	–	128,173
Actuarial gains (losses) on defined benefit plans, net of tax	–	–	–	–	–	2,527	–	–	–	–	–	(1,306)	1,221
Share in actuarial gains on defined benefit plans of associates and joint ventures	–	–	–	–	–	–	496	–	–	–	–	–	496
Total comprehensive income (loss) for the year	–	(3,311)	–	(5,697)	128,173	2,527	496	–	–	–	20,002,582	1,450,558	21,575,328
Acquisition of subsidiaries (As Restated; Note 9)	–	–	–	(257,966)	–	(1,374)	1,374	–	(105,623)	–	–	3,164,230	2,800,641
Appropriation during the year	–	–	–	–	–	–	–	–	–	13,160,000	(13,160,000)	–	–
Cash dividends - ₱1.66 a share (Note 20b)	–	–	–	–	–	–	–	–	–	–	(12,215,283)	–	(12,215,283)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(1,614,684)	(1,614,684)
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	49,651	49,651
Balances at December 31, 2016	₱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

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	Attributable to Equity Holders of the Parent												
										Retained Earnings			
	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)	Movement in Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 10)	Actuarial Losses on Defined Benefit Plans (Note 27)	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)	Appropriated (Note 20b)	Unappropriated (Note 20b)	Non-controlling Interests	Total
Balances at January 1, 2015	₱19,947,498	₱–	₱119,087	₱38,091	(₱375,489)	(₱519,854)	(₱48,589)	(₱259,147)	(₱421,260)	₱20,900,000	₱52,581,755	₱4,118,348	₱96,080,440
Net income for the year	–	–	–	–	–	–	–	–	–	–	17,603,797	1,348,854	18,952,651
Other comprehensive income								–	–	–	–		
Share in net unrealized valuation losses on AFS investments of an associate	–	–	(4,167)	–	–	–	–	–	–	–	–	–	(4,167)
Movement in cumulative translation adjustments	–	–	–	147,340	–	–	–	–	–	–	–	–	147,340
Share in movement in cumulative translation adjustment of associates and joint ventures	–	–	–	–	119,113	–	–	–	–	–	–	–	119,113
Actuarial gains (losses) on defined benefit plans, net of tax	–	–	–	–	–	(89,212)	–	–	–	–	–	8,007	(81,205)
Share in actuarial gains on defined benefit plans of associates and joint ventures	–	–	–	–	–	–	44,841	–	–	–	–	–	44,841
Total comprehensive income (loss) for the year	–	–	(4,167)	147,340	119,113	(89,212)	44,841	–	–	–	17,603,797	1,356,861	19,178,573
Cash dividends - ₱1.66 a share (Note 20b)	–	–	–	–	–	–	–	–	–	–	(12,215,283)	–	(12,215,283)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(1,278,953)	(1,278,953)
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(151,210)	(151,210)
Balances at December 31, 2015	₱19,947,498	₱–	₱114,920	₱185,431	(₱256,376)	(₱609,066)	(₱3,748)	(₱259,147)	(₱421,260)	₱20,900,000	₱57,970,269	₱4,045,046	₱101,613,567

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱26,846,825**	₱25,000,246	₱22,542,320
Adjustments for:			
Interest expense and other financing costs (Note 33)	**11,247,780**	7,704,011	6,633,858
Depreciation and amortization (Notes 12 and 13)	**7,596,268**	6,043,527	4,322,000
Impairment loss on property, plant and equipment, goodwill and other assets (Notes 4, 12, 13 and 14)	**3,233,036**	169,469	–
Net unrealized foreign exchange losses	**333,868**	1,505,671	1,390,459
Loss (gain) on disposal of property, plant and equipment	**86,913**	(70,252)	(5,656)
Write-off of project costs and other assets (Note 13)	**79,881**	249,176	69,137
Gain on redemption of shares (Note 28)	**–**	(16,051)	–
Share in net earnings of associates and joint ventures (Note 10)	**(4,697,864)**	(3,641,210)	(3,979,947)
Interest income (Notes 5 and 32)	**(927,012)**	(1,083,535)	(846,293)
Unrealized fair valuation loss (gains) on derivatives (Note 34)	**(451,270)**	3,316	(317,645)
Gain on remeasurement in step acquisition (Note 9)	**(310,198)**	(350,939)	–
Operating income before working capital changes	**43,038,227**	35,513,429	29,808,233
Decrease (increase) in:			
Trade and other receivables	**(3,062,564)**	401,465	(249,822)
Inventories	**(1,190,795)**	(996,007)	128,229
Other current assets	**(2,263,317)**	(1,831,918)	(1,453,104)
Increase (decrease) in:			
Trade and other payables	**(1,834,708)**	464,167	(421,548)
Long-term obligation on power distribution system	**(40,000)**	(40,000)	(40,000)
Customers' deposits	**(736,552)**	447,964	696,788
Net cash generated from operations	**33,910,291**	33,959,100	28,468,776
Income and final taxes paid	**(3,674,360)**	(4,071,120)	(3,269,179)
Net cash flows from operating activities	**30,235,931**	29,887,980	25,199,597
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash dividends received (Note 10)	**5,070,559**	7,847,263	4,071,041
Proceeds from redemption of shares (Note 10)	**8,809**	57,076	2,677,204
Interest received	**1,135,069**	1,132,366	837,978
Net collection of advances (Note 10)	**7,443**	–	285,520
Proceeds from sale of property, plant and equipment	**10,846**	162,190	35,714

(Forward)

	Years Ended December 31		
	2017	2016	2015
Additional AFS investments	**₱–**	(₱100,000)	₱–
Acquisitions through business combinations, net of cash acquired (Note 9)	**894,655**	(44,353,542)	–
Additions to:			
Property, plant and equipment (Note 12)	**(16,068,050)**	(28,203,291)	(15,701,414)
Intangible assets - service concession rights (Note 13)	**(86,159)**	(45,875)	(20,046)
Decrease (increase) in other noncurrent assets	**1,073,472**	(6,055,228)	(636,988)
Additional investments (Note 10)	**(1,499,569)**	(11,821,307)	(451,655)
Net cash flows used in investing activities	**(9,452,925)**	(81,380,348)	(8,902,646)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of long-term debt - net of transaction costs (Note 17)	**43,957,187**	73,474,514	16,350,925
Cash dividends paid (Note 20b)	**(10,007,702)**	(12,215,283)	(12,215,283)
Payments of:			
Long-term debt (Note 17)	**(50,967,235)**	(3,085,581)	(908,611)
Finance lease obligation (Note 35)	**(7,877,292)**	(7,517,917)	(7,482,447)
Net availments of short-term loans (Note 16)	**561,700**	1,587,600	2,465,000
Changes in non-controlling interests	**(757,071)**	(1,614,684)	(1,430,153)
Interest paid	**(7,032,286)**	(3,145,421)	(2,228,186)
Net cash flows from (used in) financing activities	**(32,122,699)**	47,483,228	(5,448,755)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(11,339,693)**	(4,009,140)	10,848,196
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(55,417)**	5,612	18,198
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**47,094,741**	51,098,269	40,231,875
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱35,699,631**	₱47,094,741	₱51,098,269

See accompanying Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Corporate Information

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

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

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

2. Group Information

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

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

(Forward)

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

[1] Malvar Enerzone Corporation was incorporated in 2017. Aboitiz Power Distributed Energy, Inc. and Mindanao Sustainable Solutions, Inc. were incorporated in 2016.
[2] On July 25, 2017, SEC approved the change in corporate name of Kookaburra Equity Ventures, Inc. to Aboitiz Power Distributed Renewables, Inc.

A) Acquired as part of GNPower acquisition (see Note 9); part of Therma Mariveles Group
B) Acquired as part of GNPower acquisition (see Note 9); part of Therma Dinginin Group
C) In 2017, per Partnership Agreement, TPI's indirectly held Partnership interest in GMCP reduced to 66.07% following the return of capital to the Partners.
D) Dissolved and liquidated in 2017 as part of TPI's restructuring of its offshore intermediary companies acquired as part of the GNPower acquisition
** No commercial operations as of December 31, 2017.*

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

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

Material partly-owned subsidiary

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

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

3. Summary of Significant Accounting Policies

Basis of Preparation

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

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

Statement of Compliance

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

Basis of Consolidation

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

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

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

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

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

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

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

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

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

Transactions with Non-controlling Interests

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

Changes in Accounting Policies and Disclosures

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

- Amendment to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014-2016 cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

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

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

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

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

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

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

  The Group has provided the required information in Note 38 to the financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

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

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

Effective January 1, 2018

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

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

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

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

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

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

- Identification of performance obligations

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

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

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

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

- Variable considerations

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

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

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

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

- PFRS 9, *Financial Instruments*

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

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

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

(a) Classification and measurement

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

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

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

(b) Impairment

PFRS 9 requires the Group to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with contract assets, loan commitments and financial guarantee contracts. The Group plans to apply the simplified approach and record lifetime

ECL on all trade receivables and contract assets. For other debt financial assets measured at amortized cost, the general approach will be applied, measuring either a 12-month or lifetime expected losses, depending on the extent of the deterioration of their credit quality from origination. The Group is currently quantifying the impact of the change in measuring ECL.

(c) Hedge accounting

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

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

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

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

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

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

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

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

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

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

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

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

Effective January 1, 2019

- PFRS 16, *Leases*

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

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

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

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

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

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

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

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

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

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

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

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

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

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

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

Current versus Noncurrent Classification
The Group presents assets and liabilities in the balance sheet based on current/noncurrent classification. An asset as current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

All other liabilities are classified as noncurrent.

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

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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

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

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

Investments in Associates and Joint Ventures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Inventories

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS investments. For financial liabilities, the Group also classifies them into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

(a) Financial assets or financial liabilities at FVPL

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

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

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

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

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

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS investments or financial assets at FVPL. Loans and receivables are carried at amortized cost less allowance for impairment. Amortization is determined using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Included under this category are the Group's cash and cash equivalents and trade and other receivables (see Note 33).

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

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

The Group does not have any HTM investment as of December 31, 2017 and 2016.

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2017 and 2016, the Group has freestanding derivatives in the form of non-deliverable foreign currency forward contracts entered into to economically hedge its foreign exchange risk. In 2017 and 2016, the Group applied hedge accounting treatment on its derivative transactions.

Classification of financial instruments between liability and equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as income or expense. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

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

Redeemable Preferred Shares (RPS)

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

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets

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

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

In the case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income) is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

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

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

Property, Plant and Equipment
Except for land, property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The initial cost of property, plant and equipment comprises its purchase price, including import duties, if any, and nonrefundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing parts of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Cost also include asset retirement obligation relating to the decommissioning of power plant equipment, if any. Repairs and maintenance costs are recognized in the consolidated statement of income as incurred.

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

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

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

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

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

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

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

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

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

Arrangement Containing a Lease

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

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

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

Finance lease

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

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

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

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

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

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

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

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

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

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

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

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

<u>Intangible Assets</u>
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

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

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

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

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

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

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

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

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

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

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

Research and Development Expenditure
The Group's policy is to record research expenses in the consolidated statement of income in the period when they are incurred.

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

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

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

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

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

Impairment of Non-financial Assets

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

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Asset Retirement Obligation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pension Benefits
The Group has defined benefit pension plans which require contributions to be made to separately administered funds. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

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

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

Borrowing Costs

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

Taxes

Current income tax

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

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

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

Deferred income tax

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries,

- associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

Input Value-Added Tax (VAT)

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

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

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

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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

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

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

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

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

Determining functional currency

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

Service concession arrangements - Companies in the Group as Operators

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

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

Determining fair value of customers' deposits

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

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

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

Nonconsolidation of Manila-Oslo Renewable Enterprise, Inc. (MORE) and its investees
The Group has 83.33% interest in MORE which has a 60% ownership interest in SN Aboitiz Power-Magat, Inc., SN Aboitiz Power-Benguet, Inc., SN Aboitiz Power-RES, Inc., and SN Aboitiz Power-Generation, Inc.

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

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

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

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

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

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

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

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

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

Estimating useful lives of property, plant and equipment
The Group estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors and circumstances mentioned above. As of December 31, 2017 and 2016, the net book values of property, plant and equipment, excluding land, amounted to ₱202.43 billion and ₱191.54 billion, respectively (see Note 12).

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

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

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

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

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

Assessing impairment of nonfinancial assets
The Group assesses whether there are any indicators of impairment for nonfinancial assets at each balance sheet date. These nonfinancial assets (property, plant and equipment, intangible assets (excluding goodwill), and other current and noncurrent assets) are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

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

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

Estimating allowance for impairment of trade and other receivables
The Group maintains allowance for impairment of trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectibility of the accounts. These factors include, but are not limited to, the Group's relationship with its clients, client's current credit status and other known market factors. The Group reviews the age and status of receivables and identifies accounts that are to be provided with allowance either individually or collectively. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment of trade and other receivables will increase the Group's recorded expenses and decrease current assets. As of December 31, 2017 and 2016, allowance for impairment of trade and other receivables amounted to ₱1.77 billion and ₱1.76 billion, respectively. Trade and other receivables, net of allowance for impairment, amounted to ₱17.36 billion and ₱15.47 billion as of December 31, 2017 and 2016, respectively (see Note 6).

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

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

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

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

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

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

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

Recognition of deferred income tax assets
The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The Group recognize deferred taxes based on enacted or substantially enacted tax rates for renewable of 10% and for non-renewable of 30%. The Group has deferred income tax assets amounting to ₱1.41 billion and ₱1.80 billion as of December 31, 2017 and 2016, respectively.

The Company did not recognize deferred income tax assets on Minimum Corporate Income Tax (MCIT) amounting to ₱39.1 million and ₱43.8 million as of December 31, 2017 and 2016, respectively, and Net Operating Loss Carryover (NOLCO) amounting to ₱647.9 million and ₱228.1 million as of December 31, 2017 and 2016, respectively, since management expects that it will not generate sufficient taxable income in the future that will be available to allow all of the deferred income tax assets to be utilized (see Note 29).

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

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 27.

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

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

Legal contingencies
The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized in the Group's consolidated financial statements for the years ended December 31, 2017, 2016 and 2015.

5. Cash and Cash Equivalents

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

Cash in banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposits rates. Interest income earned from cash and cash equivalents amounted to ₱907.6 million in 2017, ₱1.08 billion in 2016 and ₱845.2 million in 2015.

6. Trade and Other Receivables

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

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

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

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

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

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

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

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

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

7. Inventories

	2017	2016
Fuel and lube oil	**₱3,294,622**	₱2,845,119
Plant spare parts and supplies	**1,625,064**	893,729
Transmission and distribution supplies	**502,825**	509,440
Other parts and supplies	**221,096**	204,524
	₱5,643,607	₱4,452,812

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

The cost of inventories recognized as part of cost of generated power in the consolidated statements of income amounted to ₱22.32 billion in 2017, ₱12.21 billion in 2016 and ₱13.60 billion in 2015 (see Note 23). The cost of inventories recognized as part of operations and maintenance in the consolidated statements of income amounted to ₱412.1 million in 2017, ₱572.5 million in 2016 and ₱910.5 million in 2015 (see Note 25).

8. Other Current Assets

	2017	2016
Restricted cash	₱2,642,327	₱2,100,611
Input VAT	1,978,904	1,906,810
Prepaid tax	1,942,081	1,126,628
Prepaid expenses	2,252,905	935,926
Prepaid rent (see Note 35)	102,033	49,845
Notes receivable - current portion (see Notes 14 and 32)	–	142,824
Others	111,636	185,452
	₱9,029,886	₱6,448,096

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

Prepaid expenses mainly include prepayments for insurance.

9. Business Combinations

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

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

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

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

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

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

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

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

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

GNPower acquisition

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

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

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

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

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

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

Cash flow on acquisition:	
Net cash acquired with the subsidiary	₱5,567,064
Cash paid	(49,787,176)
Net cash outflow	(₱44,220,112)

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

In December 2017, the valuation was completed and the acquisition date fair value of property, plant and equipment was ₱34.00 billion, an increase of ₱342.8 million over the provisional value. The fair value of long-term debt was also determined to be ₱28.13 billion, an increase of ₱1.65 billion over the provisional value. The 2016 comparative information was restated to reflect the adjustment to the provisional amounts. As a result, there was a decrease in the deferred tax asset of ₱434.1 million, a decrease in the derivative asset of ₱752.3 million, and an increase in the non-controlling interest of ₱579.8 million. There was a corresponding increase in goodwill of ₱3.08 billion, resulting in ₱39.35 billion of total goodwill arising on the acquisition. The increased depreciation charge on property, plant and equipment from the acquisition date to December 31, 2016 was not material.

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

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

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

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

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

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

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

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

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

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

10. Investments and Advances

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

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

<u>2017</u>

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

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

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

2016

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

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

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

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

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

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

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

[1] *Joint ventures.*

* *No commercial operations as of December 31, 2017.*

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

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

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

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

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

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

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

	2017	2016	2015
WMPC:			
Total current assets	**₱695,570**	₱555,637	₱1,256,744
Total noncurrent assets	**418,808**	305,394	414,139
Total current liabilities	**(457,032)**	(222,299)	(266,259)
Total noncurrent liabilities	**(82,718)**	(71,782)	(93,109)
Equity	**₱574,628**	₱566,950	₱1,311,515
Gross revenue	**₱1,439,482**	₱1,636,339	₱1,430,260
Operating profit	**98,838**	130,244	926,475
Net income	**71,933**	91,646	776,764
Other comprehensive income (loss)	**–**	(9,634)	2,270
Group's share in net income	**₱14,387**	₱18,329	₱155,353
SPPC:			
Total current assets	**₱344,106**	₱361,706	₱529,902
Total noncurrent assets	**364,648**	351,903	351,948
Total current liabilities	**(221,096)**	(42,285)	(123,326)
Total noncurrent liabilities	**(68,326)**	(66,430)	(69,638)
Equity	**₱419,332**	₱604,894	₱688,886
Gross revenue	**₱523,854**	₱632,504	₱709,403
Operating profit	**133,508**	204,593	430,392
Net income	**272,756**	272,756	365,152
Other comprehensive income (loss)	**–**	28,550	(360)
Group's share in net income	**₱19,101**	₱41,034	₱73,030
SFELAPCO*:			
Total current assets	**₱1,576,530**	₱1,406,869	₱1,302,248
Total noncurrent assets	**2,215,130**	1,996,643	2,015,544
Total current liabilities	**(770,041)**	(710,301)	(742,792)
Total noncurrent liabilities	**(751,789)**	(618,579)	(565,278)
Equity	**₱2,269,830**	₱2,074,632	₱2,009,722
Gross revenue	**₱4,211,674**	₱4,255,286	₱4,208,990
Operating profit	**366,492**	310,511	170,695
Net income	**671,268**	272,756	165,094
Other comprehensive income	**334,246**	8,671	–
Group's share in net income	**₱323,674**	₱73,415	₱146,977
STEAG:			
Total current assets	**₱2,688,544**	₱2,608,136	₱3,286,363
Total noncurrent assets	**10,348,729**	10,721,862	10,265,755
Total current liabilities	**(1,394,855)**	(2,018,724)	(1,747,652)
Total noncurrent liabilities	**(3,453,496)**	(3,651,920)	(3,900,707)
Equity	**₱8,188,922**	₱7,659,354	₱7,903,759
Gross revenue	**₱4,502,920**	₱4,626,910	₱4,864,480
Operating profit	**1,020,846**	1,205,122	2,060,028
Net income	**516,893**	928,891	1,414,229
Other comprehensive income	**4,750**	10,321	50,338
Group's share in net income	**₱25,744**	₱162,426	₱324,455
CEDC:			
Total current assets	**₱5,419,700**	₱5,666,952	₱5,083,812
Total noncurrent assets	**14,308,208**	14,901,922	15,418,308
Total current liabilities	**(2,444,036)**	(3,840,126)	(5,250,521)
Total noncurrent liabilities	**(10,422,073)**	(9,751,438)	(9,127,815)
Equity	**₱6,861,799**	₱6,977,310	₱6,123,784

(Forward)

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

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

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

11. Joint Operation

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

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

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

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

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

12. Property, Plant and Equipment

December 31, 2017

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

December 31, 2016

	Land	Buildings, warehouses and improvements	Power plant equipment and steam field assets (Note 20)	Transmission, distribution and substation equipment	Transportation equipment	Office furniture, fixtures and equipment	Leasehold improvements	Electrical equipment	Meters and laboratory equipment	Tools and others	Construction in progress	Total
Cost:												
Balances at beginning of year	₱1,340,282	₱14,090,427	₱99,658,102	₱14,683,602	₱1,001,932	₱505,273	₱2,696,862	₱3,179,186	₱1,546,645	₱764,908	₱22,578,043	₱162,045,262
Additions (see Notes 15 and 20)	53,734	191,984	250,232	1,051,340	130,420	25,500	11,838	141,519	112,264	299,706	26,957,129	29,225,666
Business combinations (see Note 9, restated)	–	5,441,126	33,537,094	104,542	329,429	306,438	23,805	25,687	–	80,081	1,853,971	41,702,173
Disposals	–	–	(156,278)	(772,463)	(49,592)	(9,900)	–	(6,746)	(704,552)	(6,545)	–	(1,706,076)
Reclassifications and others	42,445	1,637,579	4,281,822	938,947	(52,481)	(679)	2,873	176,637	391,082	14,277	(8,489,033)	(1,056,531)
Balances at end of year	1,436,461	21,361,116	137,570,972	16,005,968	1,359,708	826,632	2,735,378	3,516,283	1,345,439	1,152,427	42,900,110	230,210,494
Accumulated Depreciation and Amortization:												
Balances at beginning of year	–	1,761,781	17,809,749	4,339,025	570,213	300,343	210,278	1,390,840	457,619	394,787	–	27,234,635
Business combinations (see Note 9)	–	556,377	4,096,568	95,758	140,154	149,122	20,743	20,857	–	62,126		5,141,705
Depreciation and amortization	–	633,069	4,027,931	438,720	109,589	77,751	118,048	169,010	66,344	83,228	–	5,723,690
Disposals	–	–	(26,583)	(778,294)	(42,574)	(9,598)	–	(1,707)	(702,817)	(6,504)	–	(1,568,077)
Reclassifications and others	–	(14,312)	480,350	91,215	(30,388)	23,156	505	54,329	92,493	4,805	–	702,153
Balances at end of year	–	2,936,915	26,388,015	4,186,424	746,994	540,774	349,574	1,633,329	(86,361)	538,442	–	37,234,106
Net book values	₱1,436,461	₱18,424,201	₱111,182,957	₱11,819,544	₱612,714	₱285,858	₱2,385,804	₱1,882,954	₱1,431,800	₱613,985	₱42,900,110	₱192,976,388

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

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

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

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

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

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

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

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

13. Intangible Assets

December 31, 2017

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

December 31, 2016

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

Impairment Testing of Goodwill

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

The carrying amount of goodwill follows:

	2017	2016 (As restated; Note 9)
GMCP (see Note 9)	**₱39,345,126**	₱39,345,126
LEZ	**467,586**	467,586
BEZ	**237,404**	237,404
HI	**220,228**	220,228
	₱40,270,344	₱40,270,344

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

Key assumptions used in value-in-use calculation for December 31, 2017 and 2016
The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

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

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

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

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

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

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

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

Service Concession Rights

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

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

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

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

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

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

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

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

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

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

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

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

<u>Customer Contracts</u>

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

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

14. Other Noncurrent Assets

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

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

15. Trade and Other Payables

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

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

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

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

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

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

16. Short-term Loans

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

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

Interest expense on short-term loans amounted to ₱131.2 million in 2017, ₱66.5 million in 2016 and ₱87.6 million in 2015 (see Note 33).

17. Long-term Debts

	Annual Interest Rate	2017	2016 (As Restated; Note 9)
Company:			
Bonds due 2021	5.21%	₱6,600,000	₱6,600,000
Bonds due 2026	6.10%	3,400,000	3,400,000
Bonds due 2027	5.34%	3,000,000	–
Subsidiaries:			
GMCP			
Financial institutions - secured	LIBOR + 1.7% - 4.00% in 2017	31,946,661	–
	LIBOR + 2.5% - 7.65% in 2016	–	28,076,404
TVI			
Financial institutions - secured	5.50% - 6.91%	29,890,000	27,570,000
TSI			
Financial institutions - secured	4.51% - 5.15% in 2017 4.50% - 5.14% in 2016	22,660,043	23,970,380
TPI			
Financial institutions - unsecured	LIBOR + 1.10%	15,153,755	31,000,420
APRI			
Financial institutions - secured	4.53% - 6.00%	10,624,640	11,874,880
Hedcor Bukidnon			
Financial institutions - secured	4.75% - 6.78% in 2017 4.75% - 6.58% in 2016	9,327,700	5,677,700
Hedcor Sibulan			
Fixed rate corporate notes - unsecured	4.11% - 5.42%	4,097,000	4,100,000
Aseagas			
Financial institutions - secured	4.66% - 5.06%	–	2,434,209
VECO			
Financial institution - unsecured	4.49% - 4.81% in 2017 4.26% - 4.81% in 2016	1,176,000	1,379,000
LHC			
Financial institutions - secured	2.00% - 2.75%	1,105,950	1,369,631
DLP			
Financial institution - unsecured	4.49% - 4.81% in 2017 4.26% - 4.81% in 2016	882,000	1,034,250
HI			
Financial institution - secured	5.25%	540,000	630,000
AI			
AEV - unsecured (see note 32)		300,000	–
SEZ			
Financial institution - unsecured	5.00% in 2017 5.88% - 6.91% in 2016	226,000	282,500
CLP			
Financial institution - unsecured	4.49% - 4.81% in 2017 4.26% - 4.81% in 2016	176,400	206,850
Joint operation (see Note 11)			
Financial institutions - secured	5.50% - 7.38% in 2017 5.50% - 6.87% in 2016	14,066,500	11,723,500
		155,172,649	161,329,724
Add embedded derivatives		–	6,776
Less deferred financing costs		3,119,149	1,963,965
		152,053,500	159,372,535
Less current portion - net of deferred financing costs		20,692,751	7,458,363
		₱131,360,749	₱151,914,172

** London Interbank Offered Rate (LIBOR)*

Interest expense and other financing costs on long-term debt amounted to ₱6.33 billion in 2017, ₱2.81 billion in 2016, and ₱1.12 billion in 2015 (see Note 33).

Company
In September 2014, the Company issued a total of ₱10.00 billion bonds, broken down into a ₱6.60 billion 7-year bond due 2021 at an annual fixed rate equivalent to 5.21% and a ₱3.40 billion 12-year bond due 2026 at an annual fixed rate equivalent to 6.10%. The bonds have been rated PRS Aaa by PhilRatings.

In July 2017, the Company issued a ₱3.00 billion 10-year bond due 2027 at an annual fixed rate equivalent to 5.34%. The bonds have been rated PRS Aaa by PhilRatings.

The principal amount of the bonds shall be payable on a lump sum basis on the respective maturity date at its face value. These bonds may be redeemed in advance by the Company based on stipulated early redemption option dates and on agreed early redemption price.

TPI
In December 2016, TPI executed and availed a US$623.5 million syndicated bridge loan facility to partially finance the GNPower acquisition. The loan bears a floating interest rate based on a credit spread over applicable LIBOR, repriced every 30 days. The loan will mature on the second anniversary of the initial drawdown date, with an option for a one-year extension.

TVI
On June 18, 2015, TVI entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of ₱31.97 billion. As of December 31, 2017, ₱29.89 billion has been drawn from the loan facility.

The loan is available in two tranches, as follows:
- Tranche A, in the amount of ₱25.97 billion, with interest rate fixed for the first eight years and will be repriced and fixed for another seven years.
- Tranche B, in the amount of ₱6.00 billion, with a fixed interest rate for fifteen years.

70% of the principal amount of the loan is payable in 22 equal semi-annual installments, with the remaining 30% payable in full on the final maturity date. TVI may prepay the loan in part or in full beginning on the end of the fourth year from the initial advance or on the project completion date, whichever is earlier. Any prepayment shall be subject to a certain percentage of prepayment penalty on the principal to be prepaid.

The loan is secured by a mortgage of all its assets with carrying amount of ₱34.01 billion as of December 31, 2017, and a pledge of TVI's shares of stock held by its shareholders.

GMCP
On January 18, 2010, GMCP entered into offshore and onshore facility agreements with China Development Bank Corporation (Offshore Loan) as well as BDO, Bank of the Philippine Islands (BPI), China Banking Corporation, Security Bank Corporation, and Standard Chartered Bank - Singapore (collectively for the Onshore Loan) which was fully drawn in 2012. The proceeds of the loan were used solely for the payment of Project Costs.

On August 29, 2017, GMCP entered into a Notes Facility Agreement (NFA) with local banks with BDO Capital and Investment Corporation as Lead Arranger, with the maximum principal amount of $800.0 million, the proceeds of which will be used to refinance GMCP's existing loan obligation and for other general corporate purposes.

On September 29, 2017, $600.0 million was drawn from the NFA, out of which $462.4 million was used to prepay the outstanding loans.

GMCP also has an existing facility agreement with BDO to finance the GMCP's working capital requirements.

Loans payable consist of the following dollar denominated loans as of December 31, 2017:

	Amount	Interest Rate Per Annum	Payment Schedule
NFA			
Fixed Rate Loan	**$300,000**	(i) Fixed rate of 2.5514% plus 1.45% margin for the first seven-year period and (ii) Fixed Rate Loan Benchmark plus 1.45% margin for the subsequent five-year period	24 semi-annual payments starting from the first Interest Payment Date
LIBOR Loan	**300,000**	Six-month LIBOR plus 1.70% margin	24 semi-annual payments starting from the first Interest Payment Date
Working Capital			
BDO	**15,000**	LIBOR plus 1.7% applicable margin	Payable within three months
Total borrowings	**615,000**		
Less unamortized portion of deferred financing costs	**(5,712)**		
	609,288		
Less current portion	**37,451**		
Loans payable - net of current portion	**$571,837**		

TSI

On October 14, 2013, TSI entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of ₱24.00 billion, which was fully drawn in 2014.

On October 28, 2015, TSI entered into an additional loan agreement with principal amount of ₱1.68 billion, which was fully drawn in 2016.

The loan is secured by a mortgage of all its assets with carrying amount of ₱36.14 billion as of December 31, 2017, and a pledge of TSI's shares of stock held by the Company and TPI.

Interest rate ranging from 4.50% - 5.15% is fixed for the first seven years and will be repriced and fixed for another five years. Fifty percent of the principal amount of the loan is payable at semi-annual installments within 12 years with a two-year grace period, with the remaining 50% payable in full on the final maturity date.

TSI may prepay the loan in part or in full beginning on the end of the third year from the initial advance or on the project completion date, whichever is earlier. Any prepayment shall be subject to a certain percentage of prepayment penalty on the principal to be prepaid.

APRI

On February 29, 2016, APRI entered into an omnibus agreement with BPI, Asian Development Bank (ADB) and Credit Guarantee and Investment Facility (CGIF). This has been certified to have met the requirements of the Climate Bond Standard. The loan proceeds were used for return of equity to shareholders and to fund necessary operating and capital expenditures.

The loan is available in two tranches, as follows:

a. The Notes Facility Agreement, in the amount of ₱10.7 billion, with interest rate already fixed for ten years. 41.6% of the principal amount is payable in ten equal semi-annual installments and the balance payable in another ten semi-annual installments
b. The ADB Facility Agreement, in the amount of ₱1.8 billion, with interest rate fixed for five years and principal repayments made in ten equal semi-annual installments.

The loan is secured by mortgage of its assets with carrying amount of ₱25.64 billion as of December 31, 2017, and pledge of APRI's shares of stock held by shareholders and assignment of Project Agreements and Project Accounts.

Hedcor Bukidnon

On September 22, 2015, Hedcor Bukidnon entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of up to ₱10.00 billion. As of December 31, 2017, ₱9.33 billion has been drawn from the loan facility based on the agreed schedule.

The term of the loan is 15 years, and the first principal repayment will take place 42 months after the financial close, or six months after project completion. Principal repayments shall be made in equal semi-annual installments, with a balloon payment not to exceed 30% of the loan amount. Interest rate on the loan is computed at the time of each drawdown, as designated under the agreement.

The loan is secured by an assignment of trade receivables, a pledge of all issued share capital of Hedcor Bukidnon, and corporate suretyship from AP to guarantee the debt service until (a) project completion and (b) receipt of Feed-In-Tariff payments or contracting power supply agreements equivalent to at least the break-even capacity.

Hedcor Sibulan

On November 17, 2016, Hedcor Sibulan entered into a NFA with various institutions with Metrobank - Trust Banking Group as the Notes Facility Agent, for a loan facility with an aggregate principal amount of up to ₱4.10 billion to return equity to shareholders, and for other general corporate purposes.

The unsecured notes were issued in ten tranches with interest payable semi-annually at annual fixed rates ranging from 4.05% - 5.42% with principal maturity as follows:

Tranche	Maturity Date	Principal Amount
1	Fifteen months from issue date	₱96.8 million
2	Two (2) years from issue date	₱96.8 million
3	Three (3) years from issue date	₱84.0 million
4	Four (4) years from issue date	₱84.0 million
5	Five (5) years from issue date	₱284.0 million
6 (Series A&B)	Six (6) years from issue date	₱388.4 million
7 (Series A&B)	Seven (7) years from issue date	₱445.8 million
8	Eight (8) years from issue date	₱451.4 million
9	Nine (9) years from issue date	₱508.1 million
10 (Series A&B)	Ten (10) years from issue date	₱1,660.7 million

Prior to maturity date, Hedcor Sibulan may redeem in whole or in part the relevant outstanding notes on any interest payment date plus a one percent prepayment penalty.

Aseagas

Within the period June 2014 to September 2015, Aseagas availed of ₱2.00 billion loan from the Notes Facility and Security Agreement (NFSA) it signed on June 5, 2014 with Development Bank of the Philippines (DBP). The NFSA provided for the issuance of 12-year corporate notes subject to a fixed interest rate ranging from 4.66% to 5.06% for the first seven years and to be repriced and fixed for the remaining five years. Principal repayments are due every six months.

On April 2016, Aseagas obtained an additional loan from DBP amounting to ₱500.0 million with the same terms as the first loan. Interest rate on the new loan is fixed at 4.75%.

The loan was prepaid in December 2017.

VECO

On December 20, 2013, VECO availed of a ₱2.00 billion loan from the NFA it signed on December 17, 2013 with Land Bank of the Philippines (LBP). The unsecured notes were issued in ten tranches of ₱200 million with interest payable semi-annually at annual fixed rates ranging from 3.50% - 4.81% and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱200M balloon payment on maturity date
C	December 20, 2016	₱1M each on first 2 years; ₱198M on maturity date
D	December 20, 2017	₱1M each on first 3 years; ₱197M on maturity date
E	December 20, 2018	₱1M each on first 4 years; ₱196M on maturity date
F	December 20, 2019	₱1M each on first 5 years; ₱195M on maturity date
G	December 20, 2020	₱1M each on first 6 years; ₱194M on maturity date
H	December 20, 2021	₱1M each on first 7 years; ₱193M on maturity date
I	December 20, 2022	₱1M each on first 8 years; ₱192M on maturity date
J	December 20, 2023	₱1M each on first 9 years; ₱191M on maturity date

Prior to maturity date, VECO may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

LHC
On April 24, 2012, LHC entered into an omnibus agreement with Philippine National Bank and Banco De Oro to borrow US$43.1 million with maturity on April 26, 2022 and payable in 20 semi-annual installments. Interest is repriced and paid semi-annually. Annual interest rate ranges from 2.00% to 2.75%.

Intangible asset arising from service concession arrangement with carrying value of ₱2.13 billion as of December 31, 2017, was used as collateral to secure LHC's long-term debt (see Note 13).

DLP
On December 20, 2013, DLP availed of a ₱1.50 billion loan from the NFA it signed on December 17, 2013 with LBP. The unsecured notes were issued in ten tranches of ₱150 million with interest payable semi-annually at annual fixed rates ranging from 3.50% to 4.81% and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱150M balloon payment on maturity date
C	December 20, 2016	₱0.75M each on first 2 years; ₱148.5M on maturity date
D	December 20, 2017	₱0.75M each on first 3 years; ₱147.8M on maturity date
E	December 20, 2018	₱0.75M each on first 4 years; ₱147M on maturity date
F	December 20, 2019	₱0.75M each on first 5 years; ₱146.2M on maturity date
G	December 20, 2020	₱0.75M each on first 6 years; ₱145.5M on maturity date
H	December 20, 2021	₱0.75M each on first 7 years; ₱144.8M on maturity date
I	December 20, 2022	₱0.75M each on first 8 years; ₱144M on maturity date
J	December 20, 2023	₱0.75M each on first 9 years; ₱143.2M on maturity date

Prior to maturity date, DLP may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

HI
On August 6, 2013, HI availed of a ten-year ₱900 million loan from a local bank. This loan is subject to a semi-annual principal payment with annual interest fixed at 5.25% for the first 5 years. For the remaining five years, interest rate will be repriced and fixed on the fifth anniversary from the drawdown date. The debt is secured by a pledge of HI's shares of stock held by ARI.

SEZ
On July 7, 2011, SEZ issued ₱565.0 million worth of fixed rate notes to Metropolitan Bank and Trust Company. Interest on the notes is subject to quarterly payment at 5% annual fixed interest rate. Principal is payable annually over 10 years at an equal amortization of ₱56.5 million.

CLP
On December 20, 2013, CLP availed of a ₱300 million loan from the NFA it signed on December 17, 2013 with LBP. The unsecured notes were issued in ten tranches of ₱30.0 million with interest payable semi-annually at annual fixed rates ranging from 3.50% - 4.81% and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱30M balloon payment on maturity date
C	December 20, 2016	₱0.15M each on first 2 years; ₱29.7M on maturity date
D	December 20, 2017	₱0.15M each on first 3 years; ₱29.6M on maturity date
E	December 20, 2018	₱0.15M each on first 4 years; ₱29.4M on maturity date
F	December 20, 2019	₱0.15M each on first 5 years; ₱29.2M on maturity date
G	December 20, 2020	₱0.15M each on first 6 years; ₱29.1M on maturity date
H	December 20, 2021	₱0.15M each on first 7 years; ₱29.0M on maturity date
I	December 20, 2022	₱0.15M each on first 8 years; ₱28.8M on maturity date
J	December 20, 2023	₱0.15M each on first 9 years; ₱28.62M on maturity date

Prior to maturity date, CLP may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

Long-term debt of Joint Operation (see Note 11)
This pertains to TPI's share of the outstanding project debt of its joint operation.

In May 2014, PEC entered into an omnibus agreement with various local banks for a loan facility in the aggregate principal amount of up to ₱33.31 billion with maturity period of 15 years.

The loan facility is subject to a semi-annual interest payment with annual fixed interest ranging from 5.50% - 7.38%.

The loans may be voluntarily prepaid in full or in part commencing on and from the third year of the date of initial drawdown with a prepayment penalty.

The loans are secured by a mortgage of substantially all its assets with carrying amount of ₱30.62 billion as of December 31, 2017, and a pledge of the shares of stock held by the joint operators.

Loan covenants
The loan agreements on long-term debt of the Group provide for certain restrictions with respect to, among others, mergers or consolidations or other material changes in their ownership, corporate set-up or management, investment and guaranties, incurrence of additional debt, disposition of mortgage of assets, payment of dividends, and maintenance of financial ratios at certain levels.

These restrictions and requirements were complied with by the Group as of December 31, 2017 and 2016.

18. Customers' Deposits

	2017	2016
Transformers	**₱1,315,127**	₱2,915,591
Lines and poles	**1,115,646**	1,777,064
Bill and load	**3,663,917**	2,138,587
	₱6,094,690	₱6,831,242

Transformers and lines and poles deposits are obtained from certain customers principally as cash bond for their proper maintenance and care of the said facilities while under their exclusive use and responsibility. These deposits are non-interest bearing and are refundable only after their related contract is terminated and the assets are returned to the Group in their proper condition and all obligations and every account of the customer due to the Group shall have been paid.

Bill deposit serves to guarantee payment of bills by a customer which is estimated to equal one month's consumption or bill of the customer.

Both the Magna Carta and Distribution Services and Open Access Rules (DSOAR) also provide that residential and non-residential customers, respectively, must pay a bill deposit to guarantee payment of bills equivalent to their estimated monthly billing. The amount of deposit shall be adjusted after one year to approximate the actual average monthly bills. A customer who has paid his electric bills on or before due date for three consecutive years, may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise, bill deposits and accrued interests shall be refunded within one month from termination of service, provided all bills have been paid.

In cases where the customer has previously received the refund of his bill deposit pursuant to Article 7 of the Magna Carta, and later defaults in the payment of his monthly bills, the customer shall be required to post another bill deposit with the distribution utility and lose his right to avail of the right to refund his bill deposit in the future until termination of service. Failure to pay the required bill deposit shall be a ground for disconnection of electric service.

Interest expense on customers' deposits amounted to ₱3.2 million in 2017, ₱2.5 million in 2016 and ₱4.2 million in 2015 (see Note 33).

The Group classified customers' deposit under noncurrent liabilities due to the expected long-term nature of these deposits.

The portion of customers' deposit to be refunded amounted to ₱1.41 billion as of December 31, 2017, and is presented as part of "Trade and other payables" (see Note 15).

19. Asset Retirement Obligation

Asset retirement obligation includes the estimated costs to decommission, abandon and perform surface rehabilitation on the steam field assets at the end of their useful lives, and the best estimate of the expenditure required to settle the obligation to decommission power plant at the end of its lease term (see Note 12).

	2017	2016
Balances at beginning of year	**₱1,821,577**	₱3,016,528
Business combinations (see Note 9)	**–**	334,812
Change in accounting estimate	**1,056,396**	(1,627,192)
Accretion of decommissioning liability (see Note 33)	**81,087**	97,429
Balances at end of year	**₱2,959,060**	₱1,821,577

The actual dismantling and removal cost could vary substantially from the above estimate because of new regulatory requirements, changes in technology, increased cost of labor, materials, and equipment or actual time required to complete all dismantling and removal activities. Adjustment, if any, to the estimated amount will be recognized prospectively as they become known and reliably estimable.

20. Equity

a. Paid-in Capital (number of shares in disclosed figures)

	2017	2016
Capital Stock		
Authorized - ₱1 par value		
Common shares - 16,000,000,000 shares		
Preferred shares - 1,000,000,000 shares		
Issued		
Common shares - 7,358,604,307 shares	**₱7,358,604**	₱7,358,604
Additional Paid-in Capital	**12,588,894**	12,588,894
	₱19,947,498	₱19,947,498

On May 25, 2007, the Company listed with the PSE its 7,187,664,000 common shares with a par value of ₱1.00 to cover the initial public offering (IPO) of 1,787,664,000 common shares at an issue price of ₱5.80 per share. On March 17, 2008, the Company listed an additional 170,940,307 common shares, which it issued pursuant to a share swap agreement at the IPO price of ₱5.80 per share. The total proceeds from the issuance of new shares amounted to ₱10.37 billion. The Company incurred transaction costs incidental to the initial public offering amounting to ₱412.4 million, which is charged against "Additional paid-in capital" in the consolidated balance sheet.

As of December 31, 2017, 2016 and 2015, the Company has 629, 628 and 608 shareholders, respectively.

Preferred shares are non-voting, non-participating, non-convertible, redeemable, cumulative, and may be issued from time to time by the BOD in one or more series. The BOD is authorized to issue from time to time before issuance thereof, the number of shares in each series, and all the designations, relative rights, preferences, privileges and limitations of the shares of each series. Preferred shares redeemed by the Company may be reissued. Holders thereof are entitled to receive dividends payable out of the unrestricted retained earnings of the Company at a rate based on the offer price that is either fixed or floating from the date of the issuance to final redemption. In either case, the rate of dividend, whether fixed or floating, shall be referenced, or be a discount or premium, to market-determined benchmark as the BOD may determine at the time of issuance with due notice to the SEC.

In the event of any liquidation or dissolution or winding up of the Company, the holders of the preferred stock shall be entitled to be paid in full the offer price of their shares before any payment in liquidation is made upon the common stock.

There are no preferred shares issued and outstanding as of December 31, 2017 and 2016.

b. Retained Earnings

On November 24, 2016, the BOD approved the appropriation of ₱13.16 billion retained earnings for the following projects:

Projects	Full commercial operations by	Appropriation (in billions)
300 MW Cebu Coal	1st half of 2018	₱8.16
2x300 MW Coal-fired	End of 4th quarter 2021	5.00
Total		₱13.16

On November 27, 2014, the BOD approved the appropriation of ₱20.90 billion retained earnings for the following projects:

Projects	Full commercial operations by	Appropriation (in billions)
68 MW Manolo Fortich Hydro	End of 4th quarter 2016	₱2.60
300 MW Davao Coal	End of 1st half 2015	9.50
14 MW Sabangan Hydro	End of 1st half 2015	2.80
400 MW Coal Fired Pagbilao Unit 3	End of 4th quarter 2017	6.00
Total		₱20.90

On March 10, 2015, the BOD approved the declaration of regular cash dividends of ₱1.14 a share (₱8.39 billion) and special cash dividends of ₱0.52 a share (₱3.83 billion) to all stockholders of record as of March 24, 2015. These dividends were paid on April 20, 2015.

On March 8, 2016, the BOD approved the declaration of regular cash dividends of ₱1.20 a share (₱8.83 billion) and special cash dividends of ₱0.46 a share (₱3.38 billion) to all stockholders of record as of March 22, 2016. These dividends were paid on April 19, 2016.

On March 7, 2017, the BOD approved the declaration of regular cash dividends of ₱1.36 a share (₱10.01 billion) to all stockholders of record as of March 21, 2017. These dividends were paid on April 10, 2017.

To comply with the requirements of Section 43 of the Corporation Code, on March 8, 2018, the BOD approved the declaration of regular cash dividends of ₱1.39 a share (₱10.23 billion) to all stockholders of record as of March 22, 2018. The cash dividends are payable on April 12, 2018.

c. The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint arrangements amounting to ₱40.11 billion and ₱28.91 billion as at December 31, 2017 and 2016, respectively. Such amounts are not available for distribution until such time that the Company receives the dividends from the respective subsidiaries, associates and joint arrangements (see Note 10).

21. Sale of Power

Sale from Distribution of Power

1. The Uniform Rate Filing Requirements on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001, specified that the billing for sale and distribution of power and electricity will have the following components: Generation Charge, Transmission Charge, System Loss Charge, Distribution Charge, Supply Charge, Metering Charge, the Currency Exchange Rate Adjustment and Interclass and Lifeline Subsidies. National and local franchise taxes, the Power Act Reduction (for residential customers) and the Universal Charge are also separately indicated in the customer's billing statements.

2. Pursuant to Section 43(f) of Republic Act (R.A.) No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), and Rule 15, section 5(a) of its Implementing Rules and Regulations (IRR), the ERC promulgated the Distribution Wheeling Rates Guidelines on December 10, 2004. These were subsequently updated and released on July 26, 2006 as the Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Utilities entering Performance Based Regulation (PBR).

   Details of the PBR regulatory period and the date of implementation of the approved rates are as follows:

	CLP	DLP	VECO	SEZ
Current regulatory period	April 1, 2009 to March 31, 2013	July 1, 2010 to June 30, 2014	July 1, 2010 to June 30, 2014	October 1, 2011 to September 30, 2015
Date of implementation of approved distribution supply and metering charges	May 1, 2009	August 1, 2010	August 1, 2010	November 26, 2011

   A reset process should have been initiated 18 months prior to the start of the third regulatory period of April 1, 2013 to March 31, 2017 for CLP, July 1, 2014 to June 30, 2018 for DLP and VECO, and October 1, 2015 to September 30, 2019 for SEZ. The reset process, however, has been delayed due to the issuance by the ERC in 2013 of an Issues Paper on the Implementation of PBR for distribution utilities under the RDWR, which seeks to revisit various matters relating to the reset process. The ERC has solicited comments from industry participants and has been holding public consultations on the Issues Paper.

   Through ERC Resolution No. 25 Series of 2016 dated July 12, 2016, the ERC adopted the Resolution Modifying the RDWR. The resolution also sets forth, the schedule for the Fourth Regulatory Period.

Total sale from distribution of power amounted to ₱43.53 billion, ₱44.59 billion and ₱41.38 billion in 2017, 2016 and 2015, respectively.

Sale from Generation of Power and Retail Electricity

a. Energy Trading through the Philippine Wholesale Electricity Spot Market (WESM)

   Certain subsidiaries are trading participants and direct members under the generator sector of the WESM. These companies are allowed to access the WESM Market Management System through its Market Participant Interface (MPI). The MPI is the facility that allows the trading participants to submit and cancel bids and offers, and to view market results and reports. Under its price determination methodology as approved by the ERC, locational marginal price method is used in computing prices for energy bought and sold in the market on a per node, per hour basis. In the case of bilateral power supply contracts, however, the involved trading participants settle directly with their contracting parties.

   Total sale of power to WESM amounted to ₱3.80 billion, ₱2.88 billion and ₱4.59 billion in 2017, 2016 and 2015, respectively.

b. Power Supply Agreements

   i. *Power Supply Contracts assumed under Asset Purchase Agreement (APA) and IPP Administration Agreement*

      Revenue recognition for customers under the power supply contracts assumed under the APA and IPP Administration Agreements are billed based on the contract price which is calculated based on the pricing structure approved by the ERC. Rates are calculated based on the time-of-use pricing schedule with corresponding adjustments using the GRAM and the ICERA.

   ii. *Power Purchase/Supply Agreement and Energy Supply Agreement (PPA/PSA and ESA)*

      Certain subsidiaries have negotiated contracts with NPC, Private Distribution Utilities, Electric Cooperatives and Commercial and Industrial Consumers referred to as PPA/PSA or ESA. These contracts provide a tariff that allows these companies to charge for capacity fees, fixed operating fees and energy fees.

   iii. Feed-in-Tariff (FIT)

      Certain subsidiaries were issued a FIT Certificate of Compliance from the ERC which entitles them to avail the FIT rate. These subsidiaries also signed agreements with the National Transmission Corporation (NTC), the FIT administrator. These agreements enumerate the rights and obligations under the FIT rules and FIT-All guidelines, in respect to the full payment of the actual energy generation of the generator, at a price equivalent to the applicable FIT rate, for the entire duration of its FIT eligibility period.

   Total sale of power under power supply agreements amounted to ₱53.61 billion in 2017, ₱32.81 billion in 2016, and ₱28.78 billion in 2015.

c. Retail Electricity Supply Agreements (see Note 40i)

Certain subsidiaries have negotiated contracts with contestable customers. These contracts provide supply and delivery of electricity where capacity fees, fixed operating fees and energy fees are at fixed price/kwh or time of use.

Total sale of power under retail electricity supply agreements amounted to ₱18.07 billion, ₱8.48 billion and ₱10.23 billion in 2017, 2016 and 2015, respectively.

22. Purchased Power

Distribution

DLP, VECO, CLP and MEZ entered into contracts with NPC/PSALM for the purchase of electricity. The material terms of the contract are as follows:

	Term of Agreement with NPC/PSALM	Contract Energy (megawatt hours/year)
DLP	Ended in December 2015; extended	1,120,918
CLP	Ended in December 2015; extended	126,976

The Group's distribution utilities also entered into Transmission Service Agreements with NGCP for the transmission of electricity.

Total power purchases from the NPC/PSALM and NGCP, net of discounts, amounted to ₱9.08 billion in 2017, ₱7.52 billion in 2016, and ₱9.49 billion in 2015. The outstanding payable to the NPC/PSALM and NGCP on purchased power, presented as part of the "Trade and other payables" account in the consolidated balance sheets amounted to ₱755.7 million and ₱694.2 million as of December 31, 2017 and 2016, respectively (see Note 15).

Generation

Purchased power takes place during periods when power generated from power plants are not sufficient to meet customers' required power as stated in the power supply contracts. Insufficient supply of generated energy results from the shutdowns due to scheduled maintenance or an emergency situation. The Group purchases power from WESM to ensure uninterrupted supply of power and meet the requirements in the power supply contracts. Total purchases from WESM amounted to ₱6.26 billion in 2017, ₱1.42 billion in 2016, and ₱1.21 billion in 2015.

The Group entered into Replacement Power Contracts with certain related parties (see Note 32). Under these contracts, the Group supplies power to counterparties when additional power is needed. Correspondingly, when faced with energy shortfalls, the Group purchases power from counterparties.

Retail Electricity Supply

AESI pays PSALM monthly generation payments using the formula specified in the IPP Administration Agreement. Total generation payments to PSALM amounted to ₱1.82 billion, ₱1.90 billion and ₱1.86 billion in 2017, 2016 and 2015, respectively.

23. Cost of Generated Power

	2017	2016	2015
Fuel costs (see Note 7)	**₱22,324,825**	₱12,211,477	₱13,598,737
Steam supply costs (see Note 36)	**4,981,187**	4,108,576	3,956,979
Energy fees	**668,558**	627,751	684,279
Ancillary charges	**547,291**	340,869	262,536
Wheeling expenses	**35,895**	27,599	21,528
	₱28,557,756	₱17,316,272	₱18,524,059

24. General and Administrative

	2017	2016	2015
Personnel costs (see Note 26)	**₱2,609,400**	₱2,289,959	₱1,928,040
Outside services (see Note 32)	**1,087,347**	795,305	777,323
Taxes and licenses	**1,033,227**	1,078,810	726,398
Repairs and maintenance	**377,788**	308,133	290,159
Corporate social responsibility (CSR) (see Note 40k)	**331,027**	144,728	106,522
Professional fees (see Note 32)	**256,779**	249,802	116,484
Insurance	**226,712**	384,516	248,071
Transportation and travel (see Note 32)	**195,016**	191,348	166,799
Information technology and communication	**106,213**	86,520	75,112
Rent (see Notes 32 and 35)	**95,974**	96,634	97,232
Training	**80,482**	70,734	44,125
Provision for impairment of trade receivables (see Note 6)	**77,708**	145,786	418,029
Advertisements	**53,583**	31,564	24,370
Entertainment, amusement and recreation	**23,862**	29,833	24,699
Market service and administrative fees	**23,075**	28,324	164,311
Guard services	**10,463**	6,443	5,746
Freight and handling	**5,245**	679	2,994
Supervision and regulatory fees	**2,413**	1,308	1,264
Gasoline and oil	**1,339**	1,109	1,180
Others	**624,615**	672,341	599,232
	₱7,222,268	₱6,613,876	₱5,818,090

"Others" include host community-related expenses, provision for probable losses, claims conversion costs and utilities expenses.

25. Operations and Maintenance

	2017	2016	2015
Personnel costs (see Note 26)	**₱1,482,775**	₱1,032,249	₱978,106
Repairs and maintenance	**1,262,634**	596,379	407,260
Taxes and licenses	**1,052,800**	363,556	348,175
Outside services	**808,436**	506,741	437,881
Insurance	**789,210**	446,525	471,397
Materials and supplies (see Note 7)	**339,734**	261,536	483,880
Rent (see Note 35)	**204,818**	83,071	52,556
Fuel and lube oil (see Note 7)	**72,412**	310,935	426,649
Transportation and travel	**69,795**	57,471	37,259
Others	**366,574**	310,844	277,883
	₱6,449,188	₱3,969,307	₱3,921,046

"Others" include environmental, health and safety expenses, and transmission charges.

26. Personnel Costs

	2017	2016	2015
Salaries and wages	**₱2,978,818**	₱2,341,096	₱2,027,096
Employee benefits (see Note 27)	**1,113,357**	981,112	879,050
	₱4,092,175	₱3,322,208	₱2,906,146

27. Pension Benefit Plans

Under the existing regulatory framework, RA 7641, otherwise known as *The Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity. It further states that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The Company and its subsidiaries have funded, non-contributory, defined retirement benefit plans ("Plan") covering all regular and full-time employees and requiring contributions to be made to separately administered funds. The retirement benefit fund ("Fund") of each subsidiary is in the form of a trust being maintained and managed by AEV, under the supervision of the Board of Trustees (BOT) of the Plan. The BOT, whose members are also corporate officers, is responsible for the investment of the Fund assets. Taking into account the Plan's objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of net benefit expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the respective plans.

Net benefit expense (recognized as part of personnel costs under operations and maintenance and general and administrative expenses):

	2017	2016	2015
Current service cost	**₱193,346**	₱171,879	₱185,701
Interest cost	**10,730**	23,880	7,534
Past service cost	**15,319**	3,665	422
	₱219,395	₱199,424	₱193,657

Remeasurement effects to be recognized in other comprehensive income:

	2017	2016	2015
Actuarial gains (losses) due to:			
Changes in financial assumptions	**(₱4,455)**	₱12,799	₱220,857
Changes in demographic assumptions	**182,355**	(170)	67,874
Return on assets excluding amount included in net interest cost	**27,498**	23,935	(59,439)
Experience adjustments	**(252,957)**	(32,107)	(361,869)
	(₱47,559)	₱4,457	(₱132,577)

Net pension assets

	2017	2016
Fair value of plan assets	**₱885,860**	₱213,018
Present value of the defined benefit obligation	**(829,460)**	(167,351)
	₱56,400	₱45,667

Net pension liabilities

	2017	2016
Present value of the defined benefit obligation	**₱1,501,862**	₱1,895,830
Fair value of plan assets	**(1,140,634)**	(1,648,443)
	₱361,228	₱247,387

Changes in the present value of the defined benefit obligation are as follows:

	2017	2016
At January 1	**₱2,063,181**	₱1,784,596
Net benefit expense:		
Current service cost	**193,346**	171,879
Net interest cost	**106,180**	91,075
Past service cost	**15,319**	3,665
	314,845	266,619
Benefits paid	**(109,276)**	(119,562)
Transfers and others	**(1,745)**	10,120
Remeasurements in other comprehensive income:		
Actuarial losses (gains) due to:		
Experience adjustments	**₱252,957**	₱32,107
Changes in demographic assumptions	**(182,355)**	170
Changes in financial assumptions	**4,455**	(12,799)
	75,057	19,478
Increase (decrease) from business combinations (see Note 9)	**(10,740)**	101,930
At December 31	**₱2,331,322**	₱2,063,181

Changes in the fair value of plan assets are as follows:

	2017	2016
At January 1	**₱1,861,461**	₱1,326,525
Contribution by employer	**179,487**	477,876
Interest income included in net interest cost	**95,450**	67,195
Fund transfer from affiliates	**(1,743)**	10,120
Return on assets excluding amount included in net interest cost	**27,498**	23,935
Benefits paid	**(135,659)**	(118,602)
Increase from business combinations (see Note 9)	**–**	74,412
At December 31	**₱2,026,494**	₱1,861,461

Changes in net pension liability recognized in the consolidated balance sheets are as follows:

	2017	2016
At January 1	**₱201,720**	₱458,071
Retirement expense during the year	**219,395**	199,424
Actuarial loss (gain) recognized during the year	**47,559**	(4,457)
Increase (decrease) from business combinations (see Note 9)	**(10,740)**	27,518
Contribution to retirement fund	**(179,487)**	(477,876)
Transfers and others	**26,381**	(960)
At December 31	**₱304,828**	₱201,720

The fair value of plan assets by each class as at the end of the reporting period are as follows:

	2017	2016
Cash and fixed-income investments	**₱914,608**	₱1,385,645
Equity instruments:		
Financial Institution	**4,661**	185,439
Power	**83,680**	67,105
Holding	**44**	42
Others	**1,023,501**	223,230
	1,111,886	475,816
Fair value of plan assets	**₱2,026,494**	₱1,861,461

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets are diverse and do not have any concentration risk.

The BOT reviews the performance of the plans on a regular basis. It assesses whether the retirement plans will achieve investment returns which, together with contributions, will be sufficient to pay retirement benefits as they fall due. The Group also reviews the solvency position of the different member companies on an annual basis and estimates, through the actuary, the expected contribution to the Retirement plan in the subsequent year.

The principal assumptions used as of December 31, 2017, 2016 and 2015 in determining pension benefit obligations for the Group's plans are shown below:

	2017	2016	2015
Discount rates	**3.48%-5.21%**	4.91%-5.64%	4.91%-5.26%
Salary increase rates	**6.00%**	5.00%-6.00%	6.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2017, assuming if all other assumptions were held constant:

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rates	100	(₱131,680)
	(100)	152,981
Future salary increases	100	161,167
	(100)	(141,518)

The Group's defined benefit pension plans are funded by the Company and its subsidiaries.

The Group expects to contribute ₱217.7 million to the defined benefit plans in 2018. The average durations of the defined benefit obligation as of December 31, 2017 and 2016 are 7.78 to 28.76 years and 11.84 to 28.76 years, respectively.

28. Other Income (Expense) - Net

	2017	2016	2015
Surcharges	**₱435,428**	₱403,730	₱342,871
Gain in step acquisition (see Note 9)	**310,198**	350,939	–
Net foreign exchange gain (losses) (see Note 34)	**203,083**	(197,226)	(948,761)
Non-utility operating income	**145,948**	94,916	114,108
Rental income	**39,704**	39,415	24,586
Gain on redemption of shares	**–**	16,051	–
Impairment loss on property, plant and equipment, goodwill and other assets (see Notes 4, 12, 13 and 14)	**(3,233,036)**	(169,469)	–
Gain (loss) on disposal of property, plant and equipment	**(86,193)**	70,252	5,656
Write off of project costs and other assets	**(79,881)**	(249,176)	(69,137)
Others	**560,749**	1,309,780	194,038
	(₱1,704,000)	₱1,669,212	(₱336,639)

Included in "Net foreign exchange gain (losses)" are the net gains and losses relating to currency forward transactions (see Note 34).

"Others" include non-recurring items like sale of scrap and sludge oil, and reversal of provisions. In 2016, "Others" also include income arising from the proceeds from claims of liquidating damages from contractor due to the delay of the completion of TSI's power plant amounting to ₱785.4 million.

29. Income Tax

The provision for income tax account consists of:

	2017	2016	2015
Current:			
Corporate income tax	**₱3,772,375**	₱3,841,051	₱3,848,706
Final tax	**119,833**	201,545	160,608
	3,892,208	4,042,596	4,009,314
Deferred	**(33,810)**	(546,456)	(419,645)
	₱3,858,398	₱3,496,140	₱3,589,669

Reconciliation between the statutory income tax rate and the Group's effective income tax rates follows:

	2017	2016	2015
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Nondeductible interest expense	**6.42**	7.14	8.11
Nondeductible depreciation expense	**1.22**	1.31	1.46
Deductible lease payments	**(9.89)**	(10.33)	(10.82)
Income under income tax holiday (ITH)	**(9.29)**	(6.69)	(7.77)
Nontaxable share in net earnings of associates and joint ventures	**(5.25)**	(4.37)	(5.30)
Interest income subjected to final tax at lower rates - net	**(0.78)**	(1.28)	(1.10)
Others	**1.94**	(1.80)	1.34
	14.37%	13.98%	15.92%

Deferred income taxes of the companies in the Group that are in deferred income tax assets and liabilities position consist of the following at December 31:

	2017	2016 (As Restated; Note 9)
Net deferred income tax assets:		
Allowances for impairment and probable losses	**₱244,555**	₱237,604
Net income from commissioning	**1,562,631**	1,562,631
Difference between the carrying amount of nonmonetary assets and related tax base	**(1,235,885)**	(1,128,587)
Unrealized foreign exchange loss	**580,384**	920,094
Pension asset (liability):		
Unamortized contributions for past service	**107,417**	107,122
Recognized in other comprehensive income	**194,421**	22,704
Recognized in statements of income	**(144,964)**	553
Unamortized streetlight donations capitalized	**(959)**	–
Unamortized customs duties and taxes capitalized	**(28,323)**	(460)
Net provision for rehabilitation and restoration costs	**120,409**	110,263
Others	**7,110**	(29,354)
Net deferred income tax assets	**₱1,406,796**	₱1,802,570

	2017	2016 (As Restated; Note 9)
Net deferred income tax liabilities:		
Unamortized franchise	**₱817,708**	₱840,796
Fair value adjustments of property, plant and equipment	**150,493**	156,870
Unrealized foreign exchange gains	**26,957**	62,060
Capitalized interest	**8,623**	9,014
Unamortized customs duties and taxes capitalized	**30,915**	61,849
Pension asset (liability):		
Recognized in other comprehensive income	**140,409**	(4,548)
Recognized in statements of income	**(191,948)**	(31,349)
Unamortized past service cost	**(13,330)**	(9,849)
Allowances for impairment and probable losses	**(47,376)**	(55,564)
Others	**(9,850)**	14,717
Net deferred income tax liabilities	**₱912,601**	₱1,043,996

In computing for deferred income tax assets and liabilities, the rates used were 30% and 10%, which are the rates expected to apply to taxable income in the years in which the deferred income tax assets and liabilities are expected to be recovered or settled and considering the tax rate for renewable energy (RE) developers as allowed by the Renewable Energy Act of 2008 (see Note 40j).

No deferred income tax assets were recognized on the Company's NOLCO and MCIT amounting to ₱647.9 million and ₱39.1 million, respectively, as of December 31, 2017 and ₱228.1 million and ₱43.8 million, respectively, as of December 31, 2016, since management expects that it will not generate sufficient taxable income in the future that will be available to allow all of the deferred income tax assets to be utilized.

There are no income tax consequences to the Group attaching to the payment of dividends to its shareholders.

30. Earnings Per Common Share

Earnings per common share amounts were computed as follows:

	2017	2016	2015
a. Net income attributable to equity holders of the parent	**₱20,416,442**	₱20,002,582	₱17,603,797
b. Weighted average number of common shares issued and outstanding	**7,358,604,307**	7,358,604,307	7,358,604,307
Earnings per common share (a/b)	**₱2.77**	₱2.72	₱2.39

There are no dilutive potential common shares for the years ended December 31, 2017, 2016 and 2015.

31. Operating Segment Information

Operating segments are components of the Group that engage in business activities from which they may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's CODM to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information is available.

For purposes of management reporting, the Group's operating businesses are organized and managed separately according to services provided, with each segment representing a strategic business segment. The Group's identified operating segments, which are consistent with the segments reported to the BOD, which is the Group's CODM, are as follows:

- "Power Generation" segment, which is engaged in the generation and supply of power to various customers under power supply contracts, ancillary service procurement agreements and for trading in WESM;
- "Power Distribution" segment, which is engaged in the distribution and sale of electricity to the end-users; and
- "Parent Company and Others", which includes the operations of the Company, retail electricity sales to various off takers that are considered to be eligible contestable customers (see Note 40i) and electricity related services of the Group such as installation of electrical equipment.

The Group has only one geographical segment as all of its assets are located in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. Thus, geographical business information is not required.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenue and segment expenses are consistent with the consolidated statement of income. Interest expense and financing charges, depreciation and amortization expense and income taxes are managed on a per segment basis.

The Group has inter-segment revenues in the form of management fees as well as inter-segment sales of electricity which are eliminated in consolidation. The transfers are accounted for at competitive market prices on an arm's-length transaction basis.

Segment assets do not include deferred income tax assets, pension asset and other noncurrent assets. Segment liabilities do not include deferred income tax liabilities, income tax payable and pension liability. Capital expenditures consist of additions of property, plant and equipment and intangible asset - service concession rights. Adjustments as shown below include items not presented as part of segment assets and liabilities.

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and that the revenue can be reliably measured. Sale of power to Manila Electric Company (MERALCO) accounted for 24%, 36%, and 38% of the power generation revenues of the Group in 2017, 2016, and 2015, respectively.

Financial information on the operations of the various business segments are summarized as follows:

2017

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱57,418,126	₱44,391,734	₱18,440,774	(₱859,331)	₱119,391,303
Inter-segment	20,833,785	–	2,937,047	(23,770,832)	–
Total Revenue	₱78,251,911	44,391,734	₱21,377,821	(₱24,630,163)	₱119,391,303
Segment Results	₱27,493,307	₱5,623,677	₱1,056,745	₱–	₱34,173,729
Unallocated corporate income - net	(2,808,401)	773,943	330,458	–	(1,704,000)
INCOME FROM OPERATIONS	24,684,906	6,397,620	1,387,203	–	32,469,729
Interest expense	(9,225,679)	(293,339)	(1,728,762)	–	(11,247,780)
Interest income	413,527	34,014	479,471	–	927,012
Share in net earnings of associates and joint ventures	4,362,804	323,674	20,540,260	(20,528,874)	4,697,864
Provision for income tax	(1,799,796)	(1,667,979)	(390,623)	–	(3,858,398)
NET INCOME	₱18,435,762	₱4,793,990	₱20,287,549	(₱20,528,874)	₱22,988,427
OTHER INFORMATION					
Investments	₱29,896,526	₱889,166	₱115,650,315	(₱115,212,028)	₱31,223,979
Capital Expenditures	₱13,549,936	₱2,565,221	₱39,052	₱–	₱16,154,209
Segment Assets	₱252,921,514	₱26,977,414	₱151,029,118	(₱69,451,047)	₱361,476,999
Segment Liabilities	₱173,675,992	₱19,266,696	₱52,829,898	(₱8,274,051)	₱237,498,535
Depreciation and Amortization	₱6,532,040	₱ 884,511	₱23,257	₱156,460	₱7,596,268

2016

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱35,692,441	₱44,666,133	₱8,884,996	(₱80,301)	₱89,163,269
Inter-segment	15,776,746	–	2,864,422	(18,641,168)	–
Total Revenue	₱51,469,187	44,666,133	₱11,749,418	(₱18,721,469)	₱89,163,269
Segment Results	₱20,676,138	₱5,069,839	₱564,323	₱–	₱26,310,300
Unallocated corporate income - net	755,235	647,448	266,529	–	1,669,212
INCOME FROM OPERATIONS	21,431,373	5,717,287	830,852	–	27,979,512
Interest expense	(6,861,084)	(215,531)	(627,396)	–	(7,704,011)
Interest income	720,107	23,395	340,033	–	1,083,535
Share in net earnings of associates and joint ventures	3,403,589	157,619	19,831,376	(19,751,374)	3,641,210
Provision for income tax	(1,773,580)	(1,506,918)	(215,642)	–	(3,496,140)
NET INCOME	₱16,920,405	₱4,175,852	₱20,159,223	(₱19,751,374)	₱21,504,106
OTHER INFORMATION					
Investments	₱29,291,667	₱834,689	₱111,280,064	(₱110,842,490)	₱30,563,930
Capital Expenditures	₱25,824,296	₱2,393,246	₱31,624	₱–	₱28,249,166
Segment Assets	₱272,490,917	₱24,741,202	₱118,496,136	(₱58,721,361)	₱357,006,894
Segment Liabilities	₱213,658,178	₱18,772,584	₱12,867,100	(₱500,188)	₱244,797,674
Depreciation and Amortization	₱5,095,592	₱790,751	₱22,118	₱135,066	₱6,043,527

2015

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱33,368,797	₱41,379,270	₱10,425,885	₱–	₱85,173,952
Inter-segment	13,768,682	–	2,716,005	(16,484,687)	–
Total Revenue	₱47,137,479	41,379,270	₱13,141,890	(₱16,484,687)	₱85,173,952
Segment Results	₱18,791,994	₱5,342,572	₱552,011	₱–	₱24,686,577
Unallocated corporate income - net	(1,047,200)	589,638	120,923	–	(336,639)
INCOME FROM OPERATIONS	17,744,794	5,932,210	672,934	–	24,349,938
Interest expense	(5,804,674)	(220,049)	(609,135)	–	(6,633,858)
Interest income	475,506	28,154	342,633	–	846,293
Share in net earnings of associates and joint ventures	3,834,900	146,977	17,768,476	(17,770,406)	3,979,947
Provision for income tax	(1,786,022)	(1,581,894)	(221,753)	–	(3,589,669)
NET INCOME	₱14,464,504	4,305,398	₱17,953,155	(₱17,770,406)	₱18,952,651
OTHER INFORMATION					
Investments	₱21,309,005	₱891,788	₱104,877,388	(₱104,558,394)	₱22,519,787
Capital Expenditures	₱13,314,340	₱2,385,678	₱21,442	₱–	₱15,721,460
Segment Assets	₱204,616,971	₱22,939,942	₱122,536,523	(₱107,604,189)	₱242,489,247
Segment Liabilities	₱112,648,698	₱15,762,496	₱24,646,542	(₱12,182,057)	₱140,875,679
Depreciation and Amortization	₱3,924,624	₱258,505	₱33,757	₱105,114	₱4,322,000

32. Related Party Disclosures

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

The Group enters into transactions with its parent, associates, joint ventures and other related parties, principally consisting of the following:

a. The Company provides services to certain associates and joint ventures such as technical and legal assistance for various projects and other services.

b. Energy fees are billed by the Group to related parties and the Group also purchased power from associates and joint ventures, arising from the following:

   - PPA/PSA or ESA (Note 21)
   - Replacement power contracts (Note 22)

c. AEV provides human resources, internal audit, legal, treasury and corporate finance services, among others, to the Group and shares with the member companies the business expertise of its highly qualified professionals. Transactions are priced based on agreed rates, and billed costs are always benchmarked to third party rates. Service level agreements are in place to ensure quality of service. This arrangement enables the Group to maximize efficiencies and realize cost synergies. These transactions result to professional and technical fees paid by the Group to AEV (see Note 24).

d. Aviation services are rendered by AAI, an associate, to the Group.

e. Lease of commercial office units by the Group from Cebu Praedia Development Corporation (CPDC) and Aboitizland, Inc. and subsidiaries. CPDC and Aboitizland, Inc. are subsidiaries of AEV.

f. Aboitiz Construction, Inc. (ACI), a wholly owned subsidiary of ACO, rendered its services to the Group for various construction projects.

g. Interest-bearing advances from AEV availed by the Group. The annual interest rates are determined on arm's length basis.

h. Cash deposits with Union Bank of the Philippines (UBP) earn interest at prevailing market rates (see Note 5). UBP is an associate of AEV.

i. The Company obtained Standby Letter of Credit (SBLC) and is acting as surety for the benefit of certain associates and joint ventures in connection with loans and credit accommodations. The Company provided SBLC for STEAG, CEDC, and SNAP B in the amount of ₱1.04 billion in 2017, ₱1.15 billion in 2016 and ₱1.49 billion in 2015.

The above transactions are settled in cash.

The consolidated balance sheets and consolidated statements of income include the following significant account balances resulting from the above transactions with related parties:

a. Revenue - Technical, management and other fees

	Revenue			Receivable			
	2017	2016	2015	**2017**	2016	Terms	Conditions
Associates							
CEDC	**₱101,367**	₱103,945	₱110,157	**₱7,978**	₱13,972	30-day; interest-free	Unsecured; no impairment
SFELAPCO	**72,158**	58,119	66,274	**41,266**	21,827	30-day; interest-free	Unsecured; no impairment
GNPD	**40,556**	–	–	**40,556**	–	30-day; interest-free	Unsecured; no Impairment
RPEI	**–**	5,882	–	**–**	–	30-day; interest-free	Unsecured; no Impairment
EAUC	**–**	–	4,790	**–**	–	30-day; interest-free	Unsecured; no Impairment
	₱214,081	₱167,946	₱181,221	**₱89,800**	₱35,799		

b. Revenue - Sale of power

	Revenue 2017	Revenue 2016	Revenue 2015	Receivable 2017	Receivable 2016	Terms	Conditions
AEV and subsidiaries							
Pilmico Foods Corporation	**₱216,330**	₱156,227	₱101,800	**₱22,503**	₱17,010	30-day; interest-free	Unsecured; no Impairment
Aboitizland, Inc. and subsidiaries	**18,060**	11,192	11,299	**12,477**	1,333	30-day; interest-free	Unsecured; no Impairment
Lima Water Corporation	**17,141**	12,944	14,207	**1,667**	1,151	30-day; interest-free	Unsecured; no Impairment
Lima Land, Inc.	**3,031**	2,835	2,978	**405**	63	30-day; interest-free	Unsecured; no Impairment
Cebu Industrial Park Developers, Inc.	**2,650**	–	–	**204**	–	30-day; interest-free	Unsecured; no Impairment
Associates and Joint Ventures							
SFELAPCO	**2,487,557**	2,669,036	2,654,128	**150,888**	196,912	30-day; interest-free	Unsecured; no Impairment
SNAP RES	**14,209**	–	–	–	–	30-day; interest-free	Unsecured; no Impairment
SNAP B	–	18,291	–	–	–	30-day; interest-free	Unsecured; no Impairment
SNAP M	–	13,868	–	–	–	30-day; interest-free	Unsecured; no Impairment
Other related parties							
Tsuneishi Heavy Industries Cebu, Inc. (a joint venture of ACO and Tsuneishi Group)	**406,366**	545,344	589,082	**41,200**	45,266	30-day; interest-free	Unsecured; no impairment
Republic Cement & Building Materials, Inc. (an associate of AEV)	**101,092**	–	–	**20,114**	–	30-day; interest-free	Unsecured; no impairment
Metaphil International, Inc. (a subsidiary of ACO)	**2,410**	10,868	6,722	**261**	429	30-day; interest-free	Unsecured; no impairment
	₱3,268,846	₱3,440,605	₱3,380,216	**₱249,719**	₱262,164		

c. Cost of purchased power

	Purchases 2017	Purchases 2016	Purchases 2015	Payable 2017	Payable 2016	Terms	Conditions
Associates and Joint Ventures							
CEDC	**₱4,540,798**	₱4,552,650	₱4,593,202	**₱383,308**	₱395,904	30-day; interest-free	Unsecured
SPPC	**158,015**	219,272	216,525	–	21,702	30-day; interest-free	Unsecured
SNAP M	**126,731**	–	84,744	**8,252**	–	30-day; interest-free	Unsecured
SFELAPCO	**23,592**	–	–	**5,237**	–	30-day; interest-free	Unsecured
WMPC	–	328,000	–	–	32,900	30-day; interest-free	Unsecured
SNAP B	–	136,500	–	–	–	30-day; interest-free	Unsecured
EAUC	–	–	87,411	–	–	30-day; interest-free	Unsecured
	₱4,849,136	₱5,236,422	₱4,981,882	**₱396,797**	₱450,506		

d. Expenses

	Nature	Purchases/Expenses 2017	2016	2015	Payable 2017	2016	Terms	Conditions
Ultimate Parent								
ACO	Professional and Technical fees	**₱18,296**	₱8,313	₱17,809	**₱2,675**	₱727	30-day; interest-free	Unsecured
AEV and subsidiaries								
AEV	Professional and Technical fees	**766,866**	550,290	451,935	**132,518**	169,170	30-day; interest-free	Unsecured
AAI	Aviation Services	**61,189**	30,009	45,326	**3,319**	2,167	30-day; interest-free	Unsecured
Lima Land, Inc.	Concession fees	**59,151**	49,622	44,861	**4,919**	4,008	30-day; interest-free	Unsecured
Aboitiz Construction, Inc.	Professional and Technical fees	**16,789**	–	–	**9**	–	30-day; interest-free	Unsecured
CPDC	Rental	**34,711**	20,364	17,202	**2**	7,258	30-day; interest-free	Unsecured
CPDC	Professional and Technical fees	**7**	10,426	6,554	**–**	121	30-day; interest-free	Unsecured
Aboitizland, Inc. and subsidiaries	Rental	**1,163**	2,253	1,070	**–**	–	30-day; interest-free	Unsecured
Associate								
EAUC	Professional and Technical fees	**–**	–	3,924	**–**	–	30-day; interest-free	Unsecured
		₱958,172	₱671,277	₱588,681	**₱143,442**	₱183,451		

e. Capitalized construction and rehabilitation costs

	Purchases 2017	2016	2015	Payable 2017	2016	Terms	Conditions
Other related parties							
ACI	**₱727,378**	₱388,172	₱–	**₱1,735**	₱2,583	30-day; interest-free	Unsecured

f. Temporary advances

	Interest Expense 2017	2016	2015	Payable 2017	2016	Terms	Conditions
Parent							
AEV	**₱44,299**	₱16,290	₱–	**₱300,000**	₱2,559,500	Promissory note; interest-bearing	Unsecured

g. Notes receivable

	Interest Income 2017	2016	2015	Receivable 2017	2016	Terms	Conditions
Joint venture							
SACASUN	₱151,040	₱847	₱–	₱–	₱2,882,456	Loan agreement; interest-bearing	Unsecured

h. Cash deposits and placements with UBP

	Interest Income			Outstanding Balance			
	2017	2016	2015	**2017**	2016	Terms	Conditions
Company	**₱54,450**	₱78,251	₱34,910	**₱1,676,753**	₱712,619	90 days or less; interest-bearing	No impairment
TPI and subsidiaries	**57,888**	102,242	29,557	**3,822,627**	2,820,245	90 days or less; interest-bearing	No impairment
ARI and subsidiaries	**47,101**	43,955	26,874	**4,381,506**	3,941,308	90 days or less; interest-bearing	No impairment
AESI	**14,084**	5,615	1,854	**586,981**	251,570	90 days or less; interest-bearing	No impairment
EAUC	**4,629**	2,157	51	**985,878**	197,607	90 days or less; interest-bearing	No impairment
VECO	**3,525**	3,755	1,289	**175,182**	301,062	90 days or less; interest-bearing	No impairment
DLP	**3,505**	4,509	825	**207,506**	229,069	90 days or less; interest-bearing	No impairment
AI	**3,501**	1,202	1,674	**97,068**	82,520	90 days or less; interest-bearing	No impairment
CPPC	**2,396**	3,221	1,073	**166,881**	356,444	90 days or less; interest-bearing	No impairment
LEZ	**2,034**	1,821	948	**155,443**	98,052	90 days or less; interest-bearing	No impairment
SEZ	**1,575**	2,992	228	**11,353**	442,712	90 days or less; interest-bearing	No impairment
CLP	**306**	405	302	**5,337**	2,545	90 days or less; interest-bearing	No impairment
MEZ	**213**	839	212	**2,848**	79,862	90 days or less; interest-bearing	No impairment
BEZ	**174**	679	114	**87,241**	81,372	90 days or less; interest-bearing	No impairment
PEI	**76**	51	51	**4,006**	4,965	90 days or less; interest-bearing	No impairment
	₱195,457	₱251,694	₱99,962	**₱12,366,610**	₱9,601,952		

The Company's Fund is in the form of a trust being maintained and managed by AEV. In 2017 and 2016, other than contributions to the Fund, no transactions occurred between the Company or any of its direct subsidiaries and the Fund.

Compensation of BOD and key management personnel of the Group follows:

	2017	2016	2015
Short-term benefits	**₱461,779**	₱791,708	₱456,844
Post-employment benefits	**28,518**	24,795	30,616
	₱490,297	₱816,503	₱487,460

33. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents and long-term debts. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial instruments such as trade and other receivables, AFS investments, short-term loans, trade and other payables, finance lease obligation, long-term obligation on power distribution system and customers' deposits, which generally arise directly from its operations.

The Group also enters into derivative transactions, particularly foreign currency forwards, to economically hedge its foreign currency risk from foreign currency denominated liabilities and purchases (see Note 34).

Risk Management Structure
The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group.

Financial risk committee
The Financial Risk Committee has the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

Treasury service group
The Treasury Service Group is responsible for the comprehensive monitoring, evaluating and analyzing of the Group's risks in line with the policies and limits.

The main risks arising from the Group's financial instruments are interest rate risk resulting from movements in interest rates that may have an impact on outstanding long-term debt; credit risk involving possible exposure to counter-party default on its cash and cash equivalents, AFS investments and trade and other receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements and borrowings.

Liquidity risk
Liquidity risk is the risk of not meeting obligations as they become due because of the inability to liquidate assets or obtain adequate funding. The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay any dividend declarations.

In managing its long-term financial requirements, the Group's policy is that not more than 25% of long-term borrowings should mature in any twelve-month period. 11.58% and 4.77% of the Group's debt will mature in less than one year as of December 31, 2017 and 2016, respectively. For its short-term funding, the Group's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term debt.

The financial assets that will be principally used to settle the financial liabilities presented in the following table are from cash and cash equivalents and trade and other receivables that have contractual undiscounted cash flows amounting to ₱35.70 billion and ₱17.36 billion, respectively, as of December 31, 2017 and ₱47.09 billion and ₱15.47 billion, respectively, as of December 31, 2016 (see Notes 5 and 6). Cash and cash equivalents can be withdrawn anytime while trade and other receivables are expected to be collected/realized within one year.

The following tables summarize the maturity profile of the Group's financial liabilities as of December 31, 2017 and 2016 based on contractual undiscounted payments:

December 31, 2017

	Total carrying value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Short-term loans	₱4,717,300	₱4,727,469	₱–	₱4,727,469	₱–	₱–
Trade and other payables	15,938,758	15,938,758	1,312,697	14,626,061	–	–
Long-term debts	152,053,500	195,811,675	–	25,546,983	81,201,309	89,063,383
Customers' deposits	6,094,690	6,094,690	–	600	72,304	6,021,786
Finance lease obligation	49,225,254	73,496,465	–	8,813,700	38,927,175	25,755,590
Long-term obligation on power distribution system	226,071	400,000	–	40,000	200,000	160,000
Derivative liabilities	47,577	47,577	–	47,577	–	–
	₱228,303,150	₱296,516,634	₱1,312,697	₱53,802,390	₱120,400,788	₱121,000,759

December 31, 2016

	Total carrying value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Short-term loans	₱4,155,600	₱4,163,726	₱2,559,500	₱1,604,226	₱–	₱–
Trade and other payables	14,076,039	14,076,039	1,532	14,074,507	–	–
Long-term debts	159,372,535	173,620,862	–	10,519,193	72,529,068	90,572,601
Customers' deposits	6,831,242	6,831,242	–	–	11,383	6,819,859
Finance lease obligation	52,340,204	82,133,660	–	8,061,900	36,938,160	37,133,600
Long-term obligation on power distribution system	237,248	440,000	–	40,000	200,000	200,000
Derivative liabilities	360,877	360,877	–	127,442	233,435	–
	₱237,373,745	₱281,626,406	₱2,561,032	₱34,427,268	₱109,912,046	₱134,726,060

Market risk

The risk of loss, immediate or over time, due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Group's overall portfolio (whether on or off-balance sheet) is market risk. These are influenced by foreign and domestic interest rates, foreign exchange rates and gross domestic product growth.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of December 31, 2017, 21% of the Group's long-term debt had annual floating interest rates ranging from 1.88% to 3.00%, and 79% have annual fixed interest rates ranging from 4.00% to 7.38%. As of December 31, 2016, 25% of the Group's long-term debt had annual floating interest rates ranging from 1.88% to 3.00%, and 75% have annual fixed interest rates ranging from 4.11% to 7.65%.

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to cash flow interest rate risk:

As of December 31, 2017

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	**₱15,376,379**	**₱4,836,681**	**₱10,993,807**	**₱31,206,867**

As of December 31, 2016

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	₱1,608,637	₱38,308,317	₱–	₱39,916,954

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk. The Group's derivative assets and liabilities are subject to fair value interest rate risk (see Note 34).

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income before tax (through the impact on floating rate borrowings):

	Increase (decrease) in basis points	Effect on income before tax
December 2017	**200**	**(₱624,137)**
	(100)	**312,069**
December 2016	200	(₱798,339)
	(100)	399,170

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

The interest expense and other finance charges recognized according to source are as follows:

	2017	2016	2015
Finance lease obligation (see Note 35)	**₱4,757,379**	₱4,794,801	₱5,287,369
Short-term loans and long-term debt (see Notes 16 and 17)	**6,458,347**	2,876,652	1,208,555
Customers' deposits (see Note 18)	**3,230**	2,493	4,241
Other long-term obligations (see Notes 13 and 19)	**28,824**	30,065	133,693
	₱11,247,780	₱7,704,011	₱6,633,858

Foreign exchange risk
The foreign exchange risk of the Group pertains significantly to its foreign currency denominated obligations. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency forward contracts aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows. Foreign currency denominated borrowings account for 35% and 40% of total consolidated borrowings as of December 31, 2017 and 2016, respectively.

Presented below are the Group's foreign currency denominated financial assets and liabilities as of December 31, 2017 and 2016, translated to Philippine Peso:

	December 31, 2017		December 31, 2016	
	US Dollar	**Philippine Peso equivalent[1]**	US Dollar	Philippine Peso equivalent[2]
Loans and receivables:				
Cash and cash equivalents	**$106,561**	**₱5,320,591**	$14,990	₱745,303
Trade and other receivables	**34,880**	**1,741,562**	266	13,231
Derivative assets	**-**	**-**	1,098	54,595
Total financial assets	**141,441**	**7,062,153**	16,354	813,129
Other financial liabilities:				
Trade and other payables	**41,457**	**2,069,939**	26,578	1,321,455
Long-term debt	**303,500**	**15,153,755**	623,500	31,000,420
Finance lease obligation	**519,370**	**25,932,144**	555,448	27,616,875
Total financial liabilities	**864,327**	**43,155,838**	1,205,526	59,938,750
Total net financial liabilities	**($722,886)**	**(₱36,093,685)**	($1,189,172)	(₱59,125,621)

[1]US$1 = ₱49.93
[2]US$1 = ₱49.72

The following table demonstrates the sensitivity to a reasonable possible change in the US dollar exchange rates, with all other variables held constant, of the Group's income before tax as of December 31:

	Increase (decrease) in US Dollar	Effect on income before tax
2017		
US Dollar denominated accounts	**US Dollar strengthens by 5%**	**(₱1,804,684)**
US Dollar denominated accounts	**US Dollar weakens by 5%**	**1,804,684**
2016		
US Dollar denominated accounts	US Dollar strengthens by 5%	(₱2,959,011)
US Dollar denominated accounts	US Dollar weakens by 5%	2,959,011

The increase in US Dollar rate represents the depreciation of the Philippine Peso while the decrease in US Dollar rate represents appreciation of the Philippine Peso.

The following table presents LHC's and GMCP's foreign currency denominated assets and liabilities:

	2017		2016	
	Philippine Peso	**US Dollar Equivalent[1]**	Philippine Peso	US Dollar Equivalent[1]
Loans and receivables:				
Cash and cash equivalents	**₱784,566**	**$15,713**	₱1,513,927	$30,449
Trade and other receivables	**383,606**	**7,683**	583,160	11,729
	1,168,172	**23,396**	2,097,087	42,178
Other financial liabilities:				
Trade and other payables	**487,004**	**9,754**	893,586	17,973
Net foreign currency denominated assets	**₱681,168**	**$13,642**	₱1,203,501	$24,205

[1]US$1 = ₱49.93
[2]US$1 = ₱49.72

The following tables demonstrate the sensitivity to a reasonable possible change in the US dollar exchange rate in relation to Philippine peso, with all variables held constant, of the Group's income before tax as of December 31:

2017	Effect on income before tax
U.S. dollar appreciates against Philippine peso by 5.0%	**($682)**
U.S. dollar depreciates against Philippine peso by 5.0%	**682**
2016	
U.S. dollar appreciates against Philippine peso by 5.0%	($1,216)
U.S. dollar depreciates against Philippine peso by 5.0%	1,204

There is no other impact on the Group's equity other than those already affecting the consolidated statements of comprehensive income.

Credit risk

For its cash investments (including restricted portion), AFS investments and receivables, the Group's credit risk pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these investments. With respect to cash investments and AFS investments, the risk is mitigated by the short-term and/or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions and entities of high credit standing. With respect to receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to only enter into transactions with credit-worthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales are made to customers with appropriate credit history and it has internal mechanisms to monitor the granting of credit and management of credit exposures.

Concentration risk
Credit risk concentration of the Group's receivables according to the customer category as of December 31, 2017 and 2016 is summarized in the following table:

	2017	2016
Power distribution:		
Industrial	₱4,573,703	₱3,589,973
Residential	1,083,524	1,324,289
Commercial	1,198,568	545,173
City street lighting	31,680	31,196
Power generation:		
Power supply contracts	7,815,795	6,945,891
Spot market	1,676,552	1,480,162
	₱16,379,822	₱13,916,684

The above receivables were provided with allowance for doubtful accounts amounting to ₱1.77 billion in 2017 and ₱1.76 billion in 2016 (see Note 6).

Maximum exposure to credit risk after collateral and other credit enhancements
The maximum exposure of the Group's financial instruments is equivalent to the carrying values as reflected in the consolidated balance sheets and related notes, except that the credit risk a associated with the receivables from customers is mitigated because some of these receivables have collaterals.

Maximum exposure to credit risk for collateralized loans is shown below:

	2017			2016		
	Carrying Value	Financial Effect of Collateral in Mitigating Credit Risk	Maximum Exposure to Credit Risk	Carrying Value	Financial Effect of Collateral in Mitigating Credit Risk	Maximum Exposure to Credit Risk
Trade receivables:						
Power distribution	₱6,887,475	₱6,887,475	₱–	₱5,490,631	₱5,490,631	₱–

Financial effect of collateral in mitigating credit risk is equivalent to the fair value of the collateral or the carrying value of the loan, whichever is lower.

Credit quality
The credit quality per class of financial assets is as follows:

December 31, 2017

	Neither past due nor impaired			Past due or individually impaired	Total
	High Grade	Standard	Sub-standard		
Cash and cash equivalents:					
Cash on hand and in banks	₱10,219,777	₱–	₱–	₱–	₱10,219,777
Short-term deposits	25,479,854	–	–	–	25,479,854
	35,699,631	–	–	–	35,699,631

(Forward)

	Neither past due nor impaired			Past due or individually	
	High Grade	Standard	Sub-standard	impaired	Total
Trade receivables:					
Power supply contracts	₱6,666,860	₱–	₱–	₱1,148,935	₱7,815,795
Spot market	298,523	–	–	1,378,029	1,676,552
Industrial	3,702,771	41,813	–	829,119	4,573,703
Residential	402,230	–	–	681,294	1,083,524
Commercial	957,258	2,810	–	238,500	1,198,568
City street lighting	5,041	–	–	26,639	31,680
	12,032,683	44,623	–	4,302,516	16,379,822
Other receivables	2,727,027	–	–	27,817	2,754,844
AFS investments	102,999	–	–	–	102,999
Restricted cash	2,642,327	–	–	–	2,642,327
Derivative assets	341,941	–	–	–	341,941
Total	₱53,546,608	₱44,623	₱–	₱4,330,333	₱57,921,564

December 31, 2016

	Neither past due nor impaired			Past due or individually	
	High Grade	Standard	Sub-standard	impaired	Total
Cash and cash equivalents:					
Cash on hand and in banks	₱11,133,591	₱–	₱–	₱–	₱11,133,591
Short-term deposits	35,961,150	–	–	–	35,961,150
	47,094,741	–	–	–	47,094,741
Trade receivables:					
Power supply contracts	4,884,832	–	–	2,061,059	6,945,891
Spot market	215,275	–	–	1,264,887	1,480,162
Industrial	3,214,356	150,694	–	224,923	3,589,973
Residential	735,750	–	–	588,539	1,324,289
Commercial	344,342	4,685	–	196,146	545,173
City street lighting	8,442	–	–	22,754	31,196
	9,402,997	155,379	–	4,358,308	13,916,684
Other receivables	3,134,207	–	–	175,866	3,310,073
AFS investments	100,309	–	–	–	100,309
Notes receivable	2,882,456	–	–	–	2,882,456
Restricted cash	2,100,611	–	–	–	2,100,611
Derivative assets	291,861	–	–	–	291,861
Total	₱65,007,182	₱155,379	₱–	₱4,534,174	₱69,696,735

High grade - pertain to receivables from customers with good favorable credit standing and have no history of default.

Standard grade - pertain to those customers with history of sliding beyond the credit terms but pay a week after being past due.

Sub-standard grade - pertain to those customers with payment habits that normally extend beyond the approved credit terms, and has high probability of being impaired.

Trade and other receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and have defaulted on payments and accounts under dispute and legal proceedings.

The Group evaluated its cash and cash equivalents and restricted cash as high quality financial assets since these are placed in financial institutions of high credit standing.

With respect to other receivables, AFS investment and derivative assets, the Group evaluates the counterparty's external credit rating in establishing credit quality.

The tables below show the Group's aging analysis of financial assets:

December 31, 2017

	Total	Neither past due nor impaired	Past due but not impaired: Less than 30 days	31 days to 60 days	Over 60 days	Individually impaired
Cash and cash equivalents:						
Cash on hand and in banks	₱10,219,777	₱10,219,777	₱–	₱–	₱–	₱–
Short-term deposits	25,479,854	25,479,854	–	–	–	–
	35,699,631	35,699,631	–	–	–	–
Trade receivables:						
Power supply contracts	7,815,795	6,666,860	152,545	68,246	626,667	301,477
Spot market	1,676,552	298,523	538	5,229	113,698	1,258,564
Industrial	4,573,703	3,744,584	349,993	46,434	309,474	123,218
Residential	1,083,524	402,230	383,897	68,367	152,460	76,570
Commercial	1,198,568	960,068	141,852	43,107	45,789	7,752
City street lighting	31,680	5,041	9,634	1,902	7,846	7,257
	16,379,822	12,077,306	1,038,459	233,285	1,255,934	1,774,838
Other receivables	2,754,844	2,727,027	–	10,214	17,603	–
AFS investments	102,999	102,999	–	–	–	–
Restricted cash	2,642,327	2,642,327	–	–	–	–
Derivative assets	341,941	341,941	–	–	–	–
Total	₱57,921,564	₱53,591,231	₱1,038,459	₱243,499	₱1,273,537	₱1,774,838

December 31, 2016

	Total	Neither past due nor impaired	Past due but not impaired: Less than 30 days	31 days to 60 days	Over 60 days	Individually impaired
Cash and cash equivalents:						
Cash on hand and in banks	₱11,133,591	₱11,133,591	₱–	₱–	₱–	₱–
Short-term deposits	35,961,150	35,961,150	–	–	–	–
	47,094,741	47,094,741	–	–	–	–
Trade receivables:						
Power supply contracts	6,945,891	4,884,832	1,163,502	192,832	382,805	321,920
Spot market	1,480,162	215,275	2,541	3,593	33,137	1,225,616
Industrial	3,589,973	3,365,050	64,900	13,190	136,116	10,717
Residential	1,324,289	735,750	174,831	26,930	225,513	161,265
Commercial	545,173	349,027	56,577	12,061	92,805	34,703
City street lighting	31,196	8,442	1,646	355	13,338	7,415
	13,916,684	9,558,376	1,463,997	248,961	883,714	1,761,636
Other receivables	3,310,073	3,134,207	8,875	43,599	123,392	–
AFS investments	100,309	100,309	–	–	–	–
Notes receivable	2,882,456	2,882,456	–	–	–	–
Restricted cash	2,100,611	2,100,611	–	–	–	–
Derivative assets	291,861	291,861	–	–	–	–
Total	₱69,696,735	₱65,162,561	₱1,472,872	₱292,560	₱1,007,106	₱1,761,636

Capital Management

Capital includes equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio at 70% or below. The Group determines net debt as the sum of interest-bearing short-term and long-term loans (comprising long-term debt and finance lease obligation) less cash and short-term deposits (including restricted cash).

Gearing ratios of the Group as of December 31, 2017 and 2016 are as follows:

	2017	2016 (As Restated; Note 9)
Short-term loans	**₱4,717,300**	₱4,155,600
Long-term debt	**201,278,754**	211,712,739
Cash and cash equivalents	**(35,699,631)**	(47,094,741)
Restricted cash	**(2,642,327)**	(2,100,611)
Net debt (a)	**167,654,096**	166,672,987
Equity	**123,978,465**	112,209,220
Equity and net debt (b)	**₱291,632,561**	₱278,882,207
Gearing ratio (a/b)	**57.49%**	59.76%

Part of the Group's capital management is to ensure that it meets financial covenants attached to long-term borrowings. Breaches in meeting the financial covenants would permit the banks to immediately call loans and borrowings. The Group is in compliance with the financial covenants attached to its long-term debt as of December 31, 2017 and 2016 (see Note 17).

Certain entities within the Group that are registered with the BOI are required to raise a minimum amount of capital in order to avail of their registration incentives. As of December 31, 2017 and 2016, these entities have complied with the requirement as applicable (see Note 37).

No changes were made in the objectives, policies or processes during the years ended December 31, 2017 and 2016.

34. Financial Instruments

Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be sold in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with no active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price.

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments whose fair values are different from their carrying amounts.

	2017		2016	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial Liabilities				
Finance lease obligation	**₱49,225,254**	**₱43,462,850**	₱52,340,204	₱49,699,074
Long-term debt - fixed rate	**120,846,633**	**115,027,567**	117,804,710	117,710,942
Long-term obligation on power distribution system	**226,071**	**326,655**	237,248	414,135
	₱170,297,958	**₱158,817,072**	₱170,382,162	₱167,824,151

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade and other receivables, short-term loans and trade and other payables. The carrying amounts of cash and cash equivalents, trade and other receivables, short-term loans and trade and other payables approximate fair value due to the relatively short-term maturity of these financial instruments.

Fixed-rate borrowings. The fair value of fixed rate interest-bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Interest-bearing loans were discounted using credit-adjusted interest rates ranging from 3.10% to 6.17% in 2017 and 2.47% to 7.2% in 2016.

Floating-rate borrowings. Since repricing of the variable-rate interest bearing loan is done on a quarterly basis, the carrying value approximates the fair value.

Finance lease obligation. The fair value of the finance lease obligation was calculated by discounting future cash flows using interest rates of 5.86% to 10.05% in 2017 and 5.83% to 8.43% in 2016 for dollar payments and 1.79% to 5.99% in 2017 and 1.78% to 6.57% in 2016 for peso payments.

Long-term obligation on PDS. The fair value of the long-term obligations on power distribution system is calculated by discounting expected future cash flows at prevailing market rates. Discount rates used in discounting the obligation ranges from 2.70% to 4.66% in 2017 and 3.83% to 4.47% in 2016.

Customers' deposits. The fair value of bill deposits approximates the carrying values as these deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines. The timing and related amounts of future cash flows relating to transformer and lines and poles deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

AFS investments. These are carried at cost less impairment because fair value cannot be determined reliably due to the unpredictable nature of cash flows and lack of suitable methods of arriving at reliable fair value.

Derivative financial instruments. The fair value of forward contracts is calculated by reference to prevailing interest rate differential and spot exchange rate as of valuation date, taking into account its remaining term to maturity. The fair value of the embedded prepayment options is determined using Binomial Option Pricing Model which allows for the specification of points in time until option expiry date. This valuation incorporates inputs such as interest rates and volatility. The fair value of the interest rate swap and interest rate cap are determined by generally accepted valuation techniques with reference to observable market data such as interest rates.

The Group enters into non-deliverable short-term forward contracts with counterparty banks to manage its foreign currency risks associated with foreign currency-denominated liabilities and purchases.

The Group also entered into an interest rate swap agreement to fully hedge its floating rate exposure on its foreign currency-denominated loan and par forward contracts to hedge the floating rate exposure on foreign-currency denominated payments.

Interest rate swaps
In August 2012, LHC entered into an interest rate swap (IRS) agreement effective October 31, 2012 to fully hedge its floating rate exposure on its US Dollar-denominated loan. Under the interest rate swap agreement, LHC, on a semi-annual basis, pays a fixed rate of 1.505% per annum and receives variable interest at 6-month LIBOR plus margin. The interest payments and receipts are based on the outstanding USD notional amount simultaneous with the interest payments on the hedged loan. Similar with the hedged loan, the IRS has amortizing notional amounts which cover a period up to final maturity. LHC designated the swap as a cash flow hedge.

As of December 31, 2017, the outstanding notional amount and derivative asset as a result of the swap amounted to US$22.2 million and ₱15.8 million, respectively. As of December 31, 2016, the outstanding notional amount and derivative asset as a result of the swap amounted to US$27.7 million and ₱15.2 million, respectively.

GMCP (see Note 9), has an IRS agreement to hedge the variability in the interest cash flows on the entire amount of its Onshore - Tranche B loans. Under the swap agreement, GMCP pays a fixed rate of 4.37% and receives 6-month LIBOR rate, semi-annually from January 29, 2010 until March 29, 2021. GMCP designated the swap as a cash flow hedge. On September 29, 2017, the IRS agreement was terminated following the prepayment of the loan (see Note 11). As a result of the termination, the outstanding value of the derivative liability amounting to US$4.5 million was derecognized in cumulative translation adjustments.

On September 29, 2017, GMCP entered into an IRS agreement to hedge the variability in the interest cash flows on the entire amount of its LIBOR Loan (see Note 11), which bears interest based on six-month US LIBOR. Under the swap agreement, GMCP pays a fixed rate of 2.18% and receives six-month US LIBOR rate, semi-annually from March 29, 2018 until September 27, 2024. The interest rate swap settlement dates coincide with the semi-annual interest payment dates of the NFA. GMCP designated the swap as a cash flow hedge.

As of December 31, 2017, the outstanding notional amount and derivative asset as a result of the swap amounted to US$300.0 million and ₱49.9 million, respectively. As of December 31, 2016, the outstanding notional amount and derivative asset as a result of the swap amounted to US$105.1 million and ₱331.0 million, respectively.

Interest rate cap (IRC)
GMCP (see Note 9), has an IRC to hedge the variability in the interest cash flows above a certain maximum interest rate on the outstanding amount of its Onshore - Tranche A loans (see Note 11). The IRC has an outstanding notional amount of US$34.4 million, and a derivative liability amount of ₱19.5 million, as of December 31, 2016. Under the IRC agreement, GMCP will receive an amount based upon the outstanding notional amount and the excess of the 6-month LIBOR over the 2.00% cap rate and pays a fixed interest of 0.69% as a premium for the IRC on each settlement date. If the 6-month LIBOR is below 2.00%, no payment will be received by GMCP. The settlement dates shall be on semi-annual basis from March 29, 2015 until March 29, 2021. GMCP designated the swap as a cash flow hedge. On September 29, 2017, the IRC agreement was terminated following the prepayment of the loan (see Note 11). As a result of the termination, the outstanding value of the derivative asset was derecognized in cumulative translation adjustments.

Foreign currency forward contracts
On November 26, 2015, Hedcor Bukidnon entered into a deliverable forward contract to manage its foreign currency risks associated with its Euro denominated purchases. As of December 31, 2017 and 2016, the outstanding sell U.S. Dollar buy Euro forward contract has an aggregate notional of €2.5 million and €6.4 million, respectively. The maturity of the derivatives begins on December 21, 2015 until April 25, 2018.

On November 26, 2015, Hedcor Bukidnon also entered into a non-deliverable forward contract to manage its exposure to exchange rate fluctuations associated with US dollar denominated purchases. As of December 31, 2017 and 2016, the contract has an aggregate notional amount of US$2.6and US$6.9 million, respectively that will be fully settled in 2018.

Hedcor Bukidnon designated these foreign currency hedging transactions as cash flow hedges.

Par forward contracts
The Company enters into short-term forward contracts with counterparty banks to manage foreign currency risks associated with foreign currency-denominated liabilities and purchases.

As of December 31, 2017, the aggregate notional amount of the par forward contract is US$39.0 million.

In 2015, TVI entered into par forward contracts to hedge the foreign currency risk arising from the forecasted US Dollar denominated payments under the Engineering Procurement Construction (EPC) contract related to the construction of a power plant. As of December 31, 2017 and 2016, the aggregate notional amount of the par forward contracts is US$23.7 million and US$47.6 million, respectively.

In 2014, the Group's Joint Operation entered into par forward contracts to hedge the foreign currency risk arising from the forecasted US Dollar denominated payments under the EPC contract related to the construction of a power plant. The par forward contracts were designated as cash flow hedges. As of December 31, 2017 and 2016, the aggregate notional amount of the par forward contracts is ₱254.3 million and ₱700.0 million, respectively.

The movements in fair value changes of all derivative instruments for the year ended December 31, 2017 and 2016 are as follows:

	2017	2016 (As Restated; Note 9)
At beginning of year	**(₱69,016)**	₱563,366
Additions due to business combination (see Note 9)	**–**	(350,574)
Net changes in fair value of derivatives designated as cash flow hedges	**105,483**	36,859
Net changes in fair value of derivatives not designated as accounting hedges	**5,339**	(127,039)
Derecognition recognized in cumulative translation adjustments	**240,960**	–
Fair value of settled instruments	**11,598**	(191,628)
At end of year	**₱294,364**	(₱69,016)

The net gains and losses from the net fair value changes of derivatives not designated as accounting hedges are included under "Net foreign exchange gain (losses)" in Note 28.

The changes in the fair value of derivatives designated as cash flow hedges were deferred in equity under "Cumulative translation adjustments."

The net movement of changes to Cumulative translation adjustment is as follows:

	2017	2016
Balance at beginning of year (net of tax)	**(₱176,936)**	₱147,337
Changes in fair value recorded in equity	**75,935**	62,586
	(101,001)	209,923
Additions due to business combination (see Note 9)	**–**	(257,500)
Derecognition	**147,881**	–
Transfers to construction in progress	**(57,959)**	(178,646)
Changes in fair value transferred to profit or loss	**127,328**	10,191
Balance at end of year before deferred tax effect	**116,249**	(216,032)
Deferred tax effect	**23,630**	39,096
Balance at end of year (net of tax)	**₱139,879**	(₱176,936)

Fair Value Hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2017 and 2016, the Group held the following financial instruments that are measured and carried or disclosed at fair value:

December 31, 2017

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative assets	**₱341,941**	**₱–**	**₱341,941**	**₱–**
Derivative liabilities	**47,577**	**–**	**47,577**	**–**
Disclosed at fair value:				
Finance lease obligation	**43,462,850**	**–**	**–**	**43,462,850**
Long-term debt - fixed rate	**115,027,567**	**–**	**–**	**115,027,567**
Long-term obligation on PDS	**326,655**	**–**	**–**	**326,655**

December 31, 2016

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative assets	₱291,861	₱–	₱291,861	₱–
Derivative liabilities	360,877	–	360,877	–
Disclosed at fair value:				
Finance lease obligation	49,699,074	–	–	49,699,074
Long-term debt - fixed rate	117,710,942	–	–	117,710,942
Long-term obligation on PDS	414,135	–	–	414,135

During the years ended December 31, 2017 and 2016, there were no transfers between level 1 and level 2 fair value measurements and transfers into and out of level 3 fair value measurement.

35. Lease Agreements

TLI

TLI was appointed by PSALM as Administrator under the IPP Administration Agreement, giving TLI the right to receive, manage and control the capacity of the power plant for its own account and at its own cost and risk; and the right to receive the transfer of the power plant at the end of the IPP Administration Agreement for no consideration.

In view of the nature of the IPP Administration Agreement, the arrangement has been considered as a finance lease. Accordingly, TLI recognized the capitalized asset and related liability of ₱44.79 billion (equivalent to the present value of the minimum lease payments using TLI's incremental borrowing rates of 10% and 12% for dollar and peso payments, respectively) in the consolidated financial statements as "Power plant" and "Finance lease obligation" accounts, respectively. The discount determined at inception of the IPP Administration Agreement is amortized over the period of the IPP Administration Agreement and is recognized as interest expense in the consolidated statements of income. Interest expense in 2017, 2016 and 2015 amounted to ₱4.76 billion, ₱4.80 billion, and ₱5.29 billion, respectively (see Note 33).

Future minimum monthly dollar and peso payments under the IPP Administration Agreement and their present values as of December 31, 2017 and 2016 are as follows:

	Dollar payments	Peso equivalent of dollar payments[1]	Peso payments	2017 Total
Within one year	$90,000	₱4,493,700	₱4,320,000	₱8,813,700
After one year but not more than five years	397,500	19,847,175	19,080,000	38,927,175
More than five years	263,000	13,131,590	12,624,000	25,755,590
Total contractual payments	750,500	37,472,465	36,024,000	73,496,465
Unamortized discount	231,130	11,540,344	12,730,867	24,271,211
Present value	519,370	25,932,121	23,293,133	49,225,254
Less current portion				3,316,165
Noncurrent portion of finance lease obligation				₱45,909,089

	Dollar payments	Peso equivalent of dollar payments[1]	Peso payments	2016 Total
Within one year	$82,500	₱4,101,900	₱3,960,000	₱8,061,900
After one year but not more than five years	378,000	18,794,160	18,144,000	36,938,160
More than five years	380,000	18,893,600	18,240,000	37,133,600
Total contractual payments	840,500	41,789,660	40,344,000	82,133,660
Unamortized discount	285,051	14,172,757	15,620,699	29,793,456
Present value	555,449	27,616,903	24,723,301	52,340,204
Less current portion				2,968,491
Noncurrent portion of finance lease obligation				₱49,371,713

[1]US$1 = ₱49.93 in 2017; ₱49.72 in 2016

APRI

On May 25, 2009, APRI entered into a lease agreement with PSALM for a parcel of land owned by the latter on which a portion of the assets purchased under the APA is situated. The lease term is for a period of 25 years commencing from the Closing Date as defined in the APA which falls on May 25, 2009. The rental fees for the whole term of 25 years amounting to ₱492.0 million were paid in full after the receipt by APRI of the Certificate of Effectivity on the lease (see Notes 8 and 15). Total lease charged to operations amounted to ₱19.7 million in 2017, 2016 and 2015 (see Note 25).

GMCP

In August 2007, a 25-year lease agreement with Authority of the Freeport Area of Bataan for land at Bataan Economic Zone, used as an access road and right of way for electric power transmission lines.

In January 2010, a 50-year land lease agreement with PMR Group Retirement Plan, Inc. (PGRPI), used for its power plant facilities. GMCP, upon mutual agreement of PGRPI, has the right and option to extend the lease for a period of twenty-five years. In August 2016, GMCP entered into another lease agreement with PGRPI for land to be used for staff house.

HI, HTI and HSI

HI, HTI and HSI entered into contracts with various lot owners for lease of land where their power plants are located. Terms of contract are for a period of 1 to 50 years renewable upon mutual agreement by the parties.

Sacasun

Sacasun entered into a contract for lease of land where the power plant is located. The contract pertains to rent for 25 years renewable upon mutual agreement by the parties. Prepaid rent amounts to ₱50.8 million and ₱10.0 million as of December 31, 2017 and 2016, respectively (see Note 8).

Therma Mobile

On April 26, 2014, a 10-year lease for portions of the breakwater area of the Navotas Fishport Complex (NFPC), including the mooring facility, marine and land transmission lines.

EAUC
Lease agreement with PEZA for a piece of land located inside Mactan Economic Zone for its power plant facilities.

Future minimum lease payments under the non-cancellable operating leases of GMCP, Sacasun, HI, HTI, HSI, Therma Mobile and EAUC are as follows (amounts in millions):

	2017	2016
Not later than 1 year	**₱252.3**	₱166.9
Later than 1 year but not later than 5 years	**736.7**	503.6
Later than 5 years	**5,619.7**	4,036.5

Total lease charged to operations related to these contracts amounted to ₱163.7 million in 2017, ₱38.5 million in 2016, and ₱33.1 million in 2015 (see Note 25).

36. Agreements

Pagbilao IPP Administration Agreement

TLI and PSALM executed the IPP Administration Agreement wherein PSALM appointed TLI to manage the 700MW contracted capacity (the "Capacity") of NPC in the coal-fired power plant in Pagbilao, Quezon.

The IPP Administration Agreement includes the following obligations TLI would have to perform until the transfer date of the power plant (or the earlier termination of the IPP Administration Agreement):

a. Supply and deliver all fuel for the power plant in accordance with the specifications of the original Energy Conservation Agreement (ECA); and
b. Pay to PSALM the monthly payments (based on the bid) and energy fees (equivalent to the amount paid by NPC to the IPP).

TLI has the following rights, among others, under the IPP Administration Agreement:

a. The right to receive, manage and control the Capacity of the power plant for its own account and at its own cost and risk;
b. The right to trade, sell or otherwise deal with the Capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and its own risk and cost. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
c. The right to receive the transfer of the power plant at the end of the IPP Administration Agreement (which is technically the end of the ECA) for no consideration; and
d. The right to receive an assignment of NPC's interest to existing short-term bilateral Power Supply Contract from the effective date of the IPP Administration Agreement the last of which were scheduled to end in November 2011.

In view of the nature of the IPP Administration Agreement, the arrangement has been accounted for as a finance lease (see Note 35).

Agreements with Contractors and Suppliers

a. APRI total steam supply cost reported as part of "Cost of generated power" amounted to ₱4.98 billion in 2017, ₱4.11 billion in 2016, and ₱3.96 billion in 2015 (see Note 23).

   On May 26, 2013, APRI's steam supply contract with Chevron Geothermal Philippines Holdings, Inc. (CGPHI) shifted to a GRSC. The change is due to an existing provision under the government's existing contract with CGPHI when the Tiwi-Makban facilities were bidded out under the former's privatization program. Under the GRSC, the effective steam price of APRI payable to PGPC will be a premium to coal.

   To ensure that APRI will continue to remain competitive in the market, a two-month interim agreement supplementing the GRSC was implemented on August 14, 2013 and extended until June 28, 2018.

b. Construction of civil and electromechanical works, procurement and installation of solar panels and project management related to the construction of the San Carlos Solar Plant. Total purchase commitments entered into by Sacasun from its contracts amounted to ₱526.7 million as of December 31, 2017.

c. TLI enters into short-term coal supply agreements. Outstanding coal supply agreements as of December 31, 2017 have aggregate supply amounts of 2,240,000 MT (equivalent dollar value is estimated to be at $190 million), which are due for delivery from January 2017 to December 2018. Terms of payment are by letter of credit where payment is due at sight against presentation of documents, and by telegraphic transfer where payment is due within 7 days from receipt of original invoice.

d. GMCP has a current Coal Supply Agreement (CSA) with PT Arutmin Indonesia (Seller) for the delivery of coal, which is effective until November 2, 2019. In addition a supply backstop deed was included in the coal supply agreement wherein PT Kaltim Prima Coal (Obligor) irrevocably and unconditionally undertakes for the benefit of GMCP the due and punctual performance of the Seller each and all of their obligations, duties and undertakings pursuant to the CSA, when and such obligations, duties and undertakings shall become due and performable according to the terms of the CSA; provided that the undertaking of the Obligor hereunder shall be limited to 1,000,000 tonnes of substitute coal per delivery year.

e. PEC enters into Engineering, Procurement and Construction (EPC) contracts with suppliers relating to the construction of the 400MW coal fired power plant. Total EPC contract price for the complete performance of these contracts amount to US$398.0 million and ₱7.00 billion. As of December 31, 2017 and 2016, the joint operation has a retention payable amounting to ₱400.0 million and ₱334.4 million, respectively, which is presented as "Other noncurrent liability" in the balance sheets.

37. Registration with the Board of Investments (BOI)

Certain power generation subsidiaries in the Group have been registered with the BOI. The following are the incentives granted by the BOI:

a. ITH for a period of four (4) to seven (7) years, as follows:

Subsidiary	BOI Approval Date	Start of ITH Period	ITH Period
Hedcor Sibulan[3]	December 27, 2005	March 1, 2010	7 years
APRI[2]	June 19, 2009	June 1, 2009	7 years
GMCP	January 29, 2010	July 1, 2013	6 years
TSI	July 15, 2011	February 1, 2016[1]	4 years
TVI	August 28, 2012	January 1, 2017[1]	4 years
Hedcor Tudaya	January 31, 2013	August 1, 2014[1]	7 years
Hedcor, Inc.[5]	February 20, 2013	February 1, 2013	7 years
Hedcor Sibulan[4]	April 23, 2013	September 1, 2014[1]	7 years
Hedcor Sabangan	October 23, 2013	February 1, 2015[1]	7 years
Hedcor Bukidnon	January 7, 2015	Start of commercial operations	7 years
SACASUN	October 26, 2015	Start of commercial operations	7 years

[1] Or actual start of commercial operations, whichever is earlier.
[2] Expired ITH: APRI - June 2016
[3] For Sibulan hydroelectric plants with 1 year extension.
[4] For Tudaya-1 hydroelectric plant.
[5] For Irisan-1 hydroelectric plant.

The ITH shall be limited only to sales/revenue generated from the sales of electricity of the power plant and revenues generated from the sales of carbon emission reduction credits.

b. For the first five (5) years from date of registration, the registrant shall be allowed an additional deduction from taxable income of fifty percent (50) of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by BOI of US$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH.

c. Employment of foreign nationals may be allowed in supervisory, technical or advisory positions for five (5) years from date of registration.

d. Importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond.

e. Special realty tax rates on equipment and machinery and tax credit on domestic capital equipment and services

f. For APRI, it may qualify to import capital requirement, spare parts and accessories at zero (0%) duty rate from the date of registration to June 16, 2011 pursuant to Executive Order No. 528 and its Implementing Rules and Regulations.

As a requirement for availment of the incentives, the registrant is required to maintain a minimum equity requirement.

As of December 31, 2017 and 2016, the power generation subsidiaries referred to above, which are currently availing the incentives, have complied with the requirements.

38. Notes to Consolidated Statement of Cash Flows

The following are the cash flow movements of the Group's financing liabilities in 2017

			Non-cash Changes					
	January 1, 2017	Net cash flows	Amortized deferred financing costs	Foreign exchange movement	Changes in fair values	Accreted interest	Others	December 31, 2017
Current interest-bearing loans and borrowings, excluding obligations under finance leases	₱11,613,963	(₱7,015,311)	₱38,913	₱79,735	₱–	₱–	₱20,692,751	₱25,410,051
Current obligations under finance leases	2,968,491	(7,877,292)	–	–	–	–	8,224,966	3,316,165
Non-current interest-bearing loans and borrowings, excluding obligations under finance leases	151,914,172	566,963	457,403	729,963	(6,776)	–	(22,300,976)	131,360,749
Non-current obligations under finance leases	49,371,713	–	–	97,139	–	4,665,203	(8,224,966)	45,909,089
Dividends payable	–	(10,007,702)	–	–	–	–	10,007,702	–
Derivatives	360,877	–	–	–	(313,300)	–	–	47,577
Total liabilities from financing activities	**₱216,229,216**	**(₱24,333,342)**	**₱496,316**	**₱906,837**	**(₱320,076)**	**₱4,665,203**	**₱8,399,477**	**₱206,043,631**

Others includes the effect of reclassification of noncurrent portion of interest-bearing loans and borrowings

39. Contingencies

The Group is a party to certain proceedings and legal cases with other parties in the normal course of business. The ultimate outcome of these proceedings and legal cases cannot be presently determined. Management, in consultation with its legal counsels, believes that it has substantial legal and factual bases for its positions and is currently of the opinion that the likely outcome of these proceedings and legal cases will not have a material adverse effect on the Group's financial position and operating results. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these proceedings and legal cases.

The Company obtained SBLC and is acting as surety for the benefit of certain associates and joint ventures in connection with loans and credit accommodations. The Company provided SBLC for STEAG, CEDC, SNAP M and SNAP B in the amount of ₱1.04 billion in 2017, ₱1.15 billion in 2016 and ₱1.49 billion in 2015 (see Note 32).

40. Other Matters

a. Temporary Restraining Order (TRO) affecting power generation companies trading in WESM

On December 19, 2013, Bayan Muna representatives filed a Petition for Certiorari against the ERC and MERALCO with the Supreme Court (SC). On December 20, 2013, National Association of Electricity Consumers for Reforms filed a Petition for Certiorari and/or Prohibition against MERALCO, ERC and Department of Energy (DOE). These cases raised and questioned, among others, the alleged substantial increase in MERALCO's power rates for the billing period of November 2013, the failure of the ERC to protect consumers from high energy prices and perceived market collusion of the generation companies.

These cases were consolidated by the SC which issued a TRO for a period of 60 days from December 23, 2013 to February 21, 2014, preventing MERALCO from collecting the increase in power rates for the billing period of November 2013. The TRO was subsequently extended for another 60 days ending April 22, 2014 by the SC. Thereafter, the TRO was extended indefinitely.

MERALCO, in turn, filed a counter-petition impleading generation companies supplying power to the WESM. The SC also ordered all the parties in the consolidated cases to file their respective pleadings in response to MERALCO's counter-petition. The SC set the consolidated cases for oral arguments last January 21, 2014, February 4 and 11, 2014. After hearing, all parties were directed to file their comments and/or memorandum. The case is now submitted for resolution.

As a result of the TRO, MERALCO has not been able to fully bill its consumers for the generation costs for the supply month of November 2013; and in turn, it has not been able to fully pay its suppliers of generation costs. As of this December 31, 2017, the SC has not lifted the TRO.

b. Imposition of financial penalties on Therma Mobile by PEMC

This case involves an investigation of Therma Mobile in the dispatch of its power barges during the November and December 2013 supply periods. As a result of the MERALCO price hike case brought before the SC, the SC ordered the ERC to investigate anti-competitive behavior and abuse of market power allegedly committed by some WESM participants.

PEMC conducted the investigation under the "Must-Offer" rules of the WESM Rules.

PEMC initially found that Therma Mobile violated the "Must-Offer Rule" during the period under investigation. In its letter dated January 30, 2015, the PEM Board imposed financial penalties amounting to ₱234.9 million on Therma Mobile. According to the PEM Board, the penalties will be collected from Therma Mobile through the WESM settlement process.

Therma Mobile maintains that there is no basis for the PEMC decision. It did not violate the Must-Offer Rule for the period covered, as it was physically impossible for Therma Mobile to transmit more than 100MW to MERALCO. Although Therma Mobile's rated capacity is 234 MW (Net), it could only safely, reliably and consistently deliver 100MW during the November and December 2013 supply period because of transmission constraints. Therma Mobile's engines and transmission lines were still undergoing major repairs to address issues on post rehabilitation.

On February 13, 2015, Therma Mobile filed a notice of dispute with the PEMC to refer the matter to dispute resolution under the WEM Rules and the WESM Dispute Resolution Market Manual.

Therma Mobile also filed a Petition for the Issuance of Interim Measures of Protection with the Regional Trial Court (RTC) of Pasig to hold off enforcement of the payment of the penalties during the pendency of the Therma Mobile and PEMC dispute resolution proceedings. On February 24, 2015, the RTC issued in favor of Therma Mobile an ex parte 20-day Temporary Order of Protection directing PEMC to refrain from (a) demanding and collecting from Therma Mobile the ₱234.9 million financial penalty; (b) charging and accruing interest on the financial penalty; and (c) transmitting the PEMC-ECO investigation report to the ERC.

On April 1, 2015, the RTC granted the prayer for the issuance of Writ of Preliminary Injunction, which ruling was assailed by the PEMC and elevated to the Court of Appeals (CA) via Petition for Review. On December 15, 2015, the CA issued a Decision confirming the RTC's findings. PEMC filed a Motion for Reconsideration, and in compliance with a Resolution of the CA, has filed a comment on the said motion.

On June 6, 2016, PEMC filed a petition before the SC questioning the CA's Decision. TMO also filed its Comment on the Petition on November 14, 2016. On June 1, 2017, TMO received the SC Notice dated March 29, 2017. In the Resolution, the SC noted TMO's Comment and PEMC's Reply.

c. Therma Marine Case

In 2013, ERC issued Final Approval of various ESAs of Therma Marine with some modifications on ERC's provisionally approved rates which directed both parties to devise a scheme for the refund of the difference between the final and the provisionally approved rates.

On November 25, 2013, ERC issued its order for Therma Marine to refund the amount of ₱180.0 million to its customers for a period of 6 months with equal installments per month.

On August 27, 2014, ERC issued an order directing NGCP to refund its customers the amount of ₱12.7 million and the corresponding VAT for a period of twelve months. As such, Therma Marine will refund the said amount to NGCP and the latter will refund the same to its customers.

In 2015, ERC issued Provisional Approvals (PA) on ESA contracts extensions with capacity fees lower than the previously approved rates. Therma Marine filed MRs on these PAs. During the last quarter of 2015, ERC issued Final Approvals on some of these ESA's sustaining the decision in the PA's, thus Therma Marine filed MRs on the final decisions. As of December 31, 2017, there is no resolution yet on the MRs on the Final Approvals.

d. ERC Case No. 2013-077 MC

On August 29, 2013, MERALCO filed a petition for dispute resolution against TLI/APRI, among other Successor Generating Companies ("SGCs") under ERC Case No. 2013-077 MC. The case arose from a claim of refund of the alleged over charging of transmission line losses pursuant to the ERC Order dated March 4, 2013 and July 1, 2013 in ERC Case No. 2008-083 MC.

On September 20, 2013, TLI, together with the other SGCs, filed a Joint Motion to Dismiss arguing that MERALCO's petition should be dismissed for failure to state a cause of action and ERC's lack of jurisdiction over the subject matter of the case. The Joint Motion to Dismiss has since then been submitted for resolution with the ERC. To date, the ERC has yet to render its decision on the Joint Motion to Dismiss.

e. Sergio Osmena III vs. PSALM, Emmanuel R. Ledesma, Jr., SPC Power Corporation (SPC) & Therma Power Visayas, Inc. (TPVI)

In 2009, SPC acquired through a negotiated bid the 153.1MW Naga Land-Based Gas Turbine Power Plant ("Naga Plant") in Naga, Cebu. In the same year, it entered into a Land Lease Agreement (LLA) with PSALM, which includes SPC's right to top (RTT) the price of a winning bidder for the sale of any property in the vicinity of the leased premises.

PSALM subsequently bid out the Naga Plant located in the leased premises. On April 30, 2014 and after two failed biddings, PSALM issued a Notice of Award to TPVI for submitting the highest bid for the Naga Plant. SPC wrote PSALM of its intent to exercise its RTT the winning bid, on the condition that the LLA would be for a term of 25 years from closing date.

Senator Sergio Osmeña III filed with the Supreme Court (SC) a Petition for Certiorari and Prohibition with prayer for issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction dated June 16, 2014 (the "Case") with PSALM, Emmanuel R. Ledesma, SPC and TPVI as respondents to enjoin PSALM from making the award of the Naga Plant to SPC. In his petition, Sen. Osmeña argued that the RTT should be held invalid as it defeats the purpose of a fair and transparent bidding for a government asset and it discourages interested bidders considering the unfair advantage given to SPC.

On July 25, 2014, PSALM awarded the contract to SPC, despite TPVI's objection on the ground that SPC did not validly exercise its right to top because of its qualified offer. Thereafter, an Asset Purchase Agreement (APA) for the Naga Plant was executed between PSALM and SPC.

On September 28, 2015, the SC declared in the Case that the RTT and the APA executed in favor of SPC are null and void. The parties thereafter filed various motions for reconsideration which the SC subsequently denied.

On March 16, 2016, TPVI filed its Manifestation/Motion praying that the Notice of Award dated April 30, 2014 be reinstated and that respondent PSALM be ordered to execute the Asset Purchase Agreement ("NPPC-APA"), Land Lease Agreement ("NPPC-LLA") and other documents to implement TPVI's acquisition of the Naga Plant.

On April 6, 2016, the SC issued a Resolution that required PSALM and SPC to comment on TPVI's Manifestation/Motion. In the same Resolution, the SC denied the motion for leave to file and admit SPC's second motion for reconsideration and referral to the SC en banc.

On July 19, 2016, TPVI filed its Manifestation with Omnibus Motion to clarify the motion dated March 16, 2016 and for early resolution. TPVI prayed that the SC Decision dated September 28, 2015 be clarified, and if necessary, be amended to include in its "fallo" that the Notice of Award in favor of TPVI be reinstated.

In response to various motions, the SC issued a Notice of Judgment and Resolution dated October 5, 2016 clarifying that the nullification of SPC's right to top did not invalidate the entire bidding process. Thus, the SC ordered the reinstatement of the Notice of Award dated April 30, 2014 in favor of TPVI. Further, the SC annulled and set aside the APA and the LLA executed between SPC and PSALM and directed PSALM to execute with dispatch the NPPC-APA and the NPPC-LLA in favor of TPVI.

On October 26, 2016, SPC filed an Urgent Motion for Reconsideration with Alternative Motion to Refer to the En Banc of the SC. SPC reiterated its prayer for the reversal of the October 5, 2016 Resolution, denial of TPVI's Manifestation/Motion and for the conduct of a new round of bidding for the Naga Plant. PSALM also filed its Motion for Reconsideration with Leave and prayed that the SC's October 5, 2016 Resolution be re-examined and/or reconsidered.

In its Resolution dated November 28, 2016, the SC denied SPC's and PSALM's motions for reconsideration (of the October 5, 2016 Resolution) with finality. The SC ordered that no further pleadings, motions, letters, or other communications shall be entertained in the Case, and it ordered the issuance of Entry of Judgment.

Notwithstanding the above SC Resolution, SPC filed its Motion for Leave to File and Admit (Motion for Reconsideration dated 9 December 2016) with attached Motion for Reconsideration dated December 9, 2016. Thereafter, SPC filed its Supplemental Motion/Petition for Referral to the Banc dated January 16, 2017.

On February 14, 2017, TPVI received a copy of the Entry of Judgment which states that the October 5, 2016 Resolution of the SC has become final and executory on November 28, 2016.

f. DLP Case

On December 7, 1990, certain customers of DLP filed before the then Energy Regulatory Board (ERB) a letter-petition for recovery claiming that with the SC's decision reducing the sound appraisal value of DLP's properties, DLP exceeded the 12% Return on Rate Base (RORB). The ERB's order dated June 4, 1998, limited the computation coverage of the refund from January 19, 1984 to December 14, 1984. No amount was indicated in the ERB order as this has yet to be recomputed.

The CA, in Court of Appeals General Register Special Proceeding (CA-GR SP) No. 50771, promulgated a decision dated February 23, 2001 which reversed the order of the then ERB, and expanded the computation coverage period from January 19, 1984 to September 18, 1989.

The SC in its decision dated November 30, 2006 per GR150253 reversed the CA's decision CA-GR SP No. 50771 by limiting the period covered for the refund from January 19, 1984 to December 14, 1984, approximately 11 months. The respondent/customers filed a Motion for Reconsideration with the SC, which was denied with finality by the SC in its Order dated July 4, 2007.

The SC, following its decision dated November 30, 2006, ordered the ERC to proceed with the refund proceedings instituted by the respondents with reasonable dispatch.

On March 17, 2010, the ERC directed DLP to submit its proposed scheme in implementing the refund to its customers. In compliance with the order, the DLP filed its compliance stating that DLP cannot propose a scheme for implementing a refund as its computation resulted to no refund.

A clarificatory meeting was held where DLP was ordered to submit its memoranda.

On October 4, 2010, in compliance with the ERC directive, DLP submitted its memoranda reiterating that no refund can be made. After which, no resolution has been received by DLP from the ERC as of December 31, 2017.

g. LHC Franchise Tax Assessment

In 2007, the Provincial Treasurer of Benguet issued a franchise tax assessment against LHC, requiring LHC to pay franchise tax amounting to approximately ₱40.4 million, inclusive of surcharges and penalties covering the years 2002 to 2007. In 2008, LHC has filed for a petition for the annulment of the franchise tax assessment, based primarily on the fact that LHC is not liable for franchise tax because it does not have a franchise to operate the business. Section 6 of R.A. No. 9136 provides that power generation shall not be considered a public utility operation. As such, an entity engaged or which shall engage in power generation and supply of electricity shall not be required to secure a national franchise. Accordingly, no provision has been made in the consolidated financial statements. The case remains pending as of December 31, 2017.

h. EPIRA of 2001

R.A. No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. The law provides for the privatization of NPC and the restructuring of the electric power industry. The IRR were approved by the Joint Congressional Power Commission on February 27, 2002.

R.A. No. 9136 and the IRR impact the industry as a whole. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

R.A. No. 9136, the EPIRA, and the covering IRR provides for significant changes in the power sector, which include among others:

i. The unbundling of the generation, transmission, distribution and supply and other disposable assets of a company, including its contracts with IPPs and electricity rates;
ii. Creation of a WESM; and
iii. Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effectivity date of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

i. Open Access and Retail Competition

Per EPIRA, the conditions for the commencement of the Open Access and Retail Competition are as follows:

(a) Establishment of the WESM;
(b) Approval of unbundled transmission and distribution wheeling charges;
(c) Initial implementation of the cross subsidy removal scheme;
(d) Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
(e) Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP administrators.

Under the Open Access and Retail Competition, an eligible contestable customer, which is defined as an end-user with a monthly average peak demand of at least 1 MW for the preceding 12 months, will have the option to source their electricity from eligible suppliers that have secured a Retail Electricity Supplier (RES) license from the ERC.

In June 2011, ERC declared December 26, 2011 as the Open Access Date to mark the commencement of the full operations of the competitive retail electricity market in Luzon and Visayas. However, after careful deliberation, the ERC acknowledged that not all the necessary rules, systems and infrastructures required for the implementation of the Open Access and Retail Competition have been put in place to meet the contemplated timetable for implementation. In October 2011, the ERC announced the deferment of the Open Access Date. In September 2012, the ERC declared the start of Open Access on December 26, 2012. Open Access commercial operations under an interim development system have been implemented starting June 26, 2013.

The implementation of Open Access enabled the Group to increase its contracted capacity through the delivery of power to affiliate and non-affiliate RES companies. The Group has two wholly owned subsidiaries that are licensed RES. Open Access allowed the Group's RES subsidiaries to enter into contracts with the eligible contestable customers.

On December 19, 2013, the ERC issued Resolution 22 Series of 2013, which amended the rules for the issuance of licenses to retail electricity suppliers. Items amended include the following:

- Restriction for Generator, IPPA and DU affiliates in securing license as a RES company;
- Transfer of live Retail Supply Contracts (RSCs) for RES with expired license to another licensed RES;
- Determination of full retail competition to be made by ERC not later than June 25, 2015;
- Contracted capacities of RES affiliates to be included in the grid limitations imposed on Generation Companies;
- End-user affiliate RES limited to supplying up to 50% of its total contestable customer affiliates;
- RES companies are limited to procuring up to 50% of its generation requirements from affiliate Generation Companies;
- Annual submission of 5-year Business Plan; and
- Submission of live RSCs for review by the ERC.

Due to the restrictions placed to qualify for a RES license under Resolution 22, the Retail Electricity Suppliers Association (RESA) has filed a TRO and injunction with the Pasig RTC. Hearings are being conducted to challenge the legality and constitutionality of the resolution. Currently, ERC is working on revising certain provisions of Resolution 22.

j. Renewable Energy Act of 2008

On January 30, 2009, R.A. No. 9513, An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective. The Act aims to (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, renewable energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the BOI, shall be entitled to incentives, such as, income tax holiday, duty-free importation of RE machinery, equipment and materials, zero percent VAT rate on sale of power from RE sources, and tax exemption of carbon credits, among others.

k. CSR Projects
The Group has several CSR projects in 2017, 2016 and 2015 which are presented as part of "General and administrative expenses" (see Note 24).

l. RA No. 10963

RA No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the balance sheet date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the balance sheet date.

SGV
Building a better
working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and Stockholders
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Aboitiz Power Corporation and Subsidiaries included in this Form 17-A and have issued our report thereon dated March 8, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, as amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-3 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 164-533-282
BIR Accreditation No. 08-001998-71-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621311, January 9, 2018, Makati City

March 8, 2018

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
APR 0 6 2018
OPGA SECTION INITIAL

Aboitiz Power Corporation and Subsidiaries

Supplementary Schedules
to the Financial Statements
Required by the Securities and Exchange Commission
For the Year Ended December 31, 2017

and

Independent Auditors' Report

Philippine
Pesos

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

Supplementary Schedules Required
By the Securities and Exchange Commission
As of and for the Year Ended December 31, 2017

NA: NOT APPLICABLE

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

AS OF DECEMBER 31, 2017
(Amounts in Thousands except number of shares)

Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Income received and accrued
CASH IN BANK			
ANZ		P25	P-
Banco de Oro		2,914,768	68,904
Bank of Commerce		817	4
Bank of the Philippine Islands		899,879	9,497
Bank of Tokyo - Mitsubishi UFJ		10,275	-
Citibank		9,488	-
Development Bank of the Philippines		171	3
Eastwest Banking Corporation		-	36
ING Bank N.V.		364,836	7,576
Land Bank of the Philippines		7,289	11
Metropolitan Bank and Trust Company		209,052	1,117
One Network Bank		5,446	-
Philippine National Bank		70,138	63
Rizal Commercial Banking Corporation		14,284	134
Security Bank Corporation		176,503	3,087
Standard Chartered Bank		221,548	4,717
Union Bank of the Philippines		5,120,961	37,084
Cash on Hand, Cash in Vault and Revolving Fund		194,297	32
TOTAL		**P10,219,777**	**P132,265**
MONEY MARKET PLACEMENT			
Banco de Oro		P975,415	P3,506
Bank of the Philippine Islands		1,338,530	97,871
China Trust Banking Corporation		1,073,576	516
City Savings Bank		7,052,018	265,285
Deutsche Bank		-	768
First Metro Investment Corporation		44,000	165,235
Metropolitan Bank and Trust Company		2,596,430	56,676
Mizuho Corporate Bank, Ltd.		653,978	15,490
Philippine National Bank		6,660	59
Rizal Commercial Banking Corporation		9,160	100
Security Bank Corporation		4,326,370	6,598
Standard Chartered Bank		147,856	4,840
Union Bank of the Philippines		7,245,649	158,374
United Coconut Planters Bank		10,212	-
TOTAL		**P25,479,854**	**P775,318**
TRADE AND OTHER RECEIVABLES			
Trade Receivables (net of allowance):			
Residential		P1,006,954	P-
Commercial		1,190,816	-
Industrial		4,450,485	-
City street Lighting		24,423	-
Spot market		417,988	-
Power supply contracts		7,514,318	-
Dividends Receivable		792,000	-
Advances to contractors		105,690	-
Accrued Revenues		614,363	-
Non-trade Receivables		453,885	-
Interest receivable		29,534	-
Other Receivables		759,372	-
TOTAL		**P17,359,828**	**P-**
AFS INVESTMENTS			
Apo Golf & Country Club	3	P2	P-
Banco De Oro	8,050	793	-
Philippine Long Distance Telephone Co.	36,463	458	-
PICOP Resources, Inc.	164	8	-
Alta Vista Golf & Country Club	1	2,265	-
UBP - Trust fund	1,000,000	99,375	-
Philex Mining Corp	2,168	5	-
Others	938	93	-
TOTAL		**P102,999**	**P-**

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017
(Amounts in Thousands)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Non-Current	Ending Balance
			Amounts Collected	Amounts Written-Off			
Davao Light & Power Co., Inc.	P511,267	P6,972,308	(P6,795,446)	P-	P688,129	P-	P688,129
Therma Power, Inc. and Subsidiaries	64,345	273,530	(286,919)	-	50,956	-	50,956
Cotabato Light & Power Company	3,987	266,880	(240,907)	-	29,960	-	29,960
Aboitiz Renewables, Inc. and Subsidiaries	135	24,035	(14,204)	-	9,966	-	9,966
Subic Enerzone Corporation	208,184	615,714	(630,566)	-	193,332	-	193,332
Visayan Electric Co., Inc.	325,959	3,550,353	(3,292,091)		584,221	-	584,221
Aboitiz Energy Solutions, Inc.	501,817	6,156,879	(5,980,045)	-	678,651	-	678,651
Mactan Enerzone Corporation	781	3,986	(4,558)	-	209	-	209
Balamban Enerzone Corporation	10,998	4,513	(15,302)	-	209	-	209
Cebu Private Power Corporation	18,019	20,813	(20,509)	-	18,323	-	18,323
Lima Enerzone Corporation	78,868	436,298	(487,715)	-	27,451	-	27,451
East Asia Utilities Corporation	-	2,321	(2,126)	-	195	-	195
Prism Energy, Inc.	-	176,610	(151,286)	-	25,324	-	25,324
Adventenergy, Inc.	307,872	6,125,923	(5,812,632)	-	621,163	-	621,163
TOTAL	**P2,032,232**	**P24,630,163**	**(P23,734,306)**	**P-**	**P2,928,089**	**P-**	**P2,928,089**

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS

AS OF DECEMBER 31, 2017
(Amount in Thousands)

Description	Beginning Balance	Additions At Cost	DEDUCTIONS Charged to Costs and Expenses	DEDUCTIONS Charged to Other Accounts	Other Changes Additions (Deductions)	Ending Balance
A. Intangibles						
Goodwill	P40,270,344	P-		P-	P-	P40,270,344
Service concession rights	3,222,123	85,257	(351,542)	-	16,119	2,971,957
Project development costs	273,725	69,592	(79,881)	-		263,436
Franchise	2,802,654	-	(76,961)	-	-	2,725,693
Customer contracts	31,464	-	(11,441)	-	-	20,023
Software and licenses	117,747	17,839	(42,522)	-	141	93,205
Total	P46,718,057	P172,688	(P562,347)	P-	P16,260	P46,344,658
B. Other Noncurrent Assets						
Restricted cash	P-	P-	P-	P-	P-	P-
Prepaid rent	523,224	-	-	-	10,231	533,455
Prepaid taxes			-	-	306,948	306,948
Input vat and tax credit	6,740,958		-	-	(1,158)	6,739,800
Notes Receivable	2,739,632				(2,739,632)	-
Advances to contractors and projects	447,676	-	-	-	1,688,231	2,135,907
Receivable from NGCP	146,714	-	-	-	(146,714)	-
Refundable deposits	241,597	-	-	-	136,446	378,043
Investment properties	3,300	-	-	-	-	3,300
Others	172,182	-	-	-	(52,280)	119,902
Total	P11,015,283	P-	P-	P-	(P797,928)	P10,217,355
Total	**P57,733,340**	**P172,688**	**(P562,347)**	**P-**	**(P781,668)**	**P56,562,013**

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE E - LONG-TERM DEBT

AS OF DECEMBER 31, 2017
(Amounts in Thousands)

Name of Issuer and Type of Obligation	Amount Authorized by Indentures	Amount Shown as Current	Amount Shown as Long-Term	Remarks
Parent:				
Aboitiz Power Corporation	P12,901,982	P-	P12,901,982	
Subsidiaries:				
Hedcor, Inc.	537,468	89,258	448,210	
Subic Enerzone Corporation	226,000	56,500	169,500	
Luzon Hydro Corporation	1,102,602	273,200	829,402	
Davao Light & Power Co., Inc.	882,000	150,750	731,250	
Cotabato Light & Power Company	176,400	30,150	146,250	
Therma South, Inc.	22,456,980	1,281,262	21,175,718	
Pagbilao Energy Corp. (Joint Operation)	13,781,091	440,995	13,340,096	
Visayan Electric Co., Inc.	1,173,170	200,125	973,045	
GNPower Mariveles Coal Plant Ltd. Co.	30,421,764	1,869,922	28,551,842	
Therma Visayas, Inc.	29,532,592	-	29,532,592	
Therma Power, Inc.	14,893,383	14,893,383	-	
AP Renewables, Inc.	10,410,513	1,212,708	9,197,805	
Hedcor Sibulan, Inc.	4,053,196	194,498	3,858,698	
Hedcor Bukidnon, Inc.	9,204,359	-	9,204,359	
Total	**P151,753,500**	**P20,692,751**	**P131,060,749**	

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE F - INDEBTEDNESS TO AFFILIATES
(LONG-TERM LOANS FROM AFFILIATED COMPANIES)

AS OF DECEMBER 31, 2017
(Amounts in Thousands)

Name of Affiliate	Beginning Balance	Ending Balance
Aboitiz Equity Ventures, Inc.	P-	P300,000
	-	-
	-	-
Total	**P-**	**P300,000**

ABOITIZ POWER CORPORATION

SCHEDULE H - CAPITAL STOCK

AS OF DECEMBER 31, 2017
(Amounts in Thousands)

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
COMMON SHARES	16,000,000	7,358,604	-	5,811,935	161,109	1,385,560
PREFERRED SHARES	1,000,000	-	-	-	-	-

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE I - TRADE AND OTHER RECEIVABLES FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017
(Amounts in Thousands)

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Davao Light & Power Co., Inc.	P613,053	P75,076	P688,129	P6,972,308	P-	P-	30 days
Therma Power, Inc. and Subsidiaries	1,007	49,949	50,956	273,530	-	-	30 days
Cotabato Light & Power Company	22,215	7,745	29,960	266,880	-	-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	-	9,966	9,966	24,035	-	-	30 days
Subic Enerzone Corporation	191,965	1,367	193,332	615,714	-	-	30 days
Visayan Electric Co., Inc.	517,097	67,124	584,221	3,550,353	-	-	30 days
Aboitiz Energy Solutions, Inc.	678,651	-	678,651	6,156,879	-	-	30 days
Mactan Enerzone Corporation	-	209	209	3,986	-	-	30 days
Balamban Enerzone Corporation	-	209	209	4,513	-	-	30 days
Cebu Private Power Corporation	-	18,323	18,323	20,813	-	-	30 days
Lima Enerzone Corporation	27,359	92	27,451	436,298	-	-	30 days
East Asia Utilities Corporation	-	195	195	2,321			30 days
Prism Energy, Inc.	25,114	210	25,324	176,610			30 days
Adventenergy, Inc.	621,163	-	621,163	6,125,923	-	-	30 days
TOTAL	**P2,697,624**	**P230,465**	**P2,928,089**	**P24,630,163**	**P-**	**P-**	

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE J - TRADE AND OTHER PAYABLES FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS

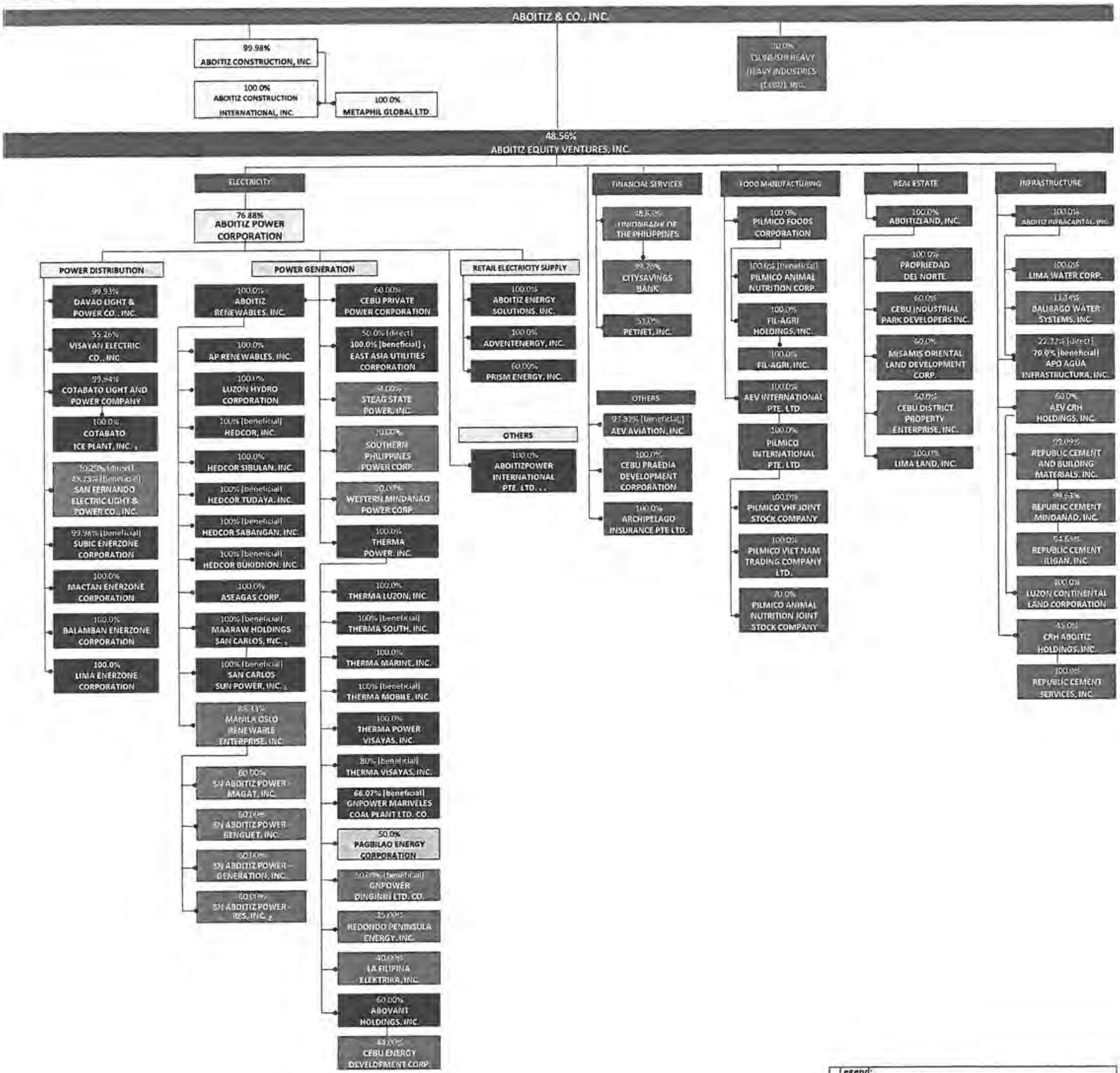
AS OF DECEMBER 31, 2017
(Amounts in Thousands)

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Parent Company	P-	P230,465	P230,465	P1,032,093	P-	P-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	711,329	-	711,329	7,277,213	-	-	30 days
Cebu Private Power Corporation	134,878	-	134,878	1,376,786	-	-	30 days
Therma Power, Inc. and Subsidiaries	1,354,086	-	1,354,086	11,819,890	-	-	30 days
Aboitiz Energy Solutions, Inc.	382,220	-	382,220	1,904,952	-	-	30 days
East Asia Utilities Corporation	23,691	-	23,691	359,898	-	-	30 days
Subic Enerzone Corporation	21,847	-	21,847	215,705	-	-	30 days
Balamban Enerzone Corporation	12,284	-	12,284	127,182	-	-	30 days
Mactan Enerzone Corporation	6,271	-	6,271	60,575	-	-	30 days
Lima Enerzone Corporation	31,347	-	31,347	316,499	-	-	30 days
Visayan Electric Co., Inc.	19,671	-	19,671	139,370	-	-	30 days
TOTAL	P2,697,624	P230,465	P2,928,089	P24,630,163	P-	P-	

Aboitiz Power Corporation
Reconciliation of Retained Earnings Available for Dividend Declaration
For the Year Ended December 31, 2017
(Amount in Philippine Currency)

Unappropriated Retained Earnings, *beginning*		P23,687,643,006
Less:		
Appropriation for the year 2017		-
		23,687,643,006
Net income based on face of audited financial statements	P9,212,913,447	
Less: Non-actual/unrealized income (net of tax)	-	
Add: Non-actual loss (net of tax)	-	
Net income actual/realized for the period		9,212,913,447
Less:		
Dividend declaration during the period		(10,007,701,858)
UNAPPROPRIATED RETAINED EARNINGS, AS ADJUSTED, ENDING		**P22,892,854,595**

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAPPING
As of December 31, 2017



1 Other services
2 Retail electricity supply
3 Therma Power, Inc. has a 50% ownership in East Asia Utilities Corporation
4 AP has a 26.69% direct ownership in AEV Aviation, Inc.
5 Aboitiz Renewables, Inc. (ARI) has a 60% direct ownership in Maaraw Holdings San Carlos, Inc. (MHSC); AboitizPower International (API) has a 40% indirect ownership in MHSC
6 ARI has a 35% direct ownership (50% indirect ownership) in San Carlos Sun Power, Inc. (Sacasun); API has a 50% indirect ownership in Sacasun.

Legend:
- Ultimate Parent Company
- Subsidiary of Ultimate Parent
- Parent Company
- Reporting Company
- Co-Subsidiary
- Subsidiary
- Joint Operation
- Associates and Joint Ventures
- Other Related Parties

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
SCHEDULE OF RELEVANT FINANCIAL RATIOS

	FORMULA	2017	2016
LIQUIDITY RATIOS			
Current ratio	Current assets / Current liabilities	**1.38**	2.25
Acid test ratio	Cash + Marketable securities + Accounts receivable + Other liquid assets / Current liabilities	**1.08**	1.91
SOLVENCY RATIOS			
Debt to equity ratio	Total liabilities / Total equity	**1.92**	2.18
Asset to equity ratio	Total assets / Total equity	**2.92**	3.18
Net debt to equity ratio	Debt - Cash & cash equivalents / Total equity	**1.35**	1.49
Gearing ratio	Debt - Cash & cash equivalents / Total equity + (Debt - Cash & cash equivalents)	**57.49%**	59.76%
Interest coverage ratio	EBIT / Interest expense	**3.60**	4.78
PROFITABILITY RATIOS			
Operating margin	Operating profit / Total revenues	**29%**	30%
Return on equity	Net income after tax / Total equity adjusted for cash dividends	**21%**	23%

Aboitiz Power Corporation and Subsidiaries

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2017

Standards and Interpretations		Remarks
Philippine Financial Reporting Standards (PFRS)		
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	Adopted
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	Not Applicable
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time	Not Applicable
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time	Not Applicable
	Amendments to PFRS 1: Government Loans	Not Applicable
PFRS 2	Share-based Payment	Not Applicable
	Amendments to PFRS 2: Vesting Conditions and Cancellations	Not Applicable
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	Not Applicable
	Amendments to PFRS 2: Definition of Vesting Condition	Not Applicable
PFRS 3 (Revised)	Business Combinations	Adopted
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination	Adopted
	Amendments to PFRS 3: Scope Exceptions for Joint Ventures	Adopted
PFRS 4	Insurance Contracts	Not Applicable
	Amendments to PFRS 4: Financial Guarantee Contracts	Adopted
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Adopted
	Amendment to PFRS 5: Changes in Methods of Disposal	Adopted
PFRS 6	Exploration for and Evaluation of Mineral Resources	Not Applicable
PFRS 7	Financial Instruments: Disclosures	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	Adopted
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	Adopted
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	Adopted
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	Adopted
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	See footnote1
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9	See footnote1
	Amendments to PFRS 7: Servicing Contracts	Adopted
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	Adopted
PFRS 8	Operating Segments	Adopted
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	Adopted
PFRS 9	Financial Instruments: Classification and Measurement of Financial Assets	Not Early Adopted
	Financial Instruments: Classification and Measurement of Financial Liabilities	Not Early Adopted
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	See footnote1
	PFRS 9, Financial Instruments (Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39)	See footnote1
	PFRS 9, Financial Instruments (2014)	See footnote1
	Amendments to PFRS 9: Prepayment Features with Negative Compensation	See footnote1
PFRS 10	Consolidated Financial Statements	Adopted
	Amendments to PFRS 10: Transition Guidance	Adopted
	Amendments to PFRS 10: Investment Entities	Adopted
	Amendments to PFRS 10: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	See footnote[1]
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception	Not Applicable
PFRS 11	Joint Arrangements	Adopted
	Amendments to PFRS 11: Transition Guidance	Adopted
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	Adopted
PFRS 12	Disclosure of Interests in Other Entities	Adopted
	Amendments to PFRS 12: Transition Guidance	Adopted
	Amendments to PFRS 12: Investment Entities	Adopted
	Amendment to PFRS 12, Clarification of the Scope of the Standard	Adopted
PFRS 13	Fair Value Measurement	Adopted
	Amendments to PFRS 13: Short-term Receivables and Payables	Adopted
	Amendments to PFRS 13: Portfolio Exception	Adopted
PFRS 14	Regulatory Deferral Accounts	Not Applicable
PFRS 15	Revenue from Contracts with Customers	See footnote1
PFRS 16	Leases	See footnote1

Aboitiz Power Corporation and Subsidiaries

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2017

Standards and Interpretations		Remarks
Philippine Accounting Standards (PAS)		
PAS 1 (Revised)	Presentation of Financial Statements	Adopted
	Amendment to PAS 1: Capital Disclosures	Adopted
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	Adopted
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	Adopted
	Amendment to PAS 1: Disclosure Initiative	Adopted
PAS 2	Inventories	Adopted
PAS 7	Statement of Cash Flows	Adopted
	Amendment to PAS 7: Disclosure Initiative	Adopted
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	Adopted
PAS 10	Events after the Reporting Period	Adopted
PAS 11	Construction Contracts	Not Applicable
PAS 12	Income Taxes	Adopted
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	Adopted
	Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses	Adopted
PAS 16	Property, Plant and Equipment	Adopted
	Amendments to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Amortization	Adopted
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	Adopted
	Amendments to PAS 16: Bearer Plants	Not Applicable
PAS 17	Leases	Adopted
PAS 18	Revenue	Adopted
PAS 19 (Revised)	Employee Benefits	Adopted
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	Adopted
	Amendment to PAS 19: Discount Rate: Regional Market Issue	Adopted
PAS 20	Accounting for Government Grants and Disclosure of	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	Adopted
	Amendment: Net Investment in a Foreign Operation	Adopted
PAS 23 (Revised)	Borrowing Costs	Adopted
PAS 24 (Revised)	Related Party Disclosures	Adopted
	Amendments to PAS 24: Key Management Personnel Services	Adopted
PAS 26	Accounting and Reporting by Retirement Benefit Plans	Adopted
PAS 27 (Amended)	Separate Financial Statements	Adopted
	Amendments to PAS 27 (Amended): Investment Entities	Adopted
	Amendments to PAS 27: Equity Method in Separate Financial Statements	Adopted
PAS 28 (Amended)	Investments in Associates and Joint Ventures	Adopted
	Amendments to PAS 28, Investment Entities: Applying the Consolidation Exception	See footnote1
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value	See footnote1
	Amendments to PAS 28: Long-term interests in Associates and Joint Ventures	See footnote1
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	See footnote1
PAS 29	Financial Reporting in Hyperinflationary Economies	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	Adopted
	Financial Instruments: Presentation	Adopted
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	Adopted
	Amendment to PAS 32: Classification of Rights Issues	Adopted
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	Adopted
PAS 33	Earnings per Share	Adopted
PAS 34	Interim Financial Reporting	Adopted
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	Adopted
PAS 36	Impairment of Assets	Adopted
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	Adopted
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	Adopted
PAS 38	Intangible Assets	Adopted
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization	Adopted
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	See footnote[1]
PAS 39	Financial Instruments: Recognition and Measurement	Adopted
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial	Adopted

Aboitiz Power Corporation and Subsidiaries

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2017

Standards and Interpretations		Remarks
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	Adopted
	Amendments to PAS 39: The Fair Value Option	Adopted
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	Adopted
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	Adopted
	Amendment to PAS 39: Eligible Hedged Items	Adopted
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	Adopted
PAS 40	Investment Property	Adopted
	Amendments to PAS 40: Clarifying the Interrelationship Between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property	Adopted
	Amendments to PAS 40: Investment Property, Transfers of Investment Property	See footnote1
PAS 41	Agriculture	Not Applicable
	Amendments to PAS 41: Bearer Plants	Not Applicable

Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Adopted
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	Not Applicable
IFRIC 4	Determining Whether an Arrangement Contains a Lease	Adopted
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Not Applicable
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	Not Applicable
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies	Not Applicable
IFRIC 8	Scope of PFRS 2	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives	Adopted
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	Adopted
IFRIC 10	Interim Financial Reporting and Impairment	Adopted
IFRIC 11	Scope of PFRS 2	Not Applicable
IFRIC 12	Service Concession Arrangements	Adopted
IFRIC 13	Customer Loyalty Programmes	Not Applicable
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Adopted
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding	Adopted
IFRIC 15	Agreements for the Construction of Real Estate	Not Applicable
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	Not Applicable
IFRIC 17	Distributions of Non-cash Assets to Owners	Adopted
IFRIC 18	Transfers of Assets from Customers	Adopted
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Adopted
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Not Applicable
IFRIC 21	Levies	Adopted
IFRIC 22	Foreign Currency Transactions and Advance Consideration	See footnote1
IFRIC 23	Uncertainty over Income Tax Treatments	See footnote1

Philippine Interpretations - Standing Interpretations Committee (SIC)

SIC 7	Introduction of the Euro	Not Applicable
SIC 10	Government Assistance - No Specific Relation to Operating	Not Applicable
SIC 12	Consolidation - Special Purpose Entities	Adopted
	Amendment to SIC - 12: Scope of SIC 12	Adopted
SIC 13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	Adopted
SIC 15	Operating Leases - Incentives	Adopted
SIC 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	Adopted
SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	Adopted
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	Adopted
SIC 29	Service Concession Arrangements: Disclosures	Adopted
SIC 31	Revenue - Barter Transactions Involving Advertising Services	Not Applicable
SIC 32	Intangible Assets - Web Site Costs	Adopted

[1] Effective subsequent to December 31, 2017