SECURITIES AND EXCHANGE COMMISSION

SEC FORM 12-1, *AS AMENDED*

REGISTRATION STATEMENT UNDER THE SECURITIES REGULATION CODE

1. SEC Identification Number: **C199800134**

2. **ABOITIZ POWER CORPORATION**
   Exact name of registrant as specified in its charter

3. **PHILIPPINES**
   Province, country or other jurisdiction of incorporation or organization

4. **200-652-460-000**
   BIR Tax Identification Number

5. **HOLDING COMPANY (GENERATION, COLLECTION AND DISTRIBUTION OF ELECTRICITY)**
   General character of business of registrant.

6. Industry Classification Code: (SEC Use Only)

7. **32ND STREET, BONIFACIO GLOBAL CITY, TAGUIG CITY, METRO MANILA, 1634 PHILIPPINES**
   TEL No. (02) 886-2800
   Address, including postal code, telephone number, FAX number including area code, of registrant's principal offices

8. **N/A**
   If registrant is not resident in the Philippines, or its principal business is outside the Philippines, state name and address including postal code, telephone number and FAX number, including area code, and email address of resident agent in the Philippines.

9. Fiscal Year Ending Date (Month and Day): **DECEMBER 31**

Computation of Registration Fee

Title of each class of securities to be registered	**Amount to be registered**	**Proposed Maximum offering price per unit**	**Proposed maximum aggregate offering price**	**Amount of registration fee**
FIXED-RATE RETAIL BONDS	PhP30,000,000,000.00	Face Value	PhP30,000,000,000.00	PhP8,062,500.00
Due on the First Tranche				PhP806,250.00
Legal Research Fee of 1%				PhP80,625.00
Total Registration Fee				PhP8,143,125.00

Pursuant to Rule 8.1.2.2 of the 2015 Implementing Rules and Regulations of the Securities Regulation Code ("SRC IRR"), PhP886,875.00 (equivalent to pro-rata share of the first tranche of PhP3,000,000,000.00 to the total amount to be registered, PhP30,000,000,000.00 plus the amount for Legal Research Fee indicated above) will be paid on the date of filing of this Registration Statement and the remaining portion of PhP7,256,250.00 (pro-rata share of the amount of PhP27,000,000,000.00 to be lodged under shelf registration to the total amount to be registered, PhP30,000,000,000.00) will be paid in accordance with Rule 8.1.2.2.2 of the SRC IRR.

SIGNATURES

Pursuant to the requirements of the Code, this registration statement is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in **Taguig City** on **August 4, 2017**.

By:

(SGD.)

ERRAMON I. ABOITIZ
Chief Executive Officer

(SGD.)

ANTONIO R. MORAZA
President and Chief Operating Officer

(SGD.)

LIZA LUV T. MONTELIBANO
Senior Vice President/ Chief Financial Officer/ Corporate Information Officer

(SGD.)

M. JASMINE S. OPORTO
Corporate Secretary and
Chief Compliance Officer

(SGD.)

GABRIEL T. MANALAC
Senior Vice President – Group Treasurer

(SGD.)

CRISTINA B. BELORIA
Vice President - Controller

SUBSCRIBED AND SWORN to before me this **August 4, 2017** in **Taguig City**, Philippines, affiants exhibiting to me the following as competent evidence of their identities:

NAME	COMPETENT IDENTIFICATION	DATE/PLACE ISSUED
ERRAMON I. ABOITIZ	Passport no.: EB7151577 CTC no.: 26533114	January 14, 2013; DFA Cebu January 24, 2017; Cebu City
ANTONIO R. MORAZA	Passport no.: EB7019932 CTC no.: 33935911	December 27, 2012; Cebu City January 23, 2017; Cebu City
LIZA LUV T. MONTELIBANO	Passport no.: EC1111684 CTC no.: 25044302	May 16, 2014; DFA NCR South January 26, 2017; Makati City
M. JASMINE S. OPORTO	Passport no.: EB7264010 CTC no.: 15142988	February 1, 2013; Manila February 24, 2017; Taguig City
GABRIEL T. MANALAC	Passport no.: EB7107403 CTC no.: 03514900	January 9, 2013; Manila January 6, 2017; Manila
CRISTINA B. BELORIA	Passport no.: EB9946110 CTC no.: 26536245	January 8, 2014; DFA Cebu February 24, 2017; Taguig City

Doc. No. 107;
Page No. 23;
Book No. I;
Series of 2017.

ATTY. THERESE XYZA D. GEMELO-ABARCA
ROLL NO. 59262
NOTARY PUBLIC
TAGUIG CITY, PHILS.

(SGD.)
Therese Xyza D. Gemelo-Abarca
Notary Public of Taguig City
Notarial Commission No.49
Until December 31, 2019
NAC Tower, 32nd St. Bonifacio Global City, Taguig City;
PTR No.A-3162197, Taguig City, January 04, 2017
IBP No. 1063742; Pasig City; January 12, 2017
Roll No.59262
MCLE Compliance No. V- 0015202

Shelf Registration of
PhP30,000,000,000
Debt Securities Program

to be Offered in One or Several Tranches
within a period of three (3) years

First Tranche:
PhP3,000,000,000
[•] % p.a. Fixed Rate Bonds Due 2023
Offer Price: 100% of Face Value

Issue Manager and Underwriter for the First Tranche:

BPI Capital Corporation

The date of this Preliminary Prospectus is 19 April 2017.

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, BUT HAS NOT YET BECOME EFFECTIVE. THESE SECURITIES MAY NOT BE SOLD NOR OFFERS TO BUY THEM BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT IS RENDERED EFFECTIVE. THIS COMMUNICATION SHALL NOT CONSTITUTE AN OFFER TO SELL OR BE CONSIDERED A SOLICITATION TO BUY.

Preliminary Prospectus

(A corporation duly organized and existing under Philippine laws)

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

This Preliminary Prospectus relates to the shelf-registration and continuous offer of Aboitiz Power Corporation ("AboitizPower", the "Issuer", or the "Company") through a sale in the Philippines of Fixed Rate Bonds in the aggregate principal amount of Php30,000,000,000 (the "Bonds").

For the first tranche of the Bonds to be issued out of the shelf-registration, AboitizPower is offering Fixed Rate Bonds in the aggregate principal amount of Php3,000,000,000 on the Issue Date, which shall have a term ending [six (6)] years from the Issue Date, or on [• 2023], with a fixed interest rate of [•] per annum and an optional redemption every Interest Payment Date beginning on the [ninth Interest Payment Date until the eleventh Interest Payment], in each case, the immediately succeeding Banking Day if such date is not a Banking Day. Interest on the Series A Bonds shall be payable quarterly in arrears on [•],[•],[•], and [•] of each year while the Series A Bonds are outstanding, or the subsequent Banking Day without adjustment if such Interest Payment Date is not a Banking Day (the "Series A Bonds"). The last Interest Payment Date shall fall on the relevant Maturity Date while the Series A Bonds are outstanding (see "Description of the Offer" – *"Interest"* in the accompanying Offer Supplement).

The Series A Bonds shall be repaid at maturity at par (or 100% of face value) on the Maturity Date, unless the Company exercises its early redemption option according to the conditions therefore (see "Description of the Offer" – *"Redemption and Purchase"* in the accompanying Offer Supplement).

Upon issuance, the Series A Bonds shall when issued shall constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of the Issuer and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by the Issuer pursuant to [Section 5.01 (a)] of the Trust Agreement or as may be allowed by the Trust Agreement, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of Issue Date. The Series A Bonds shall effectively be subordinated in right of payment to, among others, all of AboitizPower's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines (see "Description of the Offer" – *"Ranking"* in the accompanying Offer Supplement).

The Series A Bonds have been rated [•] by PhilRatings on [•]. The rating is [•]. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

The Series A Bonds are offered to the public at face value through the Underwriter named below with the Philippine Depository & Trust Corp. (PDTC) as the Registrar of the Series A Bonds. The Series A Bonds shall be issued in minimum denominations of Php50,000 each, and in integral multiples of Php10,000 thereafter. The Series A Bonds shall be traded in denominations of Php10,000 in the secondary market.

AboitizPower intends to cause the listing of the Series A Bonds on a securities exchange licensed with the SEC and has initiated discussions with the Philippine Dealing & Exchange Corporation (PDEx) for this purpose. However, there can be no assurance that such a listing will actually be achieved either before or after the Issue

Date or whether such a listing will materially affect the liquidity of the Series A Bonds on the secondary market. Such listing would be subject to the Company's execution of a listing agreement with PDEx that may require the Company to make certain disclosures, undertakings and payments on an ongoing basis.

AboitizPower expects to raise gross proceeds of Php3,000,000,000. The net proceeds from the issue is estimated to be PhP2,970,865,625 after fees, commissions, and expenses. Proceeds of the Offer shall be used to finance equity infusions into GNPower Dinginin Ltd. Co. (GNPD), which are discussed further in the section entitled *"Use of Proceeds"* on page 41 of this Preliminary Prospectus. The Underwriter shall receive a fee of 0.30% on the final aggregate nominal principal amount of the Series A Bonds issued, which is inclusive of underwriting fees and selling commissions.

On 19 April 2017, AboitizPower filed a Registration Statement with the Securities and Exchange Commission (SEC), in connection with the offer and sale to the public of debt securities with an aggregate principal amount of Thirty Billion Pesos (Php30,000,000,000), under shelf registration, inclusive of the Offer. The SEC is expected to issue an order rendering the Registration Statement effective, and a corresponding permit to offer securities for sale covering the offer.

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

AboitizPower confirms that this Preliminary Prospectus contains all material information relating to the Company, its affiliates and subsidiaries, as well as all material information on the issue and offering of and the Series A Bonds as may be required by the applicable laws of the Republic of the Philippines. No facts have been omitted that would make any statement in this Preliminary Prospectus misleading in any material respect. AboitizPower confirms that it has made all reasonable inquiries with respect to any information, data and analysis provided to it by its advisors and consultants or which is otherwise publicly available for inclusion into this Preliminary Prospectus. AboitizPower, however, has not independently verified any or all such publicly available information, data or analysis.

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

In deciding whether to invest in the Series A Bonds, a prospective purchaser of the Series A Bonds ("Prospective Bondholder") should, therefore, carefully consider all the information contained in this Preliminary Prospectus, including but not limited to, several factors inherent to the Company, which includes significant competition, exposure to risks relating to the performance of the economies of other countries, and other risks relating to customer default (detailed in *"Risk Factors and Other Considerations"* section on page 35 of this Preliminary Prospectus), and those risks relevant to the Philippines vis-à-vis risks inherent to the Series A Bonds.

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

The contents of this Preliminary Prospectus are not to be considered as definitive legal, business or tax advice. Each Prospective Bondholder receiving a copy of this Prospectus acknowledges that he has not relied on the Issue Manager and the Underwriter or any person affiliated with the Issue Manager and the Underwriter, in his investigation of the accuracy of any information found in this Preliminary Prospectus or in his investment decision. Prospective Bondholders should consult their own counsel, accountants, or other advisors as to legal, tax, business, financial, and related aspects of the purchase of the Series A Bonds, among others. It bears emphasis that investing in the Series A Bonds involves certain risks. It is best to refer again to the section on *"Risk Factors and Other Considerations"* on page 35 of this Preliminary Prospectus for a discussion of certain considerations with respect to an investment in the Series A Bonds.

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

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

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PRELIMINARY PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

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

ABOITIZ POWER CORPORATION
By:

(SGD.)
ANTONIO R. MORAZA
President & Chief Operating Officer

SUBSCRIBED AND SWORN to before me this April 6, 2017 in Taguig City. Affiant personally appeared and exhibited to me his Passport No. EB7019932 issued on December 27, 2012 at Cebu City and his Community Tax Certificate No. 26531158 issued on January 23, 2017 at Cebu City.

Doc No. 229;
Page No. 47;
Book No. I;
Series of 2017.

ATTY. RACQUEL ROSE M. GUMIA
ROLL NO. 60028
NOTARY PUBLIC
TAGUIG CITY, PHILS.

(SGD.)
Racquel Rose M. Gumia
Notary Public of Taguig City
Notarial Commission No.51
Until December 31, 2018
NAC Tower, 32nd St. Bonifacio Global City, Taguig City;
PTR No.A-33162202, Taguig City, January 04, 2017
IBP No. 010832; March 19, 2012
Roll No.60028
MCLE Compliance No V- 0011250

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FORWARD LOOKING STATEMENTS

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

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

For further discussion of such risks, uncertainties and assumptions, see "*Risk Factors and Other Considerations*"on page 35 of this Preliminary Prospectus. Prospective purchasers of the Series A Bonds are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included herein are made only as of the date of this Preliminary Prospectus, and AboitizPower undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

No Underwriter takes any responsibility for, or gives any representation, warranty or undertaking in relation to, any such forward-looking statement.

DEFINITION OF TERMS

Aboitiz Group	ACO and the companies or entities in which ACO has a beneficial interest and, directly or indirectly, exercises management control, including, without limitation, Aboitiz Equity Ventures, Aboitiz Power Corporation, Union Bank of the Philippines and their respective Subsidiaries and Affiliates
AboitizLand	Aboitiz Land, Inc.
Aboitiz InfraCapital	Aboitiz InfraCapital, Inc.
AboitizPower	Aboitiz Power Corporation also referred to as "AP", the "Company", the "Parent Company" or the "Issuer"
AboitizPower Group or the Group	AboitizPower and its Subsidiaries
ABOVANT	Abovant Holdings, Inc.
ACO	Aboitiz & Company, Inc.
AdventEnergy	Adventenergy, Inc.
AESI	Aboitiz Energy Solutions, Inc.
AEV	Aboitiz Equity Ventures, Inc.
AEV Group	AEV and its Subsidiaries
AboitzPower Group	AP and its Subsidiaries
Affiliate	With respect to any Person, any other Person directly or indirectly Controlled, or is under common Control by such Person
Aggregator	Refers to a person or entity, engaged in consolidating electric power demand of end-users in the contestable market, for the purpose of purchasing and reselling electricity on a group basis.
AFS	Available-for-Sale
Ambuklao-Binga Hydroelectric Power Plant Complex or the Ambuklao Plant	Refers to SN Aboitiz Power-Benguet's 105- MW Ambuklao Hydroelectric Power Plant located in Bokod, Benguet and 125-MW Binga Hydroelectric Power Plant in Itogon, Benguet.
APA	Asset Purchase Agreement
APX	Aboitiz Power Distributed Energy, Inc.

APRI	AP Renewables, Inc.
ARI	Aboitiz Renewables, Inc.
AS	Ancillary Services
Aseagas	Aseagas Corporation
ASPA	Ancillary Services Purchase Agreement
Associate	Refers to an entity over which the group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not have control or joint control over those policies.
Bakun Plant	The 70 MW Bakun run-of-river Hydroelectric Plant of LHC located in Ilocos Sur
Banking Day	Any day other than Saturday, Sunday and public holidays, on which commercial banks and the Philippine Clearing House Corporation are generally open for the transaction of business in Makati City and the City of Manila; *provided,* that all other days otherwise specified herein shall mean calendar days which shall be construed as successive periods of twenty-four (24) hours each
BCQ	Bilateral Contract Quantity
BDO	BDO Unibank, Inc.
BENECO	Benguet Electric Cooperative
BEZ	Balamban Enerzone Corporation
Binga Plant	The Binga Hydroelectric Power Plant of SNAP-Benguet located in Itogon, Benguet
BIR	Bureau of Internal Revenue
Board	The Board of Directors of AboitizPower, unless context clearly provides otherwise
BOI	The Philippine Board of Investments
Bondholder	A Person whose name appears, at any time, as a holder of the Series A Bonds in the Register of Bondholders
Bonds	The unsecured fixed-rate peso retail bonds in the aggregate principal amount of up to Thirty Billion Pesos (Php30,000,000,000) in several tranches, with the first tranche in the amount of Three Billion Pesos

	(Php3,000,000,000), or the Series A Bonds. Should there be any remaining balance of the aggregate amount left, it shall be lodged under a shelf registration and will be raised in future tranches.
BOT	Build-Operate-Transfer
BPI	Bank of the Philippine Islands
BPI Capital	BPI Capital Corporation
Brownfield	Power generation projects undertaken to expand, rehabilitate, and/or maintain existing assets
Bunker C	A term used to designate the thickest of the residual fuels that is produced by blending ny oil remaining at the end of the oil-refining process with lighter oil
Business Unit	A Subsidiary or an Affiliate of AboitizPower
CA	Court of Appeals
CBA	Collective Bargaining Agreement
CBAA	Central Board of Assessment Appeals
CDM	Clean Development Mechanism
CEDC	Cebu Energy Development Corporation
CG Report	Refers to the Company's Corporate Governance Report
Chevron	Chevron Geothermal Philippines Holdings, Inc.
CIPDI	Cebu Industrial Park Developers, Inc.
COC	Certificate of Compliance
Consolidated Equity	The total equity of the Issuer as recognized and measured in its audited consolidated financial statements in conformity with the Philippine Financial Reporting Standards
Contestable Customer	An electricity end-user who has a choice of a supplier of electricity, as may be determined by the ERC in accordance with Republic Act No. 9136 or the EPIRA
Control	The possession, directly, or indirectly, by a Person of the power to direct or cause the direction of the management and policies of another Person whether through the ownership of voting securities or otherwise; provided, however, that the direct or indirect ownership of over fifty percent (50.0%) of the voting capital stock, registered capital or other

	equity interest of a Person is deemed to constitute control of that Person, and "Controlling" and "Controlled" have corresponding meanings
Corporation Code	Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines, as may be amended from time to time, and including the rules and regulations issued thereunder
Cotabato Light	Cotabato Light and Power Company
CPCN	Certificate of Public Convenience and Necessity
CPPC	Cebu Private Power Corporation
CSEE	Contract for the Supply of Electric Energy
CSP	Competitive Selection Process
Current Ratio	The ratio of total current assets over total current liabilities of the Issuer
CTA	Court of Tax Appeals
Davao Light	Davao Light and Power Company, Inc.
DAU	Declaration of Actual
DENR	Department of Environment and Natural Resources
Distribution Companies or Distribution Utilities	BEZ, Cotabato Light, Davao Light, MEZ, SEZ, SFELAPCO, and VECO
DOE	Department of Energy
DOF	Department of Finance
DOLE	Department of Labor and Employment
DSOAR	Distribution Services and Open Access Rules
EAUC	East Asia Utilities Corporation
EBITDA	Represents net income after adding provisions for income tax, depreciation, amortization, and net financial expense, and netting out extra-ordinary items such as foreign exchange differential and one-off gains or losses on disposal of major assets
ECA	Energy Conversion Agreement
ECC	Environmental Compliance Certificate

El Paso Philippines	El Paso Philippines Energy Company, Inc.
EMB	Environmental Management Bureau
Enerzone Companies	A term collectively referring to BEZ, MEZ and SEZ – AboitizPower's distribution utilities operating within special economic zones.
EPC	Engineering, Procurement, and Construction
EPIRA	Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001, as may be amended from time to time, and including the rules and regulations issued thereunder
EPPA	Energy Power Purchase Agreement
ERB	Energy Resolution Board
ERC	Energy Regulatory Commission
ESA	Energy Supply Agreement
Events of Default	Those events defined as such under the Trust Agreement
Evonik Steag	Evonik Steag GmbH
FIT	Feed-in-Tariff
FIT-All	FIT-Allowance
Formosa Heavy Industries	Formosa Heavy Industries Corporation
FOSA	Fuel Oil Sales Agreements
FPIC	Free and Prior Informed Consent
Garcia Group	Refers to Vivant Energy Corporation (VEC) and Vivant Integrated Generation Corporation (VIGC)
GCGI	Green Core Geothermal Incorporated
GDP	Gross Domestic Product
Generation Companies or Generation Group	APRI, CEDC, CPPC, EAUC, Hedcor, Hedcor Sibulan, Hedcor Tamugan, LHC, RP Energy, SNAP-Benguet, SNAP-Magat, SPPC, STEAG Power, and WMPC.
Global Formosa	Global Formosa Power Holdings, Inc.
Global Power	Global Business Power Corporation of the Metrobank Group

GNPD	GNPower Dinginin Ltd. Co.
Government	The Government of the Republic of the Philippines
Government Authority	The Republic of the Philippines, or any political subdivision or agency thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to the said government, and any national agency or body vested with jurisdiction or authority over any Person
GRAM	Generation Rate Adjustment Mechanism
Greenfield	Power generation projects that are developed from inception on previously undeveloped sites
GRSC	Geothermal Resources Sales Contract
GSED	Government Securities Eligible Dealer
GWh	Gigawatt-hour, or one mn kilowatt-hours
HEDC	Hydro Electric Development Corporation
Hedcor	Hedcor, Inc.
Hedcor Benguet	Hedcor Benguet, Inc.
Hedcor Bukidnon	Hedcor Bukidnon, Inc.
Hedcor Consortium	The consortium comprised of PHC, Hedcor, Hedcor Sibulan and Hedcor Tamugan
Hedcor Sabangan	Hedcor Sabangan, Inc.
Hedcor Sibulan	Hedcor Sibulan, Inc.
Hedcor Tamugan	Hedcor Tamugan, Inc.
Hedcor Tudaya	Hedcor Tudaya, Inc.
HEPP	Hydroelectric Power Plant
ICERA	Incremental Currency Exchange Rate Adjustment
ILP	Interruptible Load Program
Hijos	Hijos De F. Escaño, Inc.
IMEM	Interim Mindanao Electricity Market

Indebtedness	(1) All indebtedness or other obligations of the Issuer for borrowed money or for the deferred purchase price of property or services and similar arrangements; (2) All indebtedness or other obligations of any other Person, the payment or collection of which is guaranteed by the Issuer (except by reason of endorsement for collection in the ordinary course of business) or in respect of which the Issuer is liable, contingently or otherwise, including without limitation, any agreement to purchase, to provide funds for payment, to supply funds to or otherwise invest in such Person; and (3) Capitalized lease obligations of the Issuer
IPO	Initial Public Offering
IPP	Independent Power Producer
IPAA	Independent Power Producer Administrator
IPRA	Indigenous Peoples' Rights Act of 1997
Issue Manager	BPI Capital
ITH	Income tax holiday
Joint Venture	Refers to a type of joint agreement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exist only when decisions about the relevant activities require unanimous consent of the parties sharing control.
kV	Kilovolt, or one thousand volts
kW	Kilowatt, or one thousand watts
kWh	Kilowatt-hour, the standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
LASA	Load Allocation and Settlement Agreement
LBAA	Local Board of Assessment Appeals
LEZ	Lima Enerzone Corporation
LGC	Republic Act No. 7160, otherwise known as the Local Government Code, as may be amended from time to time, and including the rules and regulations issued thereunder

LGU	Local Government Unit
LHC	Luzon Hydro Corporation
LTC	Lima Technology Center
Lien	With respect to any Person, any lien, pledge, mortgage, charge, hypothecation, encumbrance or other security or preferential arrangement on or with respect to any asset or revenue of such Person
LMP	Locational Marginal Price
Maaraw San Carlos	Maaraw Holdings San Carlos, Inc.
Magat Plant	The Magat Hydroelectric Power Plant of SNAP-Magat located at the border of Isabela and Ifugao provinces
Majority Bondholders	At any time, the Bondholders who hold, represent or account for at least fifty percent (50%) plus one peso (Php1.00) of the aggregate outstanding principal amount of the Series A Bonds.
Material Adverse Effect	A material adverse effect on the ability of the Issuer to perform or comply with any of its material obligations, or to exercise any of its material rights, under the Trust Agreement or the Series A Bonds
MAP	Maximum Average Price
MEPZ I	Mactan Export Processing Zone I
MEPZ II	Mactan Export Processing Zone II
MEZ	Mactan Enerzone Corporation
MCIAA	Mactan Cebu International Airport Authority
MERALCO	Manila Electric Company
MOA	Memorandum of Agreement
MORE	Manila-Oslo Renewable Enterprise, Inc.
MPGC	Meralco PowerGen Corporation
MPI	Market Participant Interface
MW	Megawatt, or one mn watts
MWh or MW-h	Megawatt-hour
MWp	Megawatt-peak

MVA	Megavolt Ampere
NEA	National Electrification Administration
Net Debt to Consolidated Equity Ratio	With respect to the Series A Bonds, the ratio of interest bearing debtless cash, cash Equivalents, and short term investments over Consolidated Equity of the Issuer.
NGCP	National Grid Corporation of the Philippines
NIA	National Irrigation Administration
NLRC	National Labor Relations Commission
NORMIN or Cleanergy	Northern Mini Hydro Corporation, now known as Cleanergy, Inc.
NPC	National Power Corporation
NREB	National Renewable Energy Board
NWRB	National Water Resources Board
Okeelanta	Okeelanta Corporation
Open Access or RCOA	Retail Competition and Open Access and as defined in EPIRA, refers to the provision of allowing any qualified user the use of transmission, and/or distribution system and associated facilities subject to the payment of transmission and/or distribution retail wheeling rates duly approved by the ERC;
PA	Provisional Authority
Pacific Hydro	Pacific Hydro Pty. Ltd.
Pagbilao Plant or Pag1 and Pag2	Refers to the 700-MW (2x350 MW) coal-fired thermal power plant located in Pagbilao, Quezon.
PASUDECO	Pampanga Sugar Development Corporation
PBR	Performance-based rate-setting regulation
PBS	Philippine Banking System
PCAPI	Pollution Control Association of the Philippines, Inc.
PCC	Philippine Competition Commission
PCRM	Pricing and Cost Recovery Mechanism

PDEx	Philippine Dealing and Exchange Corporation
PDS	Power Distribution System
PDTC	Phillipine Depository & Trust Corporation
PEC	Pagbilao Energy Corporation
PEMC	Philippine Electricity Market Corporation
Person	Individual corporation, partnership, joint venture, unincorporated association, trust or other juridical entity, or any Government Authority
PEZA	Philippine Economic Zone Authority
PGPC	Philippine Geothermal Production Company
PHC	Philippine Hydropower Corporation
Philippine Pesos or Php	The lawful currency of the Philippines
PhilRatings	Philippine Ratings Services Corporation
PHPL	Pacific Hydro Power Ltd.
PIPPA	Philippine Independent Power Producers Association, Inc.
PIS	Performance Incentive Scheme
PPA	Power Purchase Agreement
PRISM	Prism Energy, Inc.
PSA	Power Supply Agreement
PSALM	Power Sector Assets and Liabilities Management Corporation
PSC	Power Supply Contract
PSE	Philippine Stock Exchange
RA	Republic Act
RDWR	Rules for Setting Distribution Wheeling Rates
Record Date	The cut-off date in determining Bondholders entitled to receive interest or principal amount due.
Register of	The electronic register which shows the legal title to the Series A Bonds,

Bondholders	maintained by the Registrar, pursuant to and under the terms of the Registry and Paying Agency Agreement
Registrar and Paying Agent	Phillipine Depository & Trust Corporation
Registry and Paying Agency Agreement	Agreement dated [•] entered into between the Company and the Registrar and Paying Agent in relation to the Series A Bonds
Registry Book	The electronic record of the issuances, sales and transfers of the Series A Bonds to be maintained by the Registrar, pursuant to and under the terms of the Registry and Paying Agency Agreement
RE	Renewable Energy
Renewable Energy Act or RE Law	Republic Act No. 9513, otherwise known as the Renewable Energy Act of 2008
REM	Renewable Energy Market
REPA	Renewable Energy Payment Agreement
RES	Retail Electricity Supplier
RESA	Retail Electricity Suppliers Association of the Philippines, Inc.
RORB	Rate on Return Base
RP Energy	Redondo Peninsula Energy, Inc.
RPS	Renewable Portfolio Standard
RPT	Real Property Tax
RSC	Retail Supply Contract
RTC	Regional Trial Court
RTT	Right-to-Top
Run-of-river hydroelectric plant	Hydroelectric power plant that generates electricity from the natural flow and elevation drop of a river
Sacasun	San Carlos Power, Inc.
SBFZ	Subic Bay Freeport Zone
SBMA	Subic Bay Metropolitan Authority
SC	Supreme Court

SCADA	Supervisory Control Data Acquisition
SEC	The Securities and Exchange Commission of the Philippines
Series A Bonds	Unsecured Fixed-Rate Peso Retail Bonds having a term ending six (6) years from the Issue Date. For purposes of the Registry and listing with the PDEx, these Bonds shall likewise be referred to as [AboitizPower Fixed Rate Bonds Due 2023].
SEZ	Subic Enerzone Corporation
SFELAPCO	San Fernando Electric Light and Power Co., Inc.
Sibulan Project	Two run-of-river hydropower generating facilities tapping the Sibulan and Baroring rivers in Sibulan, Santa Cruz, Davao del Sur
Significant Subsidiary	A subsidiary which qualifies under SRC Rule 68, as amended, Part I, Section 1.B (x)
SN Power	Statkraft Norfund Power Invest AS of Norway
SNAP - Benguet	SN Aboitiz Power – Benguet, Inc. (formerly, SN Aboitiz Power Hydro, Inc.,)
SNAP - Magat	SN Aboitiz Power – Magat, Inc.
SN Aboitiz Power Group	Refers to the group of companies formed out of the strategic partnership between AboitizPower and SN Power, and refers to MORE and its Subsidiaries, including, SN Aboitiz Power-Benguet, Inc. SN Aboitiz Power-Gen, Inc., SN Aboitiz Power-RES, Inc., and SN Aboitiz Power-Magat, Inc.
SO	System Operator
SPC	SPC Power Corporation (formerly Salcon Power Corporation)
SPPC	Southern Philippine Power Corporation
SRC	Republic Act No. 8799, otherwise known as the Securities Regulation Code of the Philippines, as amended and may be amended from time to time, including the rules and regulations issued thereunder
STEAG Power	STEAG State Power, Inc.
Stranded Costs	As defined in the EPIRA, the excess of the contracted costs of electricity under eligible contracts over the actual selling price of the contracted energy output under such contracts. Eligible contracts are those approved by the ERB from December 31, 2000 onwards.
Subsidiary	In respect of any Person, any entity (i) over fifty percent (50.0%) of whose capital is owned directly by that Person; or (ii) for which that Person may

	nominate or appoint a majority of the members of the board of directors or such other body performing similar functions
Tax Code	Presidential Decree No. 1158, otherwise known as the National Internal Revenue Code, as amended and may be further amended from time to time, including the rules and regulations issued thereunder
TCIC	Taiwan Cogeneration International Corporation
TeaM Energy	TeaM Energy Corporation
TeaM Philippines	TeaM Philippines Industrial Power II Corporation (formerly Mirant (Phils.) Industrial Power II Corp.)
THC	Tsuneishi Holdings (Cebu), Inc.
Tiwi-MakBan	Tiwi-MakBan Geothermal Complex, composed of eight (8) geothermal plants and one (1) binary plant, located in the provinces of Batangas, Laguna and Albay.
TLI	Therma Luzon, Inc.
TMI	Therma Marine, Inc.
TMO	Therma Mobile, Inc.
Total Liabilities	The total economic obligations of the Issuer that are recognized and measured in its audited parent financial statements, in accordance with the Philippine Financial Reporting Standards
TOU	Time of Use
TPC	Toledo Power Company
TPI	Therma Power, Inc.
TPVI	Therma Power Visayas, Inc.
Transco	National Transmission Corporation and, as applicable, NGCP, which is the Transco concessionaire
Trust Agreement	Trust Agreement dated August 27, 2014 entered into between the Company and the Trustee in relation to the Series A Bonds
Trustee	BPI Asset Management and Trust Group
TSA	Transmission Service Agreement
TSC	Transition Supply Contract

TSI	Therma South, Inc.
TVI	Therma Visayas, Inc.
ULGEI	Unified Leyte Geothermal Energy, Inc.
ULGPP	Unified Leyte Geothermal Power Plant
Underwriter	BPI Capital
Underwriting Agreement	Underwriting Agreement dated [•] entered into between the Company and the Underwriter in relation to the Series A Bonds
UNFCCC	United Nations Framework Convention on Climate Change
US$ or USD or U.S. dollar	The lawful currency of the United States of America
VAT	Value Added Tax
VEC	Vivant Energy Corporation
VECO	Visayan Electric Company, Inc.
VIGC	Vivant Integrated Generation Corporation
Vivant	Vivant Energy Corporation
WAM	Work and Asset Management
WCIP - SEZ	West Cebu Industrial Park – Special Economic Zone
WESM	Philippine Wholesale Electricity Spot Market
WMPC	Western Mindanao Power Corporation
YoY	Year-on-Year

EXECUTIVE SUMMARY

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

The Offering

AboitizPower is offering for subscription and issue to Eligible Bondholders fixed rate Retail Bonds of up to the aggregate principal amount of Php30,000,000,000.00, to be issued in one or several tranches, with the first tranche, to be issued up to an aggregate principal amount of Php3,000,000,000.00.

Investment Thesis

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

The Company

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

The Company has accumulated interests in a diversified and balanced mix portfolio of forty-six (46) generating plants with a renewable capacity of 32% and a thermal capacity of 68%. This portfolio uses five technologies: 50% coal, 19% oil, 16% hydro, 14% geothermal, and 1% solar; giving the Company the agility to meet the power needs of the country, from baseload, to intermediate, to peaking demand, including ancillary services to stabilize the grids.

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

For a full discussion, please refer to the section on *"The Company"* on page 50 of this Preliminary Prospectus.

History

Incorporated in 1998, AboitizPower has grown to become a leader in the Philippine power industry with interests in a number of privately-owned generation companies and distribution utilities. AEV owns 76.88% of the outstanding capital stock of AboitizPower, as of 31 March 2017.

Ownership in AboitizPower was opened to the public through an IPO of its common shares in July 2007. Its common shares were officially listed in The Philippine Stock Exchange, Inc. (PSE) on 16 July 2007.

For a full discussion, please refer to the section on "*The Company*" on page 50 of this Preliminary Prospectus.

Summary of Financial Information

The following tables set forth the summary of financial and operating information of Aboitiz Power Corporation and Subsidiaries (hereinafter, collectively referred to as AboitizPower). Prospective purchasers of the Series A Bonds should read the summary financial information below together with the AboitizPower's consolidated financial statements, including the Notes thereto, presented as an Annex and the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" on 155 of this Preliminary Prospectus. AboitizPower's consolidated financial statements as of 31 December 2016 and 2015 for each of the three years ended December 31, 2016 are prepared in accordance with the Philippine Financial Reporting Standards ("PFRS") and are audited by SGV in accordance with Philippine Standards on Auditing. The consolidated balance sheet amounts as of 31 December 2015 are equivalent to the amounts as of 1 January 2016 as presented in the consolidated financial statements, included in this Preliminary Prospectus. Summary financial data as of December 31, 2016 are derived from the AboitizPower audited consolidated financial statements. The information is not necessarily indicative of the results of the future operations. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to the relevant financial statements of Aboitiz Power Corporation and Subsidiaries, including the notes thereto, included in this Prospectus.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	**₱47,094,741**	₱51,098,269
Trade and other receivables	**15,465,121**	13,692,393
Derivative assets	**188,417**	185,283
Inventories	**4,452,812**	2,040,603
Other current assets	**6,448,096**	3,392,473
Total Current Assets	**73,649,187**	70,409,021
Noncurrent Assets		
Property, plant and equipment	**192,633,546**	134,810,627
Investments and advances	**30,595,989**	22,551,845
Intangible assets	**43,642,533**	7,592,720
Investment properties	**3,300**	3,300
Derivative assets - net of current portion	**977,770**	378,083
Available-for-sale (AFS) investments - net of allowance for impairment of ₱5,254	**100,309**	3,620
Net pension assets	**45,667**	34,777
Deferred income tax assets	**2,115,951**	584,879
Other noncurrent assets	**11,011,983**	6,120,374
Total Noncurrent Assets	**281,127,048**	172,080,225
TOTAL ASSETS	**₱354,776,235**	₱242,489,246

LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans	**₱4,155,600**	₱2,568,000
Current portions of:		
Long-term debts	**7,458,363**	2,368,161
Finance lease obligation	**2,968,491**	2,583,754
Long-term obligation on power distribution system	**40,000**	40,000
Derivative liabilities	**127,442**	–
Trade and other payables	**17,398,218**	14,140,576
Income tax payable	**654,392**	852,709
Total Current Liabilities	**32,802,506**	22,553,200

(Forward)

	December 31	
	2016	2015
Noncurrent Liabilities		
Noncurrent portions of:		
Long-term debts	**₱150,263,301**	₱56,006,863
Finance lease obligation	**49,371,713**	51,085,100
Long-term obligation on power distribution system	**197,248**	207,184
Customers' deposits	**6,831,242**	6,383,278
Derivative liabilities - net of current portion	**233,435**	–
Asset retirement obligation	**1,821,577**	3,016,528
Net pension liabilities	**247,387**	492,848
Deferred income tax liabilities	**1,043,996**	1,130,678
Other noncurrent liabilities	**334,398**	–
Total Noncurrent Liabilities	**210,344,297**	118,322,479
Total Liabilities	**243,146,803**	140,875,679
Equity Attributable to Equity Holders of the Parent		
Paid-in capital	**19,947,498**	19,947,498
Other equity reserves:		
Excess of cost over net assets of investments	**(526,883)**	(421,260)
Acquisition of non-controlling interests	**(259,147)**	(259,147)
Accumulated other comprehensive income:		
Net unrealized loss on AFS investments	**(3,311)**	–
Share in net unrealized valuation gains on AFS investments of an associate	**114,920**	114,920
Cumulative translation adjustments	**(78,232)**	185,431
Share in cumulative translation adjustments of associates and joint ventures	**(128,203)**	(256,376)
Actuarial losses on defined benefit plans	**(607,913)**	(609,066)
Share in actuarial losses on defined benefit plans of associates and joint ventures	**(1,878)**	(3,748)
Retained earnings		
Appropriated	**34,060,000**	20,900,000
Unappropriated	**52,597,568**	57,970,269
	105,114,419	97,568,521
Non-controlling Interests	**6,515,013**	4,045,046
Total Equity	**111,629,432**	101,613,567
TOTAL LIABILITIES AND EQUITY	**₱354,776,235**	₱242,489,246

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31		
	2016	2015	2014
OPERATING REVENUES			
Sale of power:			
Distribution	**₱44,585,832**	₱41,379,270	₱39,975,961
Generation	**35,692,441**	33,368,797	36,877,070
Retail electricity supply	**8,478,789**	10,227,771	9,702,714
Technical, management and other fees	**406,207**	198,114	203,641
	89,163,269	85,173,952	86,759,386
OPERATING EXPENSES			
Cost of purchased power	**28,909,987**	27,902,180	29,834,149
Cost of generated power	**17,316,272**	18,524,059	21,037,658
General and administrative	**6,613,876**	5,818,090	5,500,130
Depreciation and amortization	**6,043,527**	4,322,000	4,643,302
Operations and maintenance	**3,969,307**	3,921,046	3,393,388
	62,852,969	60,487,375	64,408,627
FINANCIAL INCOME (EXPENSES)			
Interest income	**1,083,535**	846,293	471,915
Interest expense and other financing costs	**(7,704,011)**	(6,633,858)	(5,994,097)
	(6,620,476)	(5,787,565)	(5,522,182)
OTHER INCOME (EXPENSES)			
Share in net earnings of associates and joint ventures	**3,641,210**	3,979,947	4,009,488
Other income (expenses) - net	**1,669,212**	(336,639)	591,925
	5,310,422	3,643,308	4,601,413
INCOME BEFORE INCOME TAX	**25,000,246**	22,542,320	21,429,990
PROVISION FOR INCOME TAX	**3,496,140**	3,589,669	3,424,089
NET INCOME	**₱21,504,106**	₱18,952,651	₱18,005,901
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱20,002,582**	₱17,603,797	₱16,705,184
Non-controlling interests	**1,501,524**	1,348,854	1,300,717
	₱21,504,106	₱18,952,651	₱18,005,901
EARNINGS PER COMMON SHARE			
Basic and diluted, for income for the year attributable to ordinary equity holders of the parent	**₱2.72**	₱2.39	₱2.27

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ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱25,000,246**	₱22,542,320	₱21,429,990
Adjustments for:			
Interest expense and other financing costs	**7,704,011**	6,633,858	5,994,097
Depreciation and amortization	**6,043,527**	4,322,000	4,643,302
Net unrealized foreign exchange losses	**1,505,671**	1,390,459	188,018
Write-off of project costs and other assets	**249,176**	69,137	26,000
Impairment loss on goodwill	**169,469**	–	–
Unrealized fair valuation losses (gains) on derivatives	**3,316**	(317,645)	897
Impairment losses on AFS and investment in an associate	**–**	–	2,834
Fair valuation gain on investment property	**–**	–	(15,000)
Gain on redemption of shares	**(16,051)**	–	(4,904)
Gain on disposal of property, plant and equipment	**(70,252)**	(5,656)	(13,195)
Gain on remeasurement in step acquisition	**(350,939)**	–	–
Interest income	**(1,083,535)**	(846,293)	(471,915)
Share in net earnings of associates and joint ventures	**(3,641,210)**	(3,979,947)	(4,009,488)
Operating income before working capital changes	**35,513,429**	29,808,233	27,770,636
Decrease (increase) in:			
Trade and other receivables	**401,465**	(249,822)	200,799
Inventories	**(996,007)**	128,229	477,019
Other current assets	**(1,831,918)**	(1,453,104)	(202,403)
Increase (decrease) in:			
Trade and other payables	**464,167**	(421,548)	(2,834,127)
Long-term obligation on power distribution system	**(40,000)**	(40,000)	(40,000)
Customers' deposits	**447,964**	696,788	548,335
Net cash generated from operations	**33,959,100**	28,468,776	25,920,259
Income and final taxes paid	**(4,071,120)**	(3,269,179)	(2,482,280)
Net cash flows from operating activities	**29,887,980**	25,199,597	23,437,979
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash dividends received	**7,847,263**	4,071,041	4,618,730
Interest received	**1,132,366**	837,978	390,638
Proceeds from sale of property, plant and equipment	**162,190**	35,714	17,406
Proceeds from redemption of shares	**57,076**	2,677,204	31,599
Net collection of advances	**–**	285,520	101,835

(Forward)

	Years Ended December 31		
	2016	2015	2014
Proceeds from sale of AFS	**₱–**	₱–	₱200
Increase in other noncurrent assets	**(6,055,228)**	(636,988)	(1,915,107)
Additions to:			
Intangible assets - service concession rights	**(45,875)**	(20,046)	(36,286)
AFS investments	**(100,000)**	–	–
Equity investments	**(11,821,307)**	(451,655)	(2,500)
Property, plant and equipment	**(28,203,291)**	(15,701,414)	(15,003,744)
Acquisitions through business combinations, net of cash acquired	**(44,353,542)**	–	(1,182,366)
Net cash flows used in investing activities	**(81,380,348)**	(8,902,646)	(12,979,595)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of long-term debt - net of transaction costs	**73,474,514**	16,350,925	20,634,755
Net availments of short-term loans	**1,587,600**	2,465,000	103,000
Changes in non-controlling interests	**(1,614,684)**	(1,430,153)	(949,131)
Payments of:			
Long-term debt	**(3,085,581)**	(908,611)	(854,220)
Finance lease obligation	**(7,517,917)**	(7,482,447)	(6,970,625)
Interest paid	**(3,145,421)**	(2,228,186)	(1,367,428)
Cash dividends paid	**(12,215,283)**	(12,215,283)	(12,215,283)
Net cash flows from (used in) financing activities	**47,483,228**	(5,448,755)	(1,618,932)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(4,009,140)**	10,848,196	8,839,452
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**5,612**	18,198	8,924
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**51,098,269**	40,231,875	31,383,499
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱47,094,741**	₱51,098,269	₱40,231,875

For a full discussion, please refer to the section on "*Financial Information*" on page 246 of this Preliminary Prospectus.

Competitive Strengths

The Company believes that its principal strengths are the following:

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

For a full discussion, please refer to the section on "*Competitive Strengths*" on page 28 of this Preliminary Prospectus.

Business Strategy

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

- Expand the Company's generation portfolio
- Shift the bulk of the company's power supply agreements to capacity-based contracts
- Maximize contestable market share through Retail Energy Supply Subsidiaries
- Maintain a high level of social responsibility in the communities in which the Company operates

For a full discussion, please refer to the section on "*Business Strategy*" on page 29 of this Preliminary Prospectus.

Risks of Investing

An investment in the Series A Bonds involves a certain degree of risk. A prospective purchaser of the Series A Bonds should carefully consider the following factors, in addition to the other information contained in thisProspectus, in deciding whether or not to invest in the Series A Bonds.

Risks related to the Company's business:

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

Risks Related to the Philippines:

- A slowdown in the Philippines' economic growth could adversely affect the Company
- Any political instability in the Philippines may adversely affect the Company

Risks Related to the Offer:

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

For a full discussion, please refer to the section on "*Risk Factors and Other Considerations*" on page 35 of this Preliminary Prospectus.

This Prospectus contains forward-looking statements that involve risks and uncertainties. AboitizPower adopts what it considers conservative financial and operational controls and policies to manage its business risks. AboitizPower's actual results may differ significantly from the results discussed in the forward-looking statements. See section *"Forward-Looking Statements"* on page 7 of this Preliminary Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of AboitizPower, in particular, and those that pertain to the over-all political, economic, and business environment, in general.

CAPITALIZATION

The following presents a summary of the short-term debts, long-term debts, and capitalization of the Group as of December 31, 2016, and as adjusted to reflect the issue of the Series A Bonds:

	As of December 31, 2016	**As adjusted for Php3 bn issue**
	(in Php mns)	
Short-term debt		
Short-term loans	4,156	4,156
Current portions of:		
Long-term debt	7,458	7,458
Finance lease obligation	2,968	781
Total short-term debts	14,582	14,582
Long-term debts – net of current portion		
Non-current portions of:		
Long-term debt	150,263	150,263
Finance lease obligation	49,372	49,372
The issue of Bonds	–	3,000
Total long-term debts	199,635	202,635
Equity		
Equity attributable to equity holders of the parent	105,114	105,114
Non-controlling interests	6,515	6,515
Total Equity	111,629	111,629
Total Capitalization	325,846	328,846

SUMMARY OF THE OFFERING

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

Issuer	:	Aboitiz Power Corporation
Issue Manager and Underwriter	:	BPI Capital Corporation
Trustee	:	BPI Asset Management and Trust Corporation
Registrar and Paying Agent	:	Philippine Depository & Trust Corporation
Issue / Issue Amount	:	SEC–registered fixed rate, Peso-denominated bonds constituting the direct, unconditional, unsecured and general obligations of the Issuer (the “Series A Bonds”) in the aggregate amount of fixed rate bonds of up to Php3,000,000,000.00
Use of Proceeds	:	Proceeds of the Offer will be used by AboitizPower to finance equity infusions into GNPower Dinginin Ltd. Co., as more described in the section entitled *“Use of Proceeds”* on page 41 of this Preliminary Prospectus
Issue Price	:	100% face value
Manner of Distribution	:	Public Offering
Offer Period	:	The Offer shall commence on [9 June 2017] and end on [16 June 2017].
Issue Date	:	[21 June 2017]
Maturity Date or Redemption Date	:	[Six (6)] years from Issue Date Except when an Early Redemption Option is exercised, the Series A Bonds will be redeemed at par (or 100%) on Maturity Date.
Interest Rate	:	[•] The interest rates are determined subject to the results of book building and final pricing upon release of the SEC pre-effective approval.
Interest Payment Date	:	The Interest shall be paid quarterly in arrears on [•], [•], [•], and [•], or the next Banking Day if such dates fall on a non-Banking Day, of each year commencing on [•], until and including the Maturity Date (each, a “Interest Payment Date”). Interest on the Series A Bonds shall be calculated on a 30/360-day basis.
Form and Denomination	:	The Series A Bonds shall be issued in scripless form in minimum denominations of Php50,000.00 each, and in multiples of Php10,000.00 thereafter.
Early Redemption	:	The Issuer shall have the option, but not the obligation, to redeem

in whole (and not in part), the outstanding Bonds on any Interest Payment Date, or the immediately succeeding Banking Day if such date is not a Banking Day, on and after [five (5)] years from the Issue Date (any such date, the "Optional Redemption Date"). The amount payable to the Bondholders upon the exercise of the Early Redemption Option by the Issuer shall be calculated based on the principal amount of the Series A Bonds being redeemed as the aggregate of the: (i) accrued interest computed up to the relevant Optional Redemption Date; and (ii) the product of the principal amount and 100.25%.

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

Redemption for Taxation Reasons	:	The Issuer may redeem the Series A Bonds in whole, but not in part, on any Interest Payment Date (having given not more than sixty (60) nor less than thirty (30) days' notice to the Trustee) at par plus accrued interest, subject to the requirements of Applicable Law, if payments under the Series A Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on Issue Date as a result of certain changes in Applicable Law, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer. For avoidance of doubt, the Issuer shall not be liable for the payment of the additional or increased taxes on the income of the Bondholders, which shall be for the account of the Bondholders.
Negative Pledge	:	The Series A Bonds shall have the benefit of a negative pledge on all existing and future assets of the Issuer, subject to certain permitted liens, as provided under Section 5.01 (a) of the Trust Agreement.
Purchase and Cancellation	:	The Issuer may at any time purchase any of the Series A Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase (and the Bondholders shall not be obliged to sell) Bonds pro-rata from all Bondholders. Upon listing of the Series A Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.
Status of the Series A Bonds	:	The Series A Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of the Issuer and shall rank *pari passu* and rateably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by the Issuer pursuant to Section 5.01 (a) of the Trust Agreement or as may be allowed by the Trust Agreement, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of Issue Date. The Series A Bonds shall effectively be subordinated in right of payment to, among others, all of AboitizPower's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the

		Philippines.
Rating	:	The Series A Bonds are rated [•] by PhilRatings.
Listing	:	The Issuer intends to list the Series A Bonds in the PDEx on Issue Date.
Non-Reliance		Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that it has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations hereunder, except for its gross negligence or wilful misconduct.
Own Risk		Bondholders understood and acknowledge that investment in the Series A Bonds is not covered by the Philippie Deposit Insurance Corporation ("PDIC") and that any loss or depreceiation in the value of the assets of the Bondholders, resulting from theinvestments or reinvestment in the Series A Bonds and the regular conduct of the Trustee's trust business shall be for the account of the Bondholder.

RISK FACTORS AND OTHER CONSIDERATIONS

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

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

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

RISKS RELATED TO THE COMPANY'S BUSINESS

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

Reputation Risk

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

Today's world of higher corporate governance standards, coupled with heightened public consciousness 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 local government units.

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

- building organization capability through a formalized governance structure and intelligence process;
- assessing and mitigating risks;
- identifying and engaging all stakeholders;
- anticipating, resolving and proactively managing issues;
- developing and implementing a proactive communication campaign, maximize all relevant channels including social media;
- actively engaging team leaders and team members through its 1AP culture program;
- measuring brand relevance and integrity through reputation metrics; and
- integrating sustainable practices across the value chain to promote inclusive growth.

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

Competition Risk

In the next few years, AboitizPower will be facing pivotal changes in the power industry. Its investments, as well as those of its competitors in greenfield and brownfield projects are starting to pour in, with new players coming into the game. The industry is now moving into a situation where there will be an oversupply of electricity in two of the country's grids in the next couple of years.

To mitigate such risks, projected capacities from these investments as well as expiring contracts of our existing capacities are marketed and contracted well ahead of actual production and delivery to ensure that plant operations are optimized, and to protect revenue and cash flow streams.

The duration of these contracts are also spread to minimize large capacity expirations in any given year. AboitizPower has also embarked on developing a system to support our customer relationship and selling activities.

Open Access has opened the door to a more competitive retail environment. Eligible Contestable Customers - end-users with a monthly average demand of at least 1000kW - will have the option to source their electricity from eligible suppliers that have secured a RES license from the ERC. Next in line are the customers in the following bands – customers with average demand from 750kW to less than 1000kW, then from 500kW to less than 750kW.

This negatively affects the distribution franchises of the AboitizPower Group when their supply contracts have to be reduced, as customers switch from being captive customers to Open Access-eligible customers. As such, AboitizPower's generation assets that have uncontracted capacities will be able to have indirect access to open access eligible customers through the Company's licensed RES.

Electricity Trading Risk

Due to the projected increase in supply, electricity market prices are expected to decrease substantially both long-term and short-term.

Furthermore, shorter trading and dispatch interval of five minutes is expected to be implemented by midyear of 2017. This enhancement could result to additional operational workload due to increased trading transactions. A Wholesale Electricity Spot Market is targeted to take off on in Mindanao in June 2017.

With these significant changes in our trading environment, AboitizPower plans to enhance its trading capabilities, which covers upgrading their trading software, infrastructure, processes, and manpower.

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 that works very closely with its Generation Companies and Distribution companies, and maintains open lines of communication with regulatory agencies.

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

Regular dialogues are conducted by AboitizPower's regulatory team with media, NGOs, the academe, and organized industry groups such as Philippine Independent Power Producers Association, Inc. (PIPPA) and Private Electric Power Operators Association (PEPOA) to educate various groups about the power industry. The Company's regulatory team will continue to actively participate in consultative processes conducted by regulators, such as public discussions over the necessity or propriety of specific regulation, or their relevance to current business practices and technology changes that could lead to the development of new rules and policies that will be beneficial not just to AboitizPower but to the power industry as a whole.

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 similarly serious risks.

Regular preventive maintenance of AboitizPower's facilities, and technological infrastructure and systems is being strictly done, and loss prevention controls are continually being evaluated and strengthened. In 2016, as part of the Asset Management Program for the Generation Companies, maintenance, inspection data, and loss and repair histories were being collected within the CMMS Maximo. Maximo utilization went "live" in 2016 and was executed in waves at the geothermal, coal, small run-of-river hydro, oil, and biomass Business Units which will continue until 2017. The large HEPPs of the SN AboitizPower Group continue to utilize the CMMS JobTech system. The application of these systems and alignment of data are continuously being monitored and expanded as necessary.

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

Considering that the Philippines is prone to various Natural Catastrophe events, the loss of critical functions and equipment caused by various, natural calamities such as earthquakes, windstorms, typhoons, and floods could result in a significant interruption of businesses within the AboitizPower Group.

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 the Aboitiz Group's critical facilities and assets. This has resulted in AP and its business units having the right insurance solutions that will respond to these Natural Catastrophes.

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:

- Utilization of information disseminated by Weather Philippines Foundation, Inc. to ensure that typhoon preparations of each Business Unit are in place prior to landfall, and tapping of Business Units outside the typhoon path to provide support to the affected Business Units;
- Inclusion of emergency exercises related to natural calamities as part of the annual drill roster from flooding to earthquake, as well as the evaluation of existing measures in a simulated secenario to ensure that facilities are able to respond effectively and safely; and

- Development of new Business Continuity Plans to address newly identified scenarios triggered by changing risks and issues the Company faces.

Financial Risk

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

- Interest rate risks resulting from movements in interest rates that may have an impact on outstanding long-term debt;
- Credit risks involving possible exposure to counter-party default on its cash and cash equivalents, available-for-sale investments, and trade and other receivables;
- Refinancing and liquidity risks in terms of the proper matching of the type of financing required for specific investments as well as maturity of these loans; and
- Foreign exchange (forex) risks in terms of forex fluctuations that may significantly affect its foreign currency-denominated placements, transactions and borrowings.

Fuel Supply and Price Risk

AboitizPower's thermal plants - Therma Luzon, Therma South, and Therma Visayas which is currently under construction, utilize coal; while CPPC, EAUC, TMI, and TMO utilize Bunker-C fuel. These fuel types are exposed to global market price movement and supply challenges.

In 2016, coal prices in the global market temporarily spiked due to policy changes that were made by China that affected supply.

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

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

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

Project Risk

AboitizPower has ongoing greenfield and acquisition projects in various technologies such as solar, coal, hydro, and geothermal. In addition, the Company continues to pursue other new opportunities and initiatives both locally and internationally. To support this, AboitizPower has reorganized its development focus into an Investment Group and a Project Development and Execution Group.

In 2016, Unit 2 (150-MW) of the Therma South plant in Davao and the 59-MW solar power project of Sacansun in San Carlos City, Negros went into commercial operations, while TPI was able to secure approval from the Philippine Competition Commission (PCC) and Board of Investments (BOI) for its successful acquisition of 82.2% beneficial ownership interest in GNPower Mariveles Coal Plant Ltd. Co. and 50% beneficial ownership interest in GNPower Dinginin Ltd. Co. AboitizPower's ownership interest in GNPower –Mariveles will ultimately be reduced to 66.1% and in GNPower-Dinginin to 40%, post return of capital.

AboitizPower also made significant construction progress in its power plant projects in Therma Visayas (Coal), Pagbilao 3 (Coal), Aseagas (Biomass), and Hedcor's Manolo Fortich (run-of-river hydro), all of which are expected to begin commercial operations between 2017 and 2018.

The Company undertakes full efforts to select the right partners, engage reputable contractors and third party suppliers, obtain appropriate insurance, and implement a project risk management framework, which includes identifying, assessing and managing project risks. A regular review of all project risk management plans is performed throughout the project life cycle—pre-development, development, and during execution—to monitor the implementation of risk control measures.

RISKS RELATED TO THE PHILIPPINES

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

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

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

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

- Fitch Ratings - BBB- (positive), granted September 2015
- Standard & Poors - BBB (stable) which was granted May 2013
- Moody's Investors Service - Baa2 (stable), granted December 2015

The Philippine gross domestic product (GDP) grew by 6.8 percent in 2016, its fastest growth in the last three years. As identified in the Philippine Development Plan 2017-2022, Philippine GDP growth is expected to strengthen at 7% to 8% in the medium term, making the Philippines one of the faster growing economies of the ASEAN region.

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

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

Any political instability in the Philippines may adversely affect the Company

The Philippines has from time to time experienced political, social, and military instability. No assurance can be given that the political environment in the Philippines will remain stable. In May 2016, the Philippines elected Rodrigo M. Duterte as its new president, winning 38.5% of the votes cast. The 2016 elections had a record voter turnout of 81%, the highest in the country's three automated elections. The Duterte administration has unveiled a "10 point plan" which has committed, among others, to "continue and maintain current macroeconomic policies, including fiscal, monetary, and trade policies." As of the last quarter of 2016, President Duterte's approval and trust ratings remained high. The new leadership is currently focused on executing its reform agenda. There is no assurance that current or future Government administrations will adopt economic policies conducive to sustaining economic growth.

RISKS RELATED TO THE OFFER

Liquidity Risk

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

Reinvestment Risk

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

Pricing Risk

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

Retention of Ratings Risk

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

Bonds have no preference under Article 2244(14) of the Civil Code.

USE OF PROCEEDS

The Issue Price shall be at par, which is equal to the face value of the Series A Bonds. AboitizPower expects that the net proceeds of the Offer shall amount to approximately PhP2,970,865,625 for a PhP3,000,000,000 Issue Size, after fees, commissions and expenses.

Estimated proceeds from the sale of Bonds	**PhP 3,000,000,000**
Less: Estimated expenses	
Documentary Stamp Tax	**15,000,000**
SEC Registration Fee and Legal Research	**886,875**
Publication Fee	**100,000**
Underwriting and Other Professional Fees	**11,980,000**
Listing Application Fee	**2,500**
Printing Cost	**200,000**
Trustee Fees	**170,000**
Registry and Paying Agency Fees	**75,000**
Ratings Agency Fee	**720,000**
Estimated net proceeds the Issue	**PhP2,970,865,625**

The above expenses exclude Gross Receipts Tax and Value Added Tax, which are for the Company's account.

Aside from the foregoing one time costs, AboitizPower expects the following annual expenses related to the Series A Bonds:

1. Aside from the Listing Application Fee, the Issuer will be charged the first year annual maintenance fee in advance upon the approval of the Listing;

2. The Issuer will pay a yearly retainer fee to the Trustee amounting to PhP150,000 per annum;

3. After the Issue, a Paying Agency fee amounting to PhP100,000 is payable every Interest Payment Date. The Registrar will charge a monthly maintenance fee based on the face value of the Series A Bonds and the number of Bondholders; and

4. The Issuer will pay an annual monitoring fee to Philratings amounting to PhP560,000 (VAT inclusive). However, Philratings charges the annual monitoring fee to the Company in relation to all of its bonds outstanding.

The net proceeds from the Offer is estimated to be PhP2,970,865,625 after deducting expenses related to the Offer and will be used by the Company to finance equity infusions into GNPD.

Aboitiz Power, through its subsidiary TPI, acquired GNPD on 27 December 2016, by purchasing 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.) This resulted to TPI's acquisition of 40% beneficial ownership interest in GNPD.

GNPower Dinginin is a limited partnership organized and established in 2014 with the primary purpose of: (a) developing, constructing, operating, and owning an approximately 2x668 MW (net) supercritical coal-fired power plant to be located at Mariveles, Province of Bataan; (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.

GNPD will be constructed in two phases. The first phase will be for one 668 MW (net) unit (Unit 1) and associated ancillary facilities supporting the full operations of Unit 1 (Dinginin Project). The second phase will be for an additional 668 MW (net) unit (Unit 2) and associated ancillary facilities required to support the full operations of Unit 2, (Dinginin Expansion Project).

GNPD is co-developed by: (i) Power Partners, (ii) AC Energy Holdings, Inc. (ACEHI), a wholly owned subsidiary of Ayala Corporation, and (iii) The Company, through its wholly-owned subsidiary, TPI.

GNPD successfully achieved its financial closing and started the construction of Unit 1 in September 2016 with target delivery in 2018. To date, GNPD has already signed Power Purchase and Sale Agreements with 27 highly-rated distribution utilities and it also intends to register with the ERC as a RES in order to enable GNPD to enter into forward contract with prospective Contestable Customers.

AbotizPower expects to disburse the bond proceeds via equity infusion to GNPDto be completed by Q1 of 2018.

The foregoing discussion represents an estimate of the Company's net proceeds from the Issue based on current plans and anticipated expenditures. Any or all of the foregoing purposes, without preference, will be financed by the proceeds from the Offer as well as the internally generated cash and/or any new or existing credit facilities of the Company. No part of the proceeds will be used to reimburse any officer, director, employee or shareholder for service rendered, assets previously transferred, money loaned or advanced, or otherwise. Actual allocation of net proceeds by the Company may vary from the foregoing discussion as management may find it necessary or advisable to reallocate the net proceeds within the categories described above. Other than the gross underwriting fees and professional fees, no part of the proceeds shall be used to pay or reimburse the Underwriter or its parent companies, subsidiaries, or affiliates.

DETERMINATION OF THE OFFERING PRICE

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

PLAN OF DISTRIBUTION

THE OFFER

On 19 April 2017, AboitizPower filed a Registration Statement with the SEC, in connection with the offer and sale to the public of debt securities with an aggregate principal amount of Thirty Billion Pesos (Php30,000,000,000), under shelf registration, inclusive of the Offer. The SEC is expected to issue an order rendering the Registration Statement effective, and a corresponding permit to offer securities for sale covering the Offer.

SHELF REGISTRATION OF SECURITIES NOT COVERED BY THE OFFER

After the close of the Offer and within three years following the date of the effectivity of the Registration Statement, AboitizPower may, at its sole discretion, offer any or all of the remaining balance of the aggregate principal amount debt securities covered by such registration statement, in subsequent tranches under Rule 8.1.2 of the Securities Regulation Code's 2015 Implementing Rules and Regulations. Such a shelf registration provides AboitizPower with the ability to conduct such an offering within a comparatively short period of time. AboitizPower believes that such shelf registration provides the Company with the increased ability to take advantage of opportunities in a volatile debt capital market, as these occur. Any subsequent offering under such rule requires the submission by AboitizPower of the relevant updates and amendments to the registration statement and the issuance of the corresponding Permit to Sell by the SEC. As a listed company, AboitizPower regularly disseminates such updates and information in its disclosures to the SEC and PSE.

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

UNDERWRITING OBLIGATIONS OF THE UNDERWRITER

BPI Capital, pursuant to the Underwriting Agreement with AboitizPower, has agreed to act as the Underwriter for the Offer and as such, distribute and sell the Series A Bonds at the Issue Price, and have also committed to underwrite Three Billion Pesos (Php3,000,000,000) on a firm basis, for the first tranche of the Series A Bonds, subject to the satisfaction of certain conditions and in consideration for certain fees and expenses. The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to AboitizPower of the net proceeds of the Offer. In case the Underwriting Agreement is terminated, the Company shall notify SEC of the termination and its subsequent course of action.

BPI Capital is the sole Issue Manager for this transaction.

The Underwriter will receive a fee of thirty basis points (0.30%) (which shall be grossed-up for GRT of 7%) on the underwritten principal amount of the Series A Bonds issued. Such fee shall be inclusive of underwriting and participation commissions.

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

The Underwriter is a sister company of the Trustee, which are both wholly-owned subsidiaries of the Bank of the Philippine Islands.

The Underwriter has no contract or other arrangement with the Company by which it may return to the Company any unsold Series A Bonds.

BPI Capital is the wholly-owned investment banking subsidiary of the Bank of the Philippine Islands and is duly licensed by the SEC to engage in the underwriting and distribution of securities. BPI Capital offers investment banking services in the areas of financial advisory, mergers and acquisitions, debt and equity underwriting, private placement, project finance and loan syndication. It began operations as an investment house in December 1994. As of September 30, 2016, BPI Capital had total assets of PhP5.8 billion and total capital funds of PhP5.7 billion.

SALE AND DISTRIBUTION

The distribution and sale of the Series A Bonds shall be undertaken by the Underwriter who shall sell and distribute the Series A Bonds to third party buyers/investors. The Underwriter is authorized to organize a syndicate of sub-underwriters, soliciting dealers and/or selling agents for the purpose of the Offer; provided, however, that the Underwriter shall remain solely responsible to the Issuer in respect of its obligations under the Underwriting Agreement entered into by them with the Issuer and the Issuer shall not be bound by any of the terms and conditions of any agreement entered into by the Underwriter with such other parties. Nothing herein shall limit the rights of the Underwriter from purchasing the Series A Bonds for its respective accounts.

TERM OF APPOINTMENT

The engagement of the Underwriter shall subsist so long as the SEC Permit to Sell remains valid, unless otherwise terminated pursuant to the Underwriting Agreement.

MANNER OF DISTRIBUTION

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

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

OFFER PERIOD

The Offer Period shall commence on [9 June 2017] and end on [16 June 2017].

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

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

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

a. Proof of Tax Exemption

   i. For corporations enumerated under Section 30 of the Tax Code (except those under Section 30(H) which shall be governed by the second paragraph below, and those under Section 30(G) which shall be governed by the fourth paragraph below), and cooperatives duly registered with the Cooperative Development Authority – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue ("BIR") not more than three (3) years before the date of each Interest Payment Date;
   ii. For BIR-approved retirement benefit plan, and non-stock, non-profit educational institutions – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;
   iii. For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;
   iv. For Government-owned or -controlled corporations – copy of the valid and subsisting law creating them;
   v. For foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments – (i) Consularized certification issued by their Ministry of Finance, or its equivalent in their country of residence, stating that the Bondholder's income is exempt from income tax, and (ii) consularized copy of the law, charter or agreement creating them, which should be written in English or accompanied with English translation;

b. With respect to tax treaty relief:

   i. The original of the duly accomplished Certificate of Residence for Tax Treaty Relief ("CORTT") Form, both Parts I and II thereof, prescribed under Revenue Memorandum Order No. 8-2017, which should be consularized if executed outside the Philippines. If the Applicant prefers, Part II (A), (B), (C), and (D) of the CORTT Form may be excuted by the Applicant's authorized represetative in the Philippines; and
   ii. If the Applicant prefers, the duly consularized certificate of residence prescribed in their country of residence, together with Part I (A), (B), and (C) of the CORTT Form, and Part II (A), (B), (C), and (D) of the CORTT Form. If the Applicant prefers, Part II (A), (B), (C), and (D) of the CORTT Form may be excuted by the Applicant's authorized representative in the Philippines.

   In addition to the foregoing:

   i. At least 30 calendar days before the validity period of the certificate of residence submitted by the Applicant to the Underwriter expires, the Applicant, without the need for notice or demand from the Underwriter, shall submit a new certificate of residence to the Underwriter. The new certificate of residence, whether using Part I of the CORTT Form or the form prescribed in the Applicant's country of residence, shall be consularized if executed outside the Philippines; and
   ii. At least two (2) Banking Days before each Interest Payment Date, the Applicant shall submit to the Underwriter a duly accomplished Part II (A), (B), (C), and (D) of the CORTT Form, which may be executed by the Applicant's authorized representative in the Philippines.

c. A duly notarized declaration (in the prescribed form) warranting the Bondholder's tax-exempt status or entitlement to preferential treaty rates and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and

d. Such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

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

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

MINIMUM PURCHASE

A minimum purchase of Php50,000.00 shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of Php10,000.00.

ALLOTMENT OF THE BONDS

If the Series A Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice subject to AboitizPower's exercise of its right of rejection.

ACCEPTANCE OF APPLICATIONS

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

REFUNDS

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

SECONDARY MARKET

AboitizPower intends to list the Series A Bonds at the PDEx. AboitizPower may purchase the Series A Bonds at any time, in the open market or by tender or by contract at any price, without any obligation to make pro rata purchases of Bonds from all Bondholders.

REGISTRY OF BONDHOLDERS

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

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

DESCRIPTION OF THE BONDS

The detailed terms and conditions of a particular tranche of the Bonds shall be set out in the relevant Offer Supplement under "Description of the Offer." However, any such discussion under "Description of the Offer" does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and Shareholders of the Company, the information contained in this Preliminary Prospectus, the Trust Agreement, the Underwriting Agreement, the Registry and Paying Agency Agreement and other agreements relevant to the Offer. Prospective Bondholders must make their own appraisal of the Issuer and the offer, and must make their own independent verification of the information contained herein and the other aforementioned documents and any other investigation they may deem appropriate for the purpose of determining whether to participate in the offer of the Bonds. They must not rely solely on any statement or on the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis. Prospective Bondholders are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Bonds being offered.

THE COMPANY

BUSINESS DEVELOPMENT

AboitizPower is a publicly-listed holding company incorporated on 13 February 1998. Through its Subsidiaries and Affiliates, AboitizPower is a well-positioned leader in the Philippine power industry being the second largest generation, distribution, and retail electricity supply company. The Company's controlling shareholder, AEV, is a diversified conglomerate that is listed in the PSE, and has interests in power, banking and financial services, food, infrastructure, and land. This relationship allows the Company to draw on AEV's strong foundation for sustained growth by being the Philippines' second oldest family-led business group, with an experienced management team, right partners and robust talent management, strong financial position, proactive risk and insurance management, and GRI-certified sustainability reporting system to support the Company's robust growth initiatives.

The Company has accumulated interests in a portfolio of power generating plants, using renewable and non-renewable sources. As of the first quarter of 2017, its generation companies have an attributable net sellable capacity of 2,975 MW. Following the ERC's control test to determine market share of the Company, and supplemented with DOE's information (based on Luzon-Visayas-Mindanao Power Outlook released July 2016) for capacity coming online, the Company's projected market share of the national grid's installed generating capacity by end of 2017 is 17.9%. .

The table below summarizes the Company's power generation companies and key information as of 31 March 2017:

Plant Name	Net Sellable Capacity (MW)	Attributable Net Sellable Capacity (MW)	Management Company	Offtaker
Ambuklao	105	53	SNAP-Benguet	WESM
Bakun	70	70	LHC	WESM / Coops / NGCP
Benguet 1-11	38	38	Hedcor	NPC (2018) / BOO / Bilaterals
Binga	140	70	SNAP-Benguet	WESM / NGCP
Davao 1-5	5	5	Hedcor	Davao Light
Magat	360	180	SNAP-Magat	WESM / Coops / NGCP
Sibulan (A, B and Tudaya A)	49	49	Hedcor Sibulan	Davao Light
Sabangan	14	14	Hedcor Sabangan	FIT
Tudaya (B)	7	7	Hedcor Tudaya	FIT
Tiwi - Makban	390	390	APRI	WESM / Bilaterals
Unified Leyte	40	40	AESI	IPPA (2022) / VECO
Sacasun	46	23	SacaSun	WESM
Mindanao	210	71	STEAG Power	NPC (2031) / BOT
Mariveles	604	399	GN Power Mariveles	Bilaterals/WESM
Davao	260	260	TSI	Bilaterals
Pagbilao	700	700	TLI	IPPA (2025) / Bilaterals / WESM
Toledo	216	57	CEDC	Bilaterals
Cebu	66	40	CPPC	VECO
Cotabato	7	7	Cotabato Light	
Bajada	38	38	Davao Light	Davao Light
General Santos	55	11	SPPC	Bilaterals
Mactan	44	44	EAUC	MEPZ I

Mobile 1	96	96	TMI	Bilaterals
Mobile 2	96	96	TMI	BIlaterals
Mobile 3-6	200	200	TMO	Meralco
Zamboanga	100	20	WMPC	Bilaterals
Total	**3,954**	**2,976**		

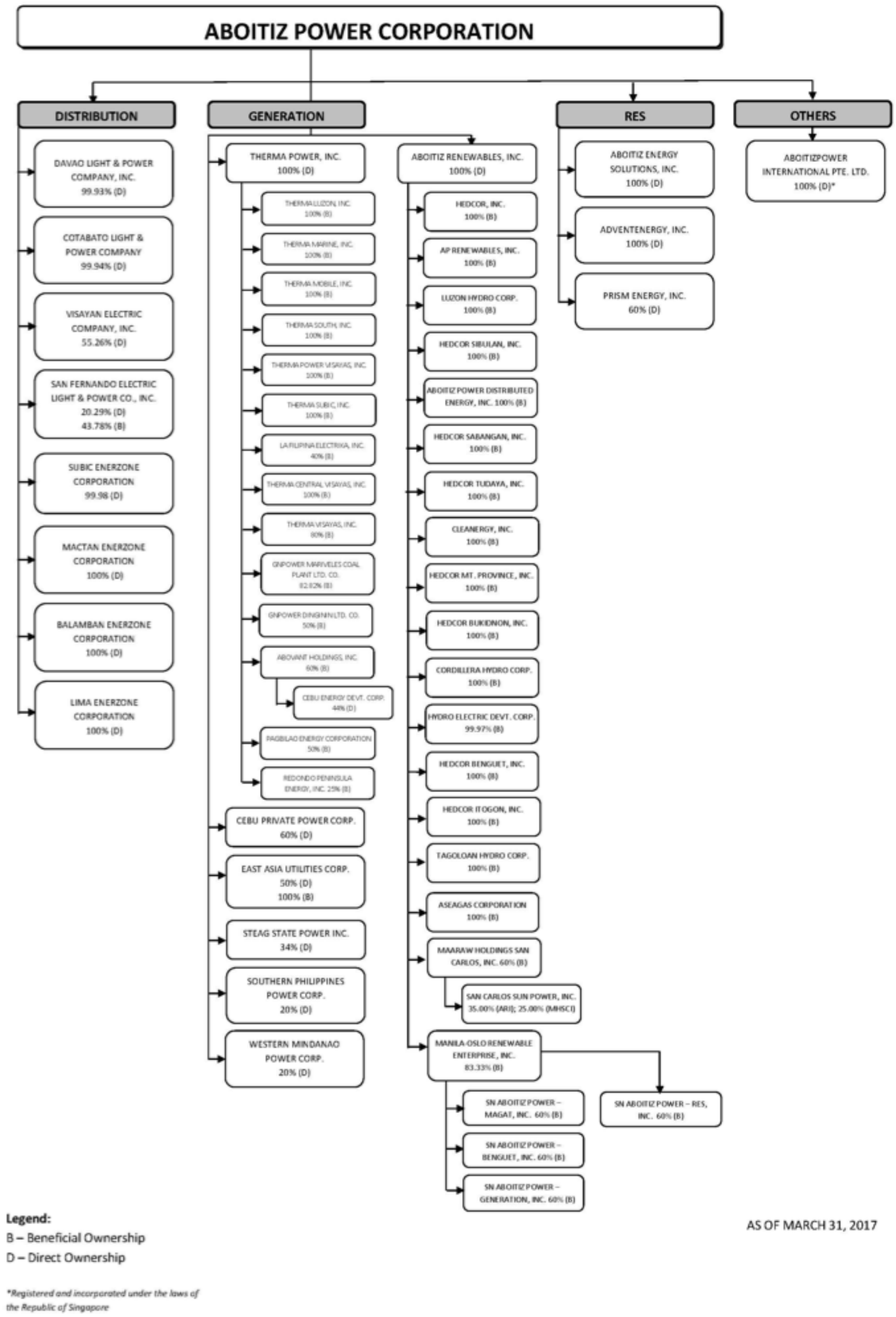
The Company owns interests in several distribution utilities in Luzon, Visayas and Mindanao, including VECO and Davao Light, which are respectively the second and third largest privately-owned distribution utilities in the Philippines in terms of both customers and annual GWh sales. The Company also owns interests in Cotabato Light, SFELAPCO, SEZ, MEZ, BEZ, and LEZ. For 2016, the Distribution Companies sold a total attributable energy of 5,105 GWh. As of year-end 2016, the Distribution Companies are serving approximately 916,876 customers.

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

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

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

BRIEF HISTORY OF ABOITIZPOWER AND ITS SIGNIFICANT SUBSIDIARIES



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

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

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

AboitizPower was incorporated on 13 February 1998 as a holding company for the Aboitiz Group's investments in power generation and distribution. 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).

Magat Plant

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

Ownership and Equity Interests in Distribution Companies

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

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

Subic Coal Project

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

(MPGC), TCIC and TPI entered into a Shareholders' Agreement to formalize their participation in RP Energy. MPGC took the controlling interest in RP Energy, while TCIC and TPI maintained the remaining stake equally.

Equity Interest in EAUC

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

Ownership Interests in MEZ, BEZ, and SEZ

On 8 June 2007, as part of the reorganization of the power-related assets of the Aboitiz Group, the Company acquired 100% interest in Mactan Enerzone Corporation (MEZ) from its Affiliate, Aboitiz Land, Inc. (AboitizLand). MEZ owns and operates the PDS in MEPZ II in Mactan Island in Cebu. The Company also acquired 60% interest in Balamban Enerzone Corporation (BEZ), which owns and operates the PDS in West Cebu Industrial Park-Special Economic Zone (WCIP-SEZ) in Balamban, in the eastern part of Cebu. The Company also consolidated its ownership interests in SEZ by acquiring the combined 25% interest in SEZ held by AEV, SFELAPCO, Okeelanta Corporation (Okeelanta) and Pampanga Sugar Development Corporation (PASUDECO). These acquisitions were made through a share swap agreement, which involved the issuance of the Company's 170,940,307 common shares issued at the initial public offering (IPO) price of Php5.80 per share in exchange for the foregoing equity interests in MEZ, BEZ and SEZ.

Public Offering of Shares

Ownership in AboitizPower was opened to the public through an IPO of its common shares in July 2007. Its common shares were officially listed in the Philippine Stock Exchange, Inc. (PSE) on 16 July 2007.

Cebu Coal Project

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

Equity Interest in STEAG Power

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

Ambuklao Hydroelectric Power Plant

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

Increased Equity Interest in SEZ

In 2007, AboitizPower entered into an agreement to buy the 20% equity of Team Philippines in SEZ for Php92 mn. Together with the 35% equity in SEZ of AboitizPower's Subsidiary, Davao Light, this acquisition brought AboitizPower's total equity in SEZ to 100%.

Increased Equity Interest in BEZ

In 2008, AboitizPower bought the 40% equity ownership of Tsuneishi Holdings (Cebu), Inc. (THC) in BEZ for approximately Php178 mn. The acquisition brought AboitizPower's total equity in BEZ to 100%.

Tiwi-MakBan Geothermal Facilities

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

Pagbilao Coal-Fired Power Plant

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

Mobile 1 and Mobile 2 Power Barges

AboitizPower, through its subsidiary, Therma Marine, Inc. (TMI), assumed ownership over Mobile 1 and Mobile 2 on 6 February 2010 and 1 March 2010, respectively, after acquiring the two power barges from PSALM for US$30 mn through a negotiated bid concluded on 31 July 2009. Each of the barge-mounted diesel powered generation plants has a generating capacity of 100 MW. Mobile 1 and Mobile 2 are moored at Barangay San Roque, Maco, Compostela Valley and Nasipit, Agusan del Norte, respectively. Prior to AboitizPower's acquisition of the barges, Mobile 1 was referred to as Power Barge (PB) 118 while Mobile 2 was referred to as PB 117.

Navotas Fishport Floating Power Plants

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

New Corporate Headquarters

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

Unified Leyte Geothermal Power Plant

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

Developments in the Past Three (3) Years

Naga Power Plant Complex

On 31 March 2014, Therma Power-Visayas, Inc. (TPVI) was declared the highest bidder for the privatization of the Naga Power Plant Complex (NPPC) located in Colon, Naga City, Province of Cebu. SPC Power Corporation (SPC), the other bidder, exercised its right-to-top (RTT) under the Naga Power Plant Land-Based Gas Turbine Land Lease Agreement (LBGT- LLA), and PSALM declared SPC as the winning bidder. Senator Sergio R. Osmeña III filed a petition for certiorari and prohibition to enjoin PSALM from implementing SPC's RTT, and to have the said RTT declared null and void. PSALM, SPC and TPVI were impleaded as respondents. In its 28 September 2015 Decision, the Supreme Court cancelled the award to SPC on the finding that SPC's RTT is void for lack of interest or right to the object over which the right to top is to be exercised. The Supreme Court has denied the motions filed by SPC with finality and issued an Entry of Judgment on 9 January 2017. On February 14, 2017, TPVI thru counsel, received a copy of the Entry of Judgment dated January 9, 2017, stating that the September 28, 2015 Decision and October 5, 2016 Resolution have become final and executory on November 28, 2016 and have been recorded in the Book of Entries of Judgment.

Pagbilao Unit III

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

Ownership Interest in LEZ

On 19 June 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 electricity distribution utility serving the Lima Technology Center (LTC) located in Lipa City, Batangas. LEZ manages a 50-MVA substation with dual power supply system connected through a 69-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.

Increase of shareholdings by the Garcia Group in Therma Visayas, Inc.

The Garcia Group acquired 20% interest in TVI through subscriptions from its increase in authorized capital stock, which was approved by the SEC on December 23, 2014.

Issuance of Fixed-Rate Corporate Retail Bonds

On 29 August 2014, SEC approved AboitizPower's application for the issuance of fixed-rate corporate retail bonds (the "Bonds") with an aggregate principal amount of up to Php10 bn. The Bonds, which received the highest possible rating of "PRS Aaa" rating from the Philippine Rating Services Corporation, were issued simultaneously in two series, the 7-year bonds and the 12-year bonds. The Series A Bonds are also listed with the PDEx, the fixed-income securities market which provides an electronic trading platform of exchange for fixed-income securities.

Solar Photovoltaic Power Generation Projects

In November 2014, the Company, through its holding company for its renewable assets, Aboitiz Renewables, Inc. (ARI), entered into a joint framework agreement with Sun Edison Philippines Helios BV (SunEdison) to jointly explore, develop, construct, and operate utility scale solar photovoltaic power generation projects in the Philippines for the next three years. The projects intend to swiftly bring cost-effective solar energy to the country. On 18 August 2015, ARI and SunEdison signed shareholders' agreements to formalize the equity sharing, governance structure, and other terms and conditions of the ARI and SunEdison partnership in Maaraw Holdings San Carlos, Inc. The joint venture company, San Carlos Sun Power, Inc. (Sacasun), will undertake the acquisition, development and exploration of the 59-Megawatt peak (MWp) solar photovoltaic power generation project in San Carlos City, Negros Occidental. On 15 July 2016, ARI issued default notices to its joint venture partner, Sun Edison Philippines Helios BV, in respect of their project vehicle, Sacasun, due to a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code filed by SunEdison's parent company, Sunedison, Inc. in early 2016. On 29 December 2016, ARI signed a Memorandum of Understanding (MOU) with BDO Unibank, Inc. (BDO) and Sacasun for the acquisition by ARI of Sacasun's loan from BDO.

TSI Unit 1

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

Hydropower Generation Project in Central Sulawesi, Indonesia

In pursuit of its undertaking to expand its business in Asia, AboitizPower entered into an agreement with SN Power AS (SN Power) and PT Energi Infranusantara on 25 September 2015 to participate in the feasibility studies for the exploration and development of a potential 127 MW hydropower generation project along the Lariang River in Central Sulawesi, Indonesia.

Partnership with PT Medco (Cancelled)

On 21 September 2015, AboitizPower's wholly owned Singapore-based Subsidiary, AboitizPower International Pte. Ltd. entered into an agreement with PT Medco Power Indonesia (PT Medco) to participate in the exploration and development of a potential 2x55 MW Greenfield geothermal plant in East Java Province, Indonesia. On 31 January 2017, after reviewing its overall capital commitments, AboitizPower decided to exit from the Greenfield geothermal exploration and development project and has agreed to step aside to allow PT Medco to proceed with the project.

Equity Interest in Aseagas

On 4 July 2016, ARI completed its acquisition of all equity interests of Aseagas Corporation (Aseagas) from AEV. The acquisition of the shares in line with AboitizPower's target to increase its attributable net sellable capacity to 4,000 by 2020. Aseagas will operate a biomass renewable energy plant to produce power from organic waste.

Ownership Interests in GMCP and GNPD

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

COMPETITIVE STRENGTHS AND BUSINESS STRATEGY

The Company believes that its principal strengths are the following:

Strong track record in both power generation and distribution.

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

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

Ability to take advantage of expected strong power market fundamentals.

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

Vertically-integrated power generation and distribution company.

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

Power generation contracts that provide steady and predictable cash flow.

As of December 2016, 91% of the attributable net sellable capacity of the Company are under long-term contracts, the bulk of which would be under a capacity-based structure. The Company believes that these contracts will provide steady cash flows in the medium and long-term from a variety of offtakers including distribution utilities and contestable customers under the Open Access regime. In particular, the Generation Companies have existing bilateral contracts that require offtakers to either pay for available capacity (in the case of the majority of the Company's baseload and oil plants) or to pay for all the electricity generated by the relevant plant (in the case of the bulk of the Company's run-of-river hydroelectric plants). A number of plants also have contracts that do not take fuel risk either because of direct pass-through mechanisms in their respective PPAs or fuel is supplied by their offtakers.

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

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

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

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

Republic Act No. 9513, the Renewable Energy Act is intended to give additional incentives to the Generation Companies, which will in turn translate to lower operating costs. The law provides fiscal and non-fiscal incentives, including income tax holiday for a period of seven (7) years, duty-free importation, and special rates on real property taxes among others. See the section entitled "*The Renewable Energy Act of 2008*" on page 130 of this Preliminary Prospectus.

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

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

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

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

Established relationships with strategic partners.

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

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

Strong and experienced management team.

The Company is led by a seasoned management team with a track record of hands-on management in the complex power generation and distribution business. The management team is not only tenured but has in depth technical and financial expertise to meet the challenges of this fast growing business. In line with this, further domain expertise has been integrated in Trading, Marketing, Energy Economics, Assets and Contracts

Management, Business Development, Environment and Construction among others. As a result, AboitizPower posts sustained positive growth and an equally strong financial performance.

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

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

BUSINESS STRATEGY

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

Expand the Company's generation portfolio

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

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

400-MW Pulverized Coal-Fired Expansion Unit 3 in Pagbilao, Quezon. This project is undertaken by PEC, a partnership between AboitizPower subsidiary Therma Power, Inc. (TPI), and TeaM (Philippines) Energy Corporation (TEPEC). Last April 25, 2014, the EPC contract was awarded to a contractor consortium comprised of Mitsubishi Hitachi Power Systems Ltd, Daelim Industrial Co, Ltd, DESCO, Inc. and Daelim Philippines, Inc.. The plant construction commenced last September 2014 and the target commercial operation is planned for year-end 2017.

300-MW CFB Coal-Fired Project in Toledo City, Cebu. This project is undertaken by Therma Visayas, Inc. (TVI), a partnership between AboitizPower and Vivant. The project involves the construction of a 2 x 170-MW coal-fired power plant. The EPC contract was awarded to Hyundai Engineering Co. Ltd. (HEC). The NTP for all EPC activities was issued on March 18, 2015. Targeted commercial operation is first quarter of 2018.

68-MW Manolo Fortich Hydropower Plant in Bukidnon. This Project is composed of the 43.4-MW Manolo Fortich Hydro 1 and the 25.4-MW Manolo Fortich Hydro 2 plants which shall be located in the Province of Bukidnon. Both plants are expected to produce at least 350 GWh annually. The construction of the Manolo Fortich Project began in 2015 with a total project cost is estimated at ₱13 bn and is expected to be completed by the third quarter of 2017.

8.8MW Biomass Plant in Lian, Batangas. Aseagas is a project that involves the construction of an initial biomass plant with a capacity of 8.8 MW. The construction commenced last March 18, 2014 and expected to be completed in 2017. Aseagas has already amended the BREOC (Biomass Renewable Energy Operating Contract) with DOE (Department of Energy). The DOE endorsement, which is one of the requirements for a point to point application with NGCP (National Grid Corporation of the Philippines) to secure certificate for FIT eligibility, has since been secured. At the moment, the FIT rate is expected to be at P6.63/kWh.

8.5-MW Maris Canal Hydropower Plant Project in Ramon Isabela. This project is undertaken by SN Aboitiz Power-Magat and involves the construction of an 8.5 MW run-of-river hydropower plant. The project, which broke ground in late 2015, is targeted to be completed by late-2017. As of February 2017, the project is already 66% completed.

668-MW Supercritical Coal-Fired GN Power Dinginin Unit 1 in Bataan. This project is a joint venture of AC Energy, Aboitiz Power subsidiary Therma Power and Power Partners. The GNPower Dinginin Plant will initially consist of a 1 x 668 MW supercritical coal-fired power plant (with a one-time expansion option for an additional 1 x 668 MW supercritical unit). Unit 1 is currently under construction and estimated completion is in 2019.

600-MW CFB Coal-Fired Power Plant in Subic. This project is undertaken by Redondo Peninsula Energy, Inc. (RP Energy), a joint venture among Meralco PowerGen Corporation (MPGC), Aboitiz subsidiary Therma Power, Inc. (TPI) and Taiwan Cogeneration International Corporation (TCIC). The project involves the construction and operation of a 2 x 300 MW (net) circulating-fluidized-bed (CFB) coal-fired power plant. Full implementation of the project is ongoing with expected commercial operation of the power plant starting 2020.

390-MW Alimit Hydropower Complex in Ifugao. This project is undertaken by SN Aboitiz Power-Ifugao, Inc. and involves the construction of the 120-MW Alimit hydropower plant, 250-MW Alimit pumped storage facility, and the 20-MW Olilicon hydropower plant.SN Aboitiz Power remains committed in securing the necessary permits to develop the proposed 390-MW hydro complex project in Ifugao. Foremost here is the Free Prior and Informed Consent from the indigenous peoples. This consent is an important component of the feasibility review for the project.

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

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

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

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

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

Naga Power Plant. Senator Sergio Osmeña filed a petition for Certiorari with the Supreme Court to nullify the right to top granted by PSALM to SPC Power Corporation in respect of the 153.1 MW Naga Power Plant Complex bidding and to enjoin the award on the grounds that SPC's right to top is against public policy.

On February 14, 2017, AboitizPower was informed by TPVI that it received the Entry of Judgment dated January 9, 2017 issued by the Supreme Court. SPC Power Corporation has a pending Motion for Leave to File and Admit Motion for Reconsideration dated December 9, 2016 with the Supreme Court.

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

Shift the bulk of the Company's power supply agreements to capacity-based contracts

In the past, AboitizPower used to generate the bulk of its sales through energy-based contracts in the form of transition supply contracts inherited by the Company when it won its bids for several assets previously owned by the Philippine government. These contracts resulted in a lot of volatility in the Company's historical financial performance. As these contracts expired, AboitizPower embarked on a deliberate shift from energy-based to capacity-based contracts. In general, the latter are essentially de-risked contracts since these provide a fixed capacity fee payment for the Company covering capital recovery and operation and maintenance costs; allows for the full pass-through of fuel costs, which make up a significant portion of the Company's operating costs; and includes provisions for inflation-related adjustments and where applicable, forex adjustments on these costs. The combination of these features allows the Company to minimize revenue to cost mismatches. As such, the shift to capacity-based contracts will allow AboitizPower to benefit from more stable and predictable cash flows and minimize volatility in the Company's cash flow generation.

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

AboitizPower currently owns eight distribution utilities, including the country's second and third largest distribution utilities in the country. Its target is to reach 12 TWh of energy sales to distribution and retail customers (see section on "*Retail Energy Supply*" on page 98 of this Preliminary Prospectus). To achieve this, the current plans for the distribution business include:

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

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

Maximize contestable market share through Retail Energy Supply Subsidiaries

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

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

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

PRINCIPAL PRODUCTS

Generation of Electricity

Since its incorporation in 1998, AboitizPower has accumulated interests in both renewable and non-renewable generation plants. As of 31 December 2016, the power generation business accounted for 82% of earning contributions from AboitizPower's business segments. AboitizPower conducts its power generation activities through the Subsidiaries and Affiliates listed in the table below.

The table below summarizes the Generation Companies' operating results as of 31 December 2016, compared with the same period in 2015 and 2014:

Generation Companies	Energy Sold 2016	Energy Sold 2015	Energy Sold 2014	Revenue 2016	Revenue 2015	Revenue 2014
	(in GWh)			(in mn Pesos)		
APRI	2,688	2,643	2,772	10,334	10,714	12,397
Hedcor	140	154	156	776	800	814
LHC	263	248	263	801	712	733
Hedcor Sibulan	189	212	239	1,131	1,260	1,352
Hedcor Tudaya	30	33	32	180	187	165
Hedcor Sabangan	28	39	N/A	166	228	N/A
SN AboitizPower - Magat	923	762	754	6,308	6,223	5,769
SN AboitizPower - Benguet	867	819	844	6,307	6,549	6,692
TLI	5,091	5,124	4,706	19,661	20,455	20,093
TSI*	1,640	436	N/A	8,869	1,745	N/A
Cebu Energy	1,723	1,713	1,494	7,966	8,109	8,037
STEAG Power	1,605	1,671	1,207	4,706	4,811	4,298
WMPC	355	644	597	1,636	1,430	1,442
SPPC	155	292	334	633	709	743
CPPC	146	159	140	1,292	1,465	1,704
EAUC	90	117	123	725	936	1,205
TMI	917	1,205	845	4,268	6,437	6,844
TMO	336	308	327	2,911	3,231	3,996
Davao Light**	0	0	0	Revenue Neutral	Revenue Neutral	Revenue Neutral
Cotabato Light**	0	0	0	Revenue Neutral	Revenue Neutral	Revenue Neutral

* *Operation for Unit 1 only for the year 2015.*

** *Plants are operated as stand-by plants and are revenue neutral, with costs for operating each plant recovered by Davao Light and*

Cotabato Light, as the case may be, as approved by the ERC.

Renewable Energy

Aboitiz Renewables, Inc. (ARI)

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

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

- 100% equity interest in Luzon Hydro Corporation (LHC) which operates the 70-MW Bakun AC HEPP in Ilocos Sur in northern Luzon;
- 100% equity interest in Hedcor, which operates 16 mini-hydroelectric plants (each with less than 10 MW in installed capacity) with a total capacity of 42 MW located in Benguet province in northern Luzon and in Davao City in southeastern Mindanao;
- 100% equity interest in Hedcor Sibulan, Inc. (Hedcor Sibulan), which operates the 49-MW Sibulan and Tudaya 1 HEPP in Davao del Sur;
- 100% equity interest in Hedcor Tudaya, Inc. (Hedcor Tudaya), which operates the 7-MW Tudaya 2 HEPP in Davao del Sur;
- 100% equity interest in Hedcor Sabangan, Inc. (Hedcor Sabangan), which operates the 14-MW Sabangan run-of-river HEPP in Sabangan, Mountain Province;
- 100% equity interest in Hedcor Bukidnon, Inc. (Hedcor Bukidnon), which is currently building a 68-MW run-of-river HEPP in Manolo Fortich, Bukidnon;
- 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 in Isabela in northern Luzon and SN Aboitiz Power-Benguet, the company that operates the 245-MW Ambuklao-Binga HEPP complex in northern Luzon;
- 100% equity interest in APRI, which owns the 390-MW Tiwi-MakBan geothermal facilities located in Albay, Laguna and Batangas;
- 60% equity interest in Maaraw Holdings San Carlos, Inc. (Maaraw San Carlos) which owns Sacasun, the project company of the 59-MWp utility-scale solar photovoltaic solar project in San Carlos City, Negros Occidental;
- 100% equity interest in Aboitiz Power Distributed Energy, Inc. (APX), the company engaged in developing energy solutions using emerging technology; and
- 100% equity interest in Aseagas Corporation (Aseagas), the company established for the Group's biomass project located in Lian, Batangas.

Geothermal

AP Renewables, Inc.

APRI, a wholly owned Subsidiary of ARI, is effectively 100% owned by AboitizPower. It is one of the country's leading renewable power companies. It acquired the Tiwi-MakBan geothermal facilities located in Tiwi, Albay, Bay and Calauan both in Laguna, and Sto. Tomas, Batangas from PSALM in July 2008. These geothermal facilities, with a total potential capacity of 693.2 MW, were formally turned over to APRI on 25 May 2009.

As geothermal power plants, Tiwi and MakBan produce clean energy that is reasonable in cost, efficient in operation and environment-friendly. With continuous technological advancements, APRI aims to operate and maintain the Tiwi and MakBan geothermal facilities in accordance with the highest professional standards of world-class independent power producers operating in a regulated market. On 26 May 2013, APRI's steam supply contract with the Philippine Geothermal Production Company, Inc. (PGPC) shifted to a Geothermal Resources Sales Contract (GRSC). APRI assumed certain rights and obligations of the NPC and PSALM under the GRSC as a result of the acquisition of the Tiwi-MakBan geothermal facilities. Under the GRSC, the effective steam price payable to PGPC will be at a premium to coal prices.

On 13 August 2013, APRI and PGPC entered into an Interim Agreement amending the GRSC to modify the steam price formula. This agreement resulted in a more rational fuel costing during off-peak hours when electricity demand is low. APRI and PGPC continue to discuss the merit and feasibility of mutually beneficial steam off-take arrangements. The GRSC will expire on 30 September 2021.

APRI has successfully completed major refurbishment activities comprising of 14 generation units at the Tiwi and MakBan geothermal facilities. On March 2013, APRI completed the testing of Units 5 and 6 of the MakBan geothermal power plant for 72 hours at full load, in accordance with the requirements of the Asset Purchase Agreement between APRI and PSALM. On July 2016, APRI has likewise completed the rehabilitation and commissioning of the 6 MW Binary Plant 1 located in MakBan. The Binary Plant utilizes geothermal brine to run turbines prior to injection of the brine to the underground reservoir. Significant improvements in reliability and steam usage efficiency have been achieved following the completion of the aforesaid activities.

On February 2016, APRI signed an Omnibus Agreement with the Asian Development Bank (ADB), BPI and Credit Guarantee & Investment Facility (CGIF), a trust fund of ADB, to avail of the combined credit facilities of ADB and BPI up to the amount of Php12.5 bn. The issuance was certified as a Climate Bond in December 2015 by the Climate Bond Initiative and is the first issuance of its kind in Asia. Through the years, APRI's geothermal facilities have operated at an improved efficiency level through rehabilitation programs to counteract the challenges of declining steam supply.

Operations Review

The following table summarizes APRI's operating statistics for 2015 and 2016:

	FY 2016	**FY 2015**	**% change**
Net Sellable Capacity (MW)	390	390	-3%
Capacity Sold Factor	78%	75%	4%
Power Sales			
Bilateral Contracts (GWh)	2,138	2,066	4%
Spot Market / WESM (GWh)	550	577	-5%
Total Power Sales (MWh)	2,688	2,643	2%

Power Offtaker

APRI's generating capacity is sold through bilateral power supply contracts. Excess capacity is sold on a merchant basis through the WESM.

In the case of power supply contracts, revenue recognition under the contracts assumed under APA (known as

Transition Supply Contracts or TSCs) is 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 Generation Rate Adjustment Mechanism (GRAM) and the Incremental Currency Exchange Rate Adjustment (ICERA).

Starting 2011, to replace expired power supply contracts assumed under the APA, APRI entered into power supply agreements with customers who are billed for contracted price calculated based on geothermal steam pricing under the GRSC which is linked to coal and passed-on charges for WESM line rental charges and WESM net settlement surplus.

On 26 December 2012, the DOE and the ERC declared the implementation of RCOA with commercial operations commencing on 26 June 2013.

In 2013, APRI entered into contracts with its affiliated companies, Advent Energy, Inc. and Aboitiz Energy Solutions Inc. (AESI) to supply power for Open Access customers. Price is calculated using geothermal steam pricing under the GRSC, which is linked to coal.

As approved by the Philippine Electricity Market Corporation (PEMC), effective 25 March 2009, the Company is a trading participant and direct member under the generator sector of the WESM. Under its price determination methodology as approved by the ERC, locational marginal price (LMP) method is used in computing prices for energy bought and sold in the market on a per node, per hour basis.

Fuel Supply

Pursuant to the APA, control and management of Tiwi-MakBan was turned over by PSALM to APRI. However, the management and operation of the steam fields, which supply steam to Tiwi-MakBan, shall remain with PGPC (formerly Chevron). After the turn-over of Tiwi-MakBan, but before the rehabilitation was completed, the steam supply arrangement between APRI and Chevron was governed by a transition agreement, which provided for the reimbursement of capital expenditures and operating expenses, as well as payment of service fees by APRI to Chevron.

Upon completion of the rehabilitation, the steam supply arrangement shall be governed by the GRSC, wherein APRI will no longer pay service fees and reimburse Chevron for capital expenditures and operating expenses. Instead, under the GRSC, APRI shall pay Chevron for the price of steam, which shall be linked to Barlow Jonker and Japanese Public Utilities coal price indices. The GRSC became effective 26 May 2013 and shall continue to be effective until 2021. In 14 August 2013, APRI entered into an Interim Agreement with Chevron that allows for the price of steam to be measured at 50% of the prevailing Spot market price at the given hour when Spot prices fall below the computed GRSC rate. The agreement is effective until 25 June 2017.

Large Hydros

SN Aboitiz Power – Magat, Inc.

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

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

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

In September 2007, SN Aboitiz Power-Magat obtained a US$380-mn loan from a consortium of international and domestic financial institutions which include the International Finance Corporation, Nordic Investment Bank, BDO–EPCI, Inc., Bank of the Philippine Islands (BPI), China Banking Corporation (Chinabank), Development Bank of the Philippines (DBP), The Hongkong and Shanghai Banking Corporation Limited (HSBC), Philippine National Bank (PNB) and Security Bank Corporation (Security Bank). The US$380-mn loan consists of a dollar tranche of up to US$152 mn, and a peso tranche of up to Php10.1 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 (APA) 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 that were used to acquire the Magat Plant. In 2012, SN Aboitiz Power-Magat secured top-up financing of Php5 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 on October 12, 2009 with NGCP, 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. 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 or until November 28, 2020.

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

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 Php19 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 will be used by the company to, among others, 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 was completed on October 17, 2016.

Even with the pronouncement of El Niño phenomenon in the first half of 2016, inflow to the Magat reservoir was within the normal range during that period. However, inflow in the third quarter of 2016 was abnormally low, particularly in September that set the record for historical lowest inflow for that month in the past 33 years. This resulted to below normal reservoir elevation in the third quarter reducing the Magat Plant's generation capability. High inflow in the fourth quarter offset the plant's record low inflow and ended 2016 inflow at 86% of normal.

Despite the increase in spot generation, the Magat Plant's total sold capacity in 2016 is at 1.6 terrawatt-hour (TWh), slightly lower than the 1.7 TWh sold in 2015. This is due to the decrease in sold AS capacity in 2016 of 0.87 TWh, which is only 77% of the previous year's performance.

The Ancillary Services Procurement Agreement (ASPA) between SN Aboitiz Power-Magat and NGCP entered into on March 2013 expired on July 26, 2016 (2013 ASPA). On August 24, 2016, the company and NGCP jointly filed a new APSA with the ERC. The parties agreed to extend the 2013 ASPA, pending issuance by the ERC of a Provisional Authority or Final Approval of the new ASPA. The new ASPA has a validity of five years and has the same AS volume, price and schedule, terms and conditions as the 2013 ASPA. The Jurisdictional, Expository Presentation, Pre-trial Conference and Trial Hearings have been concluded for the new ASPA. SN Aboitiz Power-Magat and NGCP have yet to receive the Provisional Authority or Final Approval from the ERC.

SN Aboitiz Power Group's Greenfield Development Program aims to grow its renewable energy portfolio by looking at potential hydroelectric power projects in the Philippines, primarily within its current host communities in Northern Luzon.

The Maris Canal Hydropower Plant Project involves the construction of an 8.5-MW run-of-river hydropower plant in Ramon, Isabela. The project broke ground in late 2015 and is targeted for completion by late 2017.

SN Aboitiz Power-Magat is the project partner of the National Irrigation Administration (NIA) in the Maris Optimization Project in Ramon, Isabela. The project involves the installation of an additional layer of stoplogs on the Maris Re-regulating Dam, which will add some 8 mn cubic meters of storage in the Maris Reservoir. The additional storage will 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.

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

Operations Review

Acceptance of the Magat Plant's AS nomination decreased in 2013 mainly due to the implementation of a new ASPA and changes in NGCP's approval protocol. This reduced the plant's sold capacity by 41% in 2013 as compared to 2012.

The following table summarizes SNAP-Magat's operating statistics for 2015 and 2016:

	FY 2016	**FY 2015**	**% change**
Net Sellable Capacity (MW)	360	360	-
Capacity Sold Factor	57%	60%	-6%
Power Sales			

Bilateral Contracts (GWh)	718	637	13%
Spot Market / WESM (GWh)	205	126	63%
Total Power Sales (GWh)	923	762	21%
Ancillary Services			
Billed Capacity (GWh)	874	1,143	-24%

Power Offtaker

SNAP Magat's generating capacity is sold either through bilateral power supply contracts, to NGCP in the form of ancillary. Excess capacity is sold in a merchant basis through WESM.

In the case of bilateral power supply contracts, the involved trading participants settle directly with their contracting parties. Revenue recognition for customers under the power supply contracts assumed under the APA was billed based on the contract price which is calculated based on the pricing structure approved by the ERC. Rates were calculated based on the time-of-use pricing schedule. On the other hand, a new power supply contract took effect last July 26, 2013, with a flat rate schedule. As of March 31, 2014, SNAP Magat has bilateral power supply contracts with cooperatives such as ISELCO II, QUIRELCO, IFELCO and MPPLC.

Under EPIRA, NGCP, the system operator, is mandated to maintain the power quality and security of the grid by securing ancillary services from generation companies. Ancillary services are support services such as frequency regulating, contingency and dispatchable reserves, reactive power support, and black start capability which are necessary to support the transmission capacity and energy that are essential in maintaining power quality and security of the grid. SNAP-Magat is certified to provide ancillary services by virtue of the ASPA signed last March 2013.

As approved by the PEMC, effective on April 26, 2007, the Company is a trading participant and direct member under the generator sector of the WESM. Under its price determination methodology as approved by the ERC, locational marginal price (LMP) method is used in computing prices for energy bought and sold in the market on a per node, per hour basis.

The Company believes that as a hydroelectric facility that can be started up in a short period of time, the Magat hydroelectric plant is ideally suited to act as a peaking plant with opportunities to capture the significant upside potential that can arise during periods of high demand. The Company and SNAP-Magat are continuously evaluating various options in order to increase the efficiency, capacity and flexibility of the Magat plant.

SN Aboitiz Power – Benguet, Inc.

SN Aboitiz Power-Benguet is also ARI's joint venture with SN Power. The company is 60% owned by MORE, while the remaining 40% is owned by SN Power Netherlands.

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 that began in 2010 and was completed in 2013. This refurbishment increased the Binga Plant's capacity to 125 MW. It is now capable of generating up to 140 MW.

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

On 21 September 2015, SN Aboitiz Power-Benguet refinanced its existing peso credit facility from BDO and BPI. The new syndicated 15-year term loan is in the amount of Php15 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 AboitizPower-Benguet elected to avail the 10% corporate income tax rate incentives provided under the RE Law. The Binga Plant has previously obtained an ITH extension from the BOI that was effective until August 11, 2015. The Ambuklao Plant also obtained an ITH extension on February 26, 2013, which is valid until June 30, 2018. A series of extensive stakeholder engagement activities was successfully conducted to mitigate the impact of the shift from national wealth tax to government share on host local government units to ensure a smooth transition.

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 Php157.7 mn. The amount represents three years of tax benefits to the municipalities of Bokod and Itogon and Benguet province. The Memorandum of Agreement/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 ASPA for the Ambuklao Plant entered into on March 2013 between SN Aboitiz Power - Benguet and NGCP expired on 26 July 2016 (2013 ASPA). On 24 August 2016, the company and NGCP jointly filed a new ASPA with the ERC. The parties agreed to extend the 2013 ASPA pending issuance by the ERC of a Provisional Authority or Final Approval of the new ASPA. On 5 December 2016, the ERC issued a letter granting the issuance of a Provisional Authority for the implementation of the ASPA for the Ambuklao Plant effective 26 December 2016. The new ASPA is valid for five years from effectivity date under the same terms and conditions as the 2013 ASPA, and has firm contracted capacities covering regulating and contingency reserves of 30 MW to 82 MW depending on the month of the year.

The Ambuklao Plant's total sold capacity in 2016 increased to 76% with 701 GWh as compared with the previous year's 64% performance. This is mainly due to the year-round availability of the plant for AS provision, compared to 2015 when the plant was only able to commence delivering AS in the month of April.

The Binga Plant's sold capacity in 2016 is unchanged at 93% with 1.1 TWh. Higher spot generation was offset by the reduced AS capacity sold in 2015.

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

For the third straight year, the Ambuklao and Binga Plants were awarded the Gawad ng Kaligtasan at Kalusugan (GKK) Award given by the Department of Labor and Employment (DOLE). Both plants also received the Corporate Safety and Health Excellence Award during the 12th Energy Safety and Health Conference for the outstanding workplace safety and health performance of the plants.

As of 31 December 2016, SN Aboitiz Power-Benguet has contributed 662 GWh and Php1.037 bn to Bilateral Contract Quantity (BCQ), which accounts for 48% of BCQ volumes and 56% of BCQ net revenue. The company also contributed a total BCQ of 1.38 terawatt hours (TWh) and total BCQ net revenue of Php1.91 bn accounting for 29% and 17% of total SN Aboitiz Power Group volume sales and net revenue, respectively.

Operations Review

The following table summarizes SNAP-Benguet's operating statistics for 2015 and 2016:

	FY 2016	**FY 2015**	**% change**
Net Sellable Capacity (MW)	245	245	0%
Capacity Sold Factor	96%	100%	-4%
Power Sales			
Bilateral Contracts (GWh)	662	745	-11%
Spot Market / WESM (GWh)	205	74	177%
Total Power Sales (GWh)	867	819	6%
Ancillary Services			
Billed Capacity (MWh)	1,202	1,299	-7%

Power Offtaker

Binga and Ambuklao's generating capacity is sold either through bilateral power supply contracts or through NGCP as ancillary. Any excess capacity is sold through the spot market.

In the case of bilateral power supply contracts, the involved trading participants settle directly with their contracting parties. As of 2013, SNAP Benguet has a power supply contract with Dagupan Electric Corp. (DECORP).

As a power plant owner and operator, the Company has both power and energy related commodities/products to sell. SNAP-Benguet's Binga and Ambuklao facilities are certified to provide ancillary services by virtue of the ASPAs signed last March 2013 and October 2013, respectively.

As approved by PEMC, effective on 3 June 2008, the Company is a trading participant and direct member under the generator sector of the WESM. Under its price determination methodology as approved by the ERC, LMPmethod is used in computing prices for energy bought and sold in the market on a per node, per hour basis.

Run-of-River Hydros

Luzon Hydro Corporation

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

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

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

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

Operations Review

The following table summarizes LHC’s operating statistics for 2015 and 2016:

	FY 2016	FY 2015	% change
Net Sellable Capacity (MW)	70	70	-
Capacity Sold Factor	43%	45%	-4%
Power Sales			
Bilateral Contracts (GWh)	263	248	6%
Spot Market / WESM (GWh)	0	0	0%
Total Power Sales (GWh)	263	248	6%

Power Offtaker

Under the terms of the Bakun PPA, NPC is obligated to purchase, all the electricity generated by the Bakun plant. The Bakun PPA provides that NPC will pay LHC “capacity fees,” “energy fees,” and “operating fees” all of which must be paid even if NPC is unable to receive the electricity generated due to transmission constraints.

As of 31 December 2013, NPC has paid amounts due under the Bakun PPA in a timely manner.

Capacity fees consist of the “capital recovery fee” and the “service fee.” The capital recovery fee is payable in U.S. dollars and payments of the capital recovery fee were “front-loaded” over the first ten contract years of the Bakun PPA in order to allow LHC to service its debts.

The capital recovery fee for the first contract year under the Bakun PPA, which began in February 2001, was USD90.00/kW per month and this amount declines by approximately USD5.70/kW per month during the first seven contract years under the Bakun PPA. The capital recovery fee for the contract year ending in February 2007 was USD61.05/kW per month. The capital recovery fee for the contract year ending in February 2008, which is the seventh contract year under the Bakun PPA, was USD55.38/kW per month and declined to USD12.01/kW per month for the contract year ending in February 2009. In the tenth contract year under the Bakun PPA, the capital recovery fee was USD9.87/kW per month and was reduced to nil for the remaining years of the Bakun PPA. NPC also pays LHC a service fee that is payable in U.S. dollars at a rate of USD25/kW per month. The energy fee is also payable in U.S. dollars at a rate of USD0.0365/kWh of electricity generated over and above the equivalent energy of the contracted capacity. NPC is not obligated to pay the energy fee during situations when the Bakun plant fails to generate electricity in excess of the equivalent energy of the contracted capacity.

Under the terms of the Bakun PPA, LHC continues to be paid by NPC at the rate specified above for periods of “allowable downtime,” which are days when LHC is permitted to undertake scheduled maintenance activities on the Bakun plant and other periods during which LHC is unable to deliver electricity to NPC due to circumstances that are not attributable to the fault of LHC. The Bakun PPA allows LHC to schedule 15 maintenance days during each contract year, with any unused scheduled maintenance days being carried over to the next contract year. The Bakun PPA also permits LHC to designate two contract years where it will be able to have up to 60 scheduled maintenance days. LHC designated 2005 as one of the contract years where it could have up to 60 scheduled maintenance days, which allowed it to undertake extended repair and maintenance work on the Bakun plant and to complete the diversion of a portion of the Kayapa Creek to provide additional water flow for the Bakun plant.

LHC usually applies and utilizes its allowable downtime during the summer months, when hydrology is at its lowest. This enables LHC to undertake normal repair and maintenance on the Bakun plant and its equipment while at the same time generating more revenue than the actual hydrology would allow it to generate. Furthermore, because water flow during the summer months is low, the Bakun plant can continue operating with only one generating unit and one turbine while the other turbine units are being serviced, thereby allowing the plant to continue generating revenue.

Hedcor, Inc.

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

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

Northern Luzon’s climate is classified as having two pronounced season - dry from November to April and wet for the rest of the year. Due to this classification, generation levels of Hedcor’s plants, particularly those located in Northern Luzon, are typically lower during the first five months of each year. During the full years 2015 and 2016, Hecor’s hydropower plants generated a total of 153 GWh and 145 GWh of electricity, respectively.

Operations Review

The following table summarizes Hedcor's operating statistics for 2015 and 2016:

	FY 2016	FY 2015	% change
Net Sellable Capacity (MW)	42	42	-
Capacity Sold Factor	38%	42%	-9%
Total Power Sales (GWh)	138	136	1%
Bilateral Contracts (GWh)	2	17	-90%
Spot Market / WESM (GWh)	140	154	-9%

Power Offtaker

Hedcor's contract with its offtakers provides that all the power and energy produced by the hydroelectric plants will be sold to its customer.

Hedcor Sibulan, Inc.

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

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

On November 17, 2016, Hedcor Sibulan executed a notes facility agreement with a consortium of note holders for the issuance of fixed rate corporate notes in the amount of up tp Php4 bn. The proceeds of the notes issuance were used, among others, to finance the partial redemption of the company's redeemable preferred shares pursuant to its capital management program, and to fund other general corporate purposes.

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

The Sibulan HEPPs were awarded a Renewable Energy Service Contract (RESC) by the Department of Energy (DOE) and are currently enjoying the incentives under the Republic Act No. 9513 or the Renewable Energy Act of 2008 (RE Law).

Operations Review

The following table summarizes Hedcor Sibulan's operating statistics for 2015 and 2016:

	FY 2016	FY 2015	% change

Net Sellable Capacity (MW)	49	49	-
Capacity Sold Factor	44%	49%	-11%
Power Sales			
Bilateral Contracts (GWh)	189	212	-11%
Spot Market / WESM (GWh)	0	0	0%
Total Power Sales (GWh)	189	212	-11%

Power Offtaker

All of the energy generated by Hedcor Sibulan will be sold to Davao Light. The contract with Davao Light will expire in April 2022.

Hedcor Tudaya, Inc.

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

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

Hedcor Sabangan, Inc.

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

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

Operations Review

The following table summarizes Hedcor Sibulan's operating statistics for 2015 and 2016:

	FY 2016	**FY 2015**	**% change**
Net Sellable Capacity (MW)	0	14	-100%
Capacity Sold Factor	23%	52%	-56%
Power Sales			
Bilateral Contracts (GWh)	28	0	0%
Spot Market / WESM (GWh)	0	39	-100%
Total Power Sales (GWh)	28	39	-28%

Hedcor Bukidnon, Inc. (Hedcor Bukidnon)

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

This project is composed of the 43.4-MW Manolo Fortich Hydro 1 and the 25.4-MW Manolo Fortich Hydro 2 plants which shall be located in the Province of Bukidnon. Both plants are expected to produce at least 350 GWh annually. The construction of the Manolo Fortich Project began in 2015 with an estimated total project cost of Php13 bn. The project is expected to be completed by the third quarter of 2017.

On September 2015, Hedcor Bukidnon obtained loans and credit accommodations from a consortium of lender-banks in the amount of up to Php10 bn to finance the development, construction, operation and maintenance of the project. BPI Capital Corporation acted as Mandated Lead Arranger and Bookrunner, while Bank of the Philippine Islands - Asset Management and Trust Corporation (BPI-AMTC) acted as Trustee and Facility Agent.

Solar

Maaraw Holdings San Carlos, Inc.

Maaraw San Carlos is the holding company for ARI and SunEdison Philippines Helios BV (SunEdison Philippines)'s investments in Sacasun. Maaraw San Carlos' capital stock is held by ARI and SunEdison Philippines at 60% and 40%, respectively. Maaraw San Carlos is 60% Filipino-owned.

San Carlos Sun Power Inc. (Sacasun)

Incorporated on July 25, 2014 with primary purpose of exploring, developing, and utilizing renewable energy resources, Sacasun is the joint venture company of ARI, Maaraw Holdings San Carlos and SunEdison Philippines for the development, exploration and management of the 59-MWp solar photovoltaic power generation project in San Carlos City, Negros Occidental.

In August 2015, Sacasun embarked on a Greenfield, stand-alone solar farm project located in San Carlos Ecozone, Barangay Punao, San Carlos City, Negros Occidental. The project was conceptualized with the aim to achieve sustainable development and supply electricity to the Visayas grid, where there is a short supply and increasing demand for power. The solar farm project was commissioned on March 9, 2016 and formally inaugurated on April 19, 2016.

Sacasun applied for FIT eligibility under the second installation target of the DOE in order to avail of the preferred pricing and dispatch to the grid of the energy produced from the solar power plant.

The goal of the project is to harness sustainable power from the sun, while maintaining the integrity of the surrounding environment. After successful testing and commissioning in the first quarter of 2016, it began to generate daytime baseload power to the Visayas grid in March 2016. The solar farm has an approximate installed capacity of 58.98 MWp. The energy generated from the solar farm benefits at least 13,000 homes within the Visayas grid. Sacasun believes in producing clean energy for the sustainable development and inclusive growth of its shared environment and communities.

On 10 December 2015, Sacasun signed an Omnibus Loan and Security Agreement with BDO to secure a loan up to the amount of Php3.7 bn to finance the project. In early 2016, Sun Edison, Inc., the parent company of SunEdison Philippines, filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. ARI issued default notices to SunEdison Philippines with respect to Sacasun in July 2016. In December 2016, ARI signed a MOU with BDO and Sacasun for the acquisition by ARI of Sacasun's loan from BDO.

Aboitiz Power Distributed Energy, Inc. (APX)

Incorporated last November 2016 as company owned by ARI, APX is engaged in developing energy soutions using emerging technology such as Grid-tied Rooftop PhotoVoltaic systems, more commonly known as Rooftop Solar. This venture will explore new business models in the distributed energy space, leveraging synergies with other enegy products and services within the broader AboitizPower Group to provide superior customer experience.

Biogas

Aseagas Corporation

Incorporated on 5 June 2012, Aseagas, a wholly owned Subsidiary of AboitizPower, was established as a waste-to-energy business. Its first project was the construction of a Liquid Bio Methane (LBM) fuel plant in the Philippines. To ensure availability of raw material, Aseagas entered into an agreement with Absolut Distillers, Inc., a subsidiary of LT Group Inc. (formerly: Tanduay Holdings, Inc.), for the supply of organic effluent wastewater.

Due to the slump in oil prices at the end of 2014, Aseagas shifted its business model from producing LBM fuel for vehicles to producing biogas for power generation. Aseagas, however, is open to revisiting its original plan to produce LBM fuel should the prices of oil improve. In 2016, AboitizPower acquired Aseagas to consolidate its waste to energy business with AboitizPower's renewable energy portfolio.

Aseagas has an off take agreement under the FIT program for biomass with the DOE. The company's first project, located in Lian, Batangas, is expected to be on full commercial operation by fourth quarter of 2017. Aseagas is keen to expand its existing location and build new sites using various sources of waste streams as feedstock.

Non-Renewables

Therma Power, Inc.

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

- 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;
- 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;
- 100% equity interest in TLI, the IPPA of the 700-MW contracted capacity of the Pagbilao Plant in Quezon Province;
- 100% equity interest in TSI, owner and operator of a 300 MW CFB coal-fired plant in Toril, Davao City;
- 100% equity interest in TPVI, the project company that bid for the privatization of the Naga power plant, located in Naga City, Cebu.
- 100% equity interest in EAUC, owner and operator of a 43-MW Bunker C fired power plant in MEPZ 1, Mactan, Cebu;
- 80% equity interest in TVI, which is currently building a 300-MW coal-fired power plant in Toledo City, Cebu;
- 82.8% beneficial ownership interest as of year-end 2016 in GN Power–Mariveles, owner and operator of an approximately 2x316 MW (net) pulverized coal-fired electric power generation facility in Mariveles, Bataan. AboitizPower's ownership interest GN Power–Mariveles will ultimately be reduced to 66.1% post return of capital;
- 50% beneficial ownership interest as of year-end 2016 in GN Power–Dinginin, which proposes to build and operate a 2x668 MW (net) supercritical coal-fired power plant in Bataan. AboitizPower's

ownership interest in GN Power–Dinginin will ultimately be reduced to 40% post return of capital;

- 50% equity interest in PEC, which is currently building a 400-MW (net) coal-fired power plant in Pagbilao, Quezon Province;
- 26.4% effective interest in Cebu Energy, which operates a 3x82-MW coal-fired power plant in Toledo City, Cebu; and
- 25% equity interest in RP Energy, which proposes to build and operate a 2x300 MW coal-fired power plant in Redondo Peninsula in the SBFZ.

Coal Group

Therma Luzon, Inc.

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

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

Operations Review

The following table summarizes TLI's operating statistics for 2015 and 2016:

	FY 2016	FY 2015	% change
Net Sellable Capacity (MW)	700	700	0%
Capacity Sold Factor	91%	93%	-2%
Power Sales (MWh)			
Bilateral Contracts (GWh)	4,711	4,715	0%
Spot Market / WESM (GWh)	380	409	-7%
Total Power Sales (GWh)	5,091	5,124	-1%

Power Offtaker

TLI's generating capacity is sold through bilateral power supply contracts. It also offers 30 MW of its offpeak capacity as firm ancillary and a portion of its peak capacity on a non-firm basis to NGCP. Excess capacity is sold on a merchant basis through spot.

TLI's largest bilateral customer is Meralco. Revenue recognition for sale of power to Meralco under the power supply contract assumed under the IPP Administration Agreement 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 GRAM and ICERA. The related TSC with Meralco was already replaced by a PSA that became effective 26 December 2012.

On February 29, 2012, PSA with Meralco for 350MW capacity of Pagbilao Power Plant was signed. The term of the agreement commenced on 26 December 2012, after the same was approved by the ERC last December 17, 2012, and shall expire on the date falling seven (7) years after the effectivity date, unless terminated earlier in accordance with the terms of the agreement. Under the agreement, TLI will sell to Meralco capacity and electrical output from Pagbilao Power Plant. Meralco, on the other hand, will purchase contract capacity and electrical output of the Pagbilao Power Plant.

The payment to be made by Meralco in each billing period during the term of the contract shall consist of a Capacity and Energy payment. The Capacity Payment consists of Monthly Capacity Payment and Monthly Fixed O&M, and the Energy Payment consists of Fuel Payment, Variable O&M and Replacement Power.

On 26 December 2012, the DOE and the ERC declared the Implementation of RCOA with commercial operation commencing on 26 June 2013.

In June 2013, the Company entered into a Power Supply Contract with AESI, a licensed RES company and began its supply contract on the same month. AESI provides retail supply requirements to contestable customers located within the Meralco franchise.

TLI has also been entering into power supply agreements with customers who are billed for contracted price based on a coal-linked pricing scheme and pass on charges for WESM line rental charges and WESM net settlement surplus.

As approved by the PEMC, effective on October 1, 2009, the Company is a trading participant and direct member under the generator sector of the WESM. The Company is 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, LMP method is used in computing prices for energy bought and sold in the market on a per node, per hour basis.

Fuel Supply

TLI enters into short-term coal supply agreements. Outstanding coal supply agreements as of December 31, 2016 have aggregate supply amounts of 510,000 MT (equivalent dollar value is estimated to be at $42 million) which are due for delivery from January 2017 to August 2017. 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.

Pagbilao Energy Corporation

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

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

On May 2014, PEC entered into an Engineering, Procurement and Construction (EPC) contract with a consortium comprised of Mitsubishi Hitachi Power Systems Ltd., Daelim Industrial Co. Ltd., DESCO Inc. and Daelim Philippines Inc. for the project. PEC also signed an Omnibus Agreement to obtain loans and credit accommodations to finance the construction of Pag3 with a consortium of lender-banks in the amount of up to Php33.31 bn. Site construction activities are in progress in line with PEC's target commercial operations by Q4 2017.

Therma South, Inc.

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

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

Operations Review

The following table summarizes TSI's operating statistics for 2015 and 2016:

	FY 2016	FY 2015	% change
Net Sellable Capacity (MW)	260	130	100%
Capacity Sold Factor	86%	100%	-14%
Power Sales (MWh)			
Bilateral Contracts (GWh)	1,640	436	276%
Spot Market / WESM (GWh)	0	0	0%
Total Power Sales (GWh)	1,640	436	276%

TSI helped assuage the effects of the power supply deficit that plagued Mindanao in late 2015 up to the first half of 2016 by providing stable and cost-effective baseload power. The company contributes significantly to the upliftment of the lives of the communities hosting the plants through livelihood programs, education and enterprise development initiatives.

Therma Visayas, Inc.

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

TVI was incorporated on October 15, 1997 as Vesper Industrial & Development Corporation, a joint venture company of A. Soriano Corporation (Anscor) and Tokuyama Corporation (Tokuyama).

In December 2011, AboitizPower through its Subsidiary, TPI, acquired all shares of Anscor and Tokuyama, and thereafter renamed the company to Therma Visayas, Inc. The Garcia Group acquired 20% interest in TVI through subscriptions from its increase in authorized capital stock, which was approved by the SEC on December 23, 2014.

TVI aims to address the increasing power demand of the Visayas grid with provisions for the future addition of a third generating unit. Commercial operation of the first unit is expected to start by the last quarter of 2017 with the second unit following three months thereafter.

In May 2014, TVI signed an EPC contract with Hyundai Engineering Co., Ltd. and Galing Power Energy Co., Inc. Units 1 and 2 are expected to connect to the grid by the last quarter of 2017 and first quarter of 2018, respectively.

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

Incorporated on 28 November 2007, Abovant is a joint venture company formed to hold investments in Cebu Energy. Abovant is 60% owned by TPI and 40% owned by VIGC of the Garcia Group.

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

Abovant has a 44% stake in Cebu Energy, while Global Formosa owns the remaining 56% stake. Consequently, Aboitiz Power holds 26.4% effective interest in Cebu Energy.

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

Operations Review

The following table summarizes CEDC's operating statistics for 2015 and 2016:

	FY 2016	**FY 2015**	**% change**
Net Sellable Capacity (MW)	216	216	0%
Capacity Sold Factor	103%	102%	1%
Power Sales (MWh)			
Bilateral Contracts (GWh)	1,681	1,691	-1%
Spot Market / WESM (GWh)	42	22	91%
Total Power Sales (GWh)	1,723	1,713	1%

Power Offtaker

CEDC had signed an EPPA with VECO for the supply of 105 MW of electricity for 25 years. To date, it also has an EPPA with PEZA-MEZ I, Mactan Electric Company, Inc., BEZ, Cebu I Electric Cooperative, Inc., Cebu II Electric Cooperative, Inc., Cebu III Electric Cooperative, Inc. and Bohol Electric I Cooperative, Inc. All its EPPAs provide contracted minimum energy offtake with fuel as pass through.

Fuel Supply

In order to ensure that there is an adequate supply of coal to operate the power plants, CEDC has entered into a 10-year coal supply agreement with Semirara Mining Corporation on 31 May 2010. The Company guarantees to purchase from Semirara 300,000 metric tons per year at a base price of Php2,300.00 per metric ton, subject to adjustments provided in the agreement.

CEDC also has a contract with PT Adaro Indonesia for 10 years. The contract was effective as of 1 January 2010 at a contact price in accordance with the pricing scheme provided in the CSA, subject to adjustments provided in the agreement. The term may only be extended until 21 October 2022. The total quantity of coal to be delivered per year shall be 250,000 metric tons and the Company has the option to call 10,000 metric tons per calendar year.

In addition, CEDC has a 5-year contract with Coal Orbis AG, which began to take into effect as of 1 January 2010 at a contact price in accordance with the pricing scheme provided in the CSA, subject to adjustments provided in the agreement. The term may only be extended mutually in writing by both parties prior to the expiration date of the CSA for another period of five (5) years, but in no event beyond the expiration date of the Coal Cooperation Agreement between Coal Orbis AG and PT BBE, unless the same Coal Cooperation Agreement is extended. The total quantity of coal to be delivered per year shall be 150,000 metric tons and the Company has the option for an additional 50,000 metric tons +/-10% per calendar year under the same terms and conditions of the CSA to be elected on an annual basis at least three (3) months before the next contract year.

Redondo Peninsula Energy, Inc.

Incorporated on 30 May 2007, RP Energy was originally a joint venture between AboitizPower and TCIC. On 22 July 2011, MPGC acquired a majority interest in RP Energy by virtue of a share purchase agreement with TPI. AboitizPower, through TPI, and TCIC retained an equal ownership interest of 25% less one share each. In view of the increasing power demand in the Luzon grid and with the entry of MPGC, RP Energy expanded its original proposal to build and operate a 300-MW coal-fired power plant in Redondo Peninsula of Subic Bay within the SBFZ into a 2x300-MW (net) power plant.

RP Energy has completed the voluntary relocation of all affected residents in the site in accordance with existing Philippine rules and regulations and accepted international standards. In November 2011, RP Energy designated the suppliers of the CFB boilers, steam turbines, generators and supporting auxiliaries that ultimately will be engaged as subcontractors by the selected EPC contractor.

On 15 November 2012, RP Energy was issued an amended ECC to cover two high-efficiency 300-MW (net) units with main steam reheat systems. Site preparation was substantially completed. The EPC contract has been awarded to Hyundai Engineering and Construction Co. Ltd. (Hyundai) with Foster Wheeler Ltd. (Foster Wheeler) and Toshiba Corporation (Toshiba) as major subcontractors/suppliers of the CFB boilers and turbines, respectively. Hyundai has not been notified to proceed with the works, however, because of the filing by an ad hoc group of individuals and organizations of a Petition for Writ of Kalikasan and Environmental Protection Order 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's 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 3 February 2015, the Supreme Court dismissed the Writ of Kalikasan for insufficiency of evidence and upheld the validity of the 22 December 2008 ECC issued by the DENR in favor of RP Energy, as well as its 8 July 2010 first amendment and the 26 May 2011 second amendment. The Supreme Court also upheld the validity of the Lease and Development Agreement between SBMA and RP Energy dated 8 June 2010.

RP Energy received three major awards from Philippine Quill Awards and bagged the Anvil Awards for its corporate social responsibility and public relations initiatives for its stakeholders in 2012.

RP Energy achieved significant milestones for its planned 2x300 MW (net) coal-fired power plant in Subic, Zambales. In April 2016, the company entered into separate PSAs with Meralco and AESI for the first 300-MW capacity of the power plant. RP Energy expects approval by the ERC for the PSAs by the first or second quarter of 2017, so it could proceed with construction activities. On 13 October 2016, RP Energy executed EPC contracts with Doosan Heavy Industries & Construction Co. Ltd. and Azul Torre Construction, Inc. for the project. On December 22, 2016, the company entered into loan agreements with three local banks for the Php31.5 bn funding for the project. The ERC's PSA approval is a condition precedent to first loan drawdown.

Commercial operations of the first phase is targeted in 2020, with the second unit to follow within twelve months thereafter, contingent upon expansion of the transmission interconnection.

STEAG State Power Inc.

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

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

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

Operations Review

The following table summarizes STEAG's operating statistics for 2015 and 2016:

	FY 2016	**FY 2015**	**% change**
Net Sellable Capacity (MW)	210	210	0%
Capacity Sold Factor	98%	98%	0%
Power Sales (MWh)			
Bilateral Contracts (GWh)	1,605	1,671	-4%
Spot Market / WESM (GWh)	0	0	0%
Total Power Sales (GWh)	1,605	1,671	-4%

Offtaker

The coal plant is subject to a 25-year power purchase agreement with the NPC, which agreement is backed by a Performance Undertaking issued by the Republic of the Philippines.

Fuel Supply

STEAG Power has an existing long-term coal supply agreement with PT Jorong Barutama Greston of Indonesia. The long-term supply contract with PT Jorong Barutama Greston is up to 2019. Base price is fixed with capped annual escalation.

GNPower Mariveles Coal Plant Ltd. Co.

In October 2016, TPI 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 the GN Power–Mariveles and GN Power–Dinginin on 27 December 2016. This resulted in TPI ultimately acquiring an 82.8% beneficial ownership interest in GN Power–Mariveles. AboitizPower's ownership interest in GN Power–Mariveles will ultimately be reduced to 66.1% post return of capital.

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

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

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

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

The equity owners of GNPower Mariveles are TPI, AC Energy Holdings, Inc. (AC Energy), a wholly owned subsidiary of Ayala Corporation, and Power Partners Ltd. Co. (Power Partners).

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

On 27 December 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.) This resulted to TPI's acquisition of 40% beneficial ownership interest in GNPD.

GNPower-Dinginin is a limited partnership organized and established in 2014 with the primary purpose of: (a) developing, constructing, operating, and owning an approximately 2x668 MW (net) supercritical coal-fired power plant to be located at Mariveles, Province of Bataan; (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 will be constructed in two phases. The first phase will be for one 668 MW (net) unit (Unit 1) and associated ancillary facilities supporting the full operations of Unit 1 (Dinginin Project). The second phase will be for an additional 668 MW (net) unit (Unit 2) and associated ancillary facilities required to support the full operations of Unit 2 (Dinginin Expansion Project).

GNPower-Dinginin is co-developed by: (i) Power Partners, (ii) AC Energy Holdings, Inc. (ACEHI), a wholly owned subsidiary of Ayala Corporation, and (iii) TPI.

GNPower-Dinginin successfully achieved its financial closing and started the construction of Unit 1 in September 2016 with target delivery in 2018. To date, GNPD has already signed Power Purchase and Sale Agreements with 27 highly-rated distribution utilities and it also intends to register with the ERC as a RES in order to enable GNPD to enter into forward contract with prospective Contestable Customers.

Oil Group

Therma Marine, Inc.

TMI owns and operates Power Barges Mobile 1 (previously known as PB 118) and Mobile 2 (previously known as PB 117), which have a total generating capacity of 200 MW. Mobile 1 is currently moored at Barangay San Roque, Maco, Compostela Valley, while Mobile 2 is moored at Barangay Sta. Ana, Nasipit, Agusan del Norte. AboitizPower together with its wholly owned Subsidiary, TPI, effectively owns 100% of TMI.

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

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

Operations Review

The following table summarizes TMI's operating statistics for 2015 and 2016:

	FY 2016	**FY 2015**	**% change**
Net Sellable Capacity (MW)	192	192	0%
Capacity Sold Factor	91%	96%	-6%
Power Sales (MWh)			
Bilateral Contracts (GWh)	917	1,205	-24%
Spot Market / WESM (GWh)	0	0	0%
Total Power Sales (GWh)	917	1,205	-24%

Power Offtaker

The company also entered into ESAs with Davao Light, a related company, and various electric cooperatives in 2010 but the effective date only began in 2011 after satisfying all the terms and conditions indicated in the agreement. The ESAs cover a period of one year, renewable for another one year period upon mutual agreement by the company and its customer, subject to the approval of the ERC.

In 2013 and 2012, TMI entered into ESAs with private companies and electric cooperatives for a period of three years. ERC issued provisional approvals for the ESAs in 2013 and 2012, which were made permanent, subject to certain conditions, in 2014 and 2015. In 2014 and 2015, TMI entered into various Supplemental Agreements for the extension of said ESAs for another three (3) years.

The amount to be billed to and paid by the customers is calculated based on fixed capacity and energy fees per kWh, fixed operations and maintenance fees per kWh adjusted for inflation, and fuel oil and lube oil rates based on actual cost.

In 2012, the ERC issued its Final Approval of the ESAs with some modifications on the applicable rates. TMI and its customers were thus directed to devise schemes for refund of the difference between the final and the provisionally approved rates.

On 25 November 2013, the ERC issued its order for TMI to refund the amount of Php180 mn to its customers for a period of six (6) months with equal installments per month. TMI's customers were likewise directed to refund the said amount to their own customers and to submit to ERC a report on its monthly collection from TMI and refund to its customers for monitoring and verification purposes. As of 31 December 2013, the Company recorded Php180 mn of payables to its customers for the said refunds.

Fuel Supply

Heavy Fuel Oil (HFO) Supply Agreement (SA) with Pilipinas Shell Petroleum Corporation (PSPC)

On 1 September 2015, the TMI entered into a HFO SA with PSPC. The said SA provides for the supply and delivery of HFO by PSPC to TMI, subject to terms and conditions of the SA. The actual quantities may vary from month to month and are contingent to the actual generation of TMI's power plant**.**

Lube Oil Supply Agreement (SA) with Pilipinas Shell Petroleum Corporation (PSPC)

On 1 December 2016, TMI entered into a Lube Oil SA with PSPC. The said SA provides for the supply and delivery of Lube Oil by PSPC to TMI with an agreed aggregate volume of 3.36 million liters, subject to the terms and conditions of the SA.

Therma Mobile, Inc.

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

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

TMO has an existing PSA with the Manila Electric Company (MERALCO) for a period of 3.75 years, commencing on October 2013.

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

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

Operations Review

TMO started commercial operations on 12 November 2013 for Mobile 3, 5 ,and 6, and 28 November 2013 for Mobile 4. Energy sold from these barges in 2016 amounted to 36 GWh.

Power Offtaker

TMO signed a PSA with MERALCO wherein TMO will supply the latter with electric energy generated from the power plant barges for a period of three (3) years and nine months from 27 September 2013 until 25 June 2017. Under the PSA, the Company shall meet the peaking requirements of MERALCO and its power supply requirements during the Malampaya Gas Facility shutdown for scheduled maintenance and the company shall be responsible for the rehabilitation of the power barges plant, testing and commissioning which shall also own, operate, manage and maintain for the purpose of converting fuel to electric energy.

On 4 November 2013, the ERC provisionally approved the PSA between TMO and MERALCO subject to ERC base rates and conditions. On 6 April 2015, the Energy Regulatory Commission provisionally approved the amendment to the Power Supply Agreement pertaining to the interconnection annual fixed operation and maintenance (O&M) fee, amendment on the base rates of the annual fixed O&M fee and variable O&M fee, and pass through monthly fuel payment.

Fuel Supply

Heavy Fuel Oil (HFO) Supply Agreement with Pilipinas Shell Petroleum Corporation (PSPC)

On 1 September 2014, TMO entered into a HFO Supply Agreement with PSPC. The said agreement provides for the supply and delivery of HFO by PSPC to TMO with an agreed aggregate volume of 360.0 million liters, subject to terms and conditions of the Supply Agreement. The actual quantities may vary from month to month and are contingent of the actual generation of TMO's power plant.

Lube Oil Supply Agreement (SA) with Pilipinas Shell Petroleum Corporation (PSPC)

On 1 December 2016, TMO entered into a Lube Oil SA with PSPC. The said SA provides for the supply and delivery of Lube Oil by PSPC to TMO with an agreed aggregate volume of 2.7 million liters, subject to the terms and conditions of the SA.

East Asia Utilities Corporation

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

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

Operations Review

The following table summarizes EAUC's operating statistics for 2015 and 2016:

	FY 2016	FY 2015	% change
Net Sellable Capacity (MW)	43	43	0%
Capacity Sold Factor	97%	70%	39%
Net Power Generated (MWh)	43	92	-53%
Bilateral Contracts (MWh)	47	25	88%

Spot Market / WESM (MWh)	90	117	-23%

Power Offtaker

EAUC was registered with the Philippine Economic Zone Authority (PEZA) on April 27, 1998 as amended on 23 April 2009, as an Ecozone Utilities Enterprise providing electric power to the MEZ and WCIP-SEZ, pursuant to the provisions of Republic Act No. 7916, otherwise known as the Special Economic Zone Act of 1995.

On 29 April 2011, PEZA and EAUC signed an EPPA for 10 years effective up to 25 April 2021 with a contracted capacity of 22 MW billed on a monthly basis. PEZA allows EAUC to sell up to 50% of its capacity to other customers subject to PEZA issuance of LOA and EAUC's compliance with applicable PEZA and WESM Rules and Regulations. The LOA is effective until 25 April 2017 and subject to renewal.

The EPPAs between PEZA and EAUC, and BEC and EAUC include Capacity Fee and Energy Fee components.

On 26 December 2010, the WESM in the Visayas Grid started commercial operations and EAUC started trading as a direct participant.

Fuel Supply

<u>Heavy Fuel Oil (HFO) Supply Agreement (SA) with Pilipinas Shell Petroleum Corporation (PSPC)</u>

On 30 March 2015, EAUC entered into a HFO SA with PSPC. The said SA provides for the supply and delivery of HFO by PSPC to EAUC with an agreed aggregate volume of 43.2 million liters, subject to terms and conditions of the SA. The actual quantities may vary from month to month and are contingent to the actual generation of EAUC's power plant.

<u>Lube Oil Supply Agreement (SA) with Pilipinas Shell Petroleum Corporation (PSPC)</u>

On 1 December 2016, EAUC entered into a Lube Oil SA with PSPC. The said SA provides for the supply and delivery of Lube Oil by PSPC to EAUC with an agreed aggregate volume of 220,000 liters, subject to the terms and conditions of the SA.

Cebu Private Power Corporation

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

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

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

Operations Review

The following table summarizes CPPC's operating statistics for 2015 and 2016:

	FY 2016	FY 2015	% change
Net Sellable Capacity (MW)	66	66	0%

Capacity Sold Factor	97%	96%	2%
Net Power Generated (MWh)	124	146	-15%
Bilateral Contracts (MWh)	21	13	68%
Spot Market / WESM (MWh)	146	159	-8%

Power Offtaker

On 7 February 1997, CPPC signed a PPA with VECO. The PPA provides that CPPC shall at its cost, design, develop, finance, and construct power plant facilities; maintain and operate the same; and supply power to VECO who agrees to buy a pre-agreed minimum off-take from CPPC at a rate not to exceed 98.0% of the effective billing rate of NPC to VECO based on contracted demand and energy.

The term of the PPA is 15 years commencing from the date of commercial operations (25 November 1998), unless terminated in accordance with the provisions of the PPA but in no event to extend beyond the term of the present franchise of VECO. The PPA may be renewed or extended subject to the mutual agreement of the parties to the terms and conditions applicable to any such renewal. Upon expiration of the 15-year cooperation period, CPPC shall transfer, convey, and assign the power plant to VECO without cost, except for applicable taxes thereon which shall be for the account of VECO.

The company and VECO negotiated for the renewal and/or extension of the PPA which expired on 25 November 2013. The PPA renewal agreement was signed on 12 July 2013. An application for its approval was filed with the ERC, and a hearing was conducted on 4 October 2013. While the application is awaiting approval, the ERC granted permission for the continued supply of the company to VECO with the same terms and conditions prior to its expiration, until the approval of the application.

Fuel Supply

Heavy Fuel Oil (HFO) Supply Agreement (SA) with Pilipinas Shell Petroleum Corporation (PSPC)

On 30 March 2015, CPPC entered into a HFO SA with PSPC. The said SA provides for the supply and delivery of HFO by PSPC to CPPC with an agreed aggregate volume of 86.4 million liters, subject to terms and conditions of the SA. The actual quantities may vary from month to month and are contingent to the actual generation of the CPPC's power plant.

Lubricant Supply Agreement (LSA)

On 1 December 2016, CPPC entered into an LSA with PSPC. Said LSA provides for the supply and delivery of lube oil by Shell to CPPC with an agreed aggregate volume of 564,000 liters, subject to the terms and conditions of the LSA.

Southern Philippines Power Corporation

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

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

Operations Review

The following table summarizes SPPC's operating statistics for 2015 and 2016:

	FY 2016	FY 2015	% change
Net Sellable Capacity (MW)	55	55	0%
Capacity Sold Factor	32%	100%	-68%
Net Power Generated (MWh)	155	292	-47%
Bilateral Contracts (MWh)	0	0	0%
Spot Market / WESM (MWh)	155	292	-47%

Power Offtaker

The SPPC plant was developed by SPPC on a build-own-operate basis under the terms found in its Energy Conversion Agreement (ECA) with the NPC. SPPC currently supplies power to electric utilities and cooperatives pursuant to PSAs approved by the ERC

Aside from providing the much needed capacity to southwestern Mindanao area, the SPPC Plant also performs the role of voltage regulator for General Santos City, ensuring the availability, reliability and quality of power supply in the area.

Western Mindanao Power Corporation

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

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

Operations Review

The following table summarizes WMPC's operating statistics for 2015 and 2016:

	FY 2016	FY 2015	% change
Net Sellable Capacity (MW)	100	100	0%
Capacity Sold Factor	40%	100%	-60%
Net Power Generated (MWh)	355	644	-45%

Bilateral Contracts (MWh)	0	0	0%
Spot Market / WESM (MWh)	355	644	-45%

Power Offtaker

The WMPC plant was developed by WMPC on a build-own-operate basis under the terms found in its ECA with the NPC. Under the ECA, NPC is required to deliver and supply to WMPC the fuel necessary to operate the WMPC Plant during an 18-year cooperation period which ended in 2015. Starting 2016, WMPC started supplying power electric utilities and cooperatives pursuant to PSAs approved by the ERC.

NPC is also required to take all the electricity generated by the WMPC plant during the cooperation period and pay WMPC, on a monthly basis, capital recovery, energy, fixed O&M and infrastructure fees as provided in the ECA. During this cooperation period, WMPC is responsible, at its own cost, for the management, operation, maintenance and repair of the WMPC plant.

Aside from providing the much needed capacity to Zamboanga Peninsula, the WMPC plant also performs the role of voltage regulator for Zamboanga City, ensuring the availability, reliability and quality of power supply in the area.

Other Generation Assets

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

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

As of 31 December 2016, the power distribution business' earnings contribution from AboitizPower's business segments is equivalent to 18%. The Distribution Utilities had a total customer base of 916,876 in 2016, 881,944 in 2015, and 843,802 in 2014.

The table below summarizes the key operating statistics of the Distribution Utilities for 2016 and the previous two years.

Company	Electricity Sold (MWh)			Peak Demand (MW)			No. of Customers		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Davao Light	2,173,373	2,069,127	1,981,258	380	354	344	367,782	351,079	331,998
Cotabato Light	146,678	131,975	119,571	27	25	23	38,924	37,697	36,297
VECO	2,922,950	2,585,704	2,527,846	524	475	459	408,586	395,689	380,851
SFELAPCO	588,985	548,365	537,544	117	102	99	97,847	94,227	91,504
SEZ	535,010	506,539	451,448	103	102	96	3,151	3,040	2,946
MEZ	111,486	120,491	123,207	21	22	22	82	80	82
BEZ	102,208	113,800	107,253	30	30	28	32	33	34
LEZ	165,481	149,770	126,524	28	26	22	472	99	90
Total	**6,746,172**	**6,225,771**	**5,974,651**	**1,231**	**1,136**	**1,093**	**916,876**	**881,944**	**843,802**

Visayan Electric Company, Inc.

VECO is the second largest privately-owned distribution utility in the Philippines in terms of customers and annual MWh sales. VECO supplies electricity to a region covering 674 square kilometers in the island of Cebu with a population of approximately 1.7 mn. To date, VECO has 19 power substations and one mobile substation that serve the electrical power needs of the cities of Cebu, Mandaue, Talisay, and Naga, the municipalities of Minglanilla, San Fernando, Consolacion, and Liloan, and the 238 barangays in the island and province of Cebu. As of December 2016, VECO's peak demand was recorded at 524 MW and is serving a total of 408,584 customers.

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 held by AboitizPower.

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

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 by AboitizPower after it acquired AEV's ownership interest in VECO in January 2007. AboitizPower and Vivant were each required to place in escrow 5% of the shares in VECO registered in their names to guarantee compliance with their respective obligations under the Shareholders' Cooperation Agreement. 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 (PIS) 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 16 October 2009 for the supply of 105 MW for 25 years. The contracted capacity with Cebu Energy was subsequently increased to 121 MW in 2014 and further increased by 20MW starting March of 2015 to cover the increase in demand within its franchise area. However, the 20MW contract was terminated in 2016 due to the inability of the transmission grid to wheel the power from the plant to VECO.

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

On 25 December 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 5MW 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, the company entered into a PSA with South Luzon Power Generation Company for 50 MW in 2016.

Starting 26 December 2016, the contract with SLPGC 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.

Davao Light & Power Company, Inc.

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

Davao Light's original 50-year franchise, covering Davao City, was granted on November 1930 by the Philippine Legislature. On September 2000, RA 8960 granted Davao Light a franchise for a period of 25 years, or until September 2025, covering Davao City, areas of Panabo City, and the municipalities of Carmen, Dujali and Santo Tomas in Davao del Norte, with a population of approximately 1.8 mn and a total area of 3,561 square kilometers. As of December 2016, Davao Light's average peak demand was recorded at 379.98 MW, and it is serving a total of 367,782 customers.

On February 2007, Davao Light awarded a 12-year supply contract of new capacity to Hedcor Consortium, the consortium composed of ARI, Hedcor, Hedcor Sibulan and Hedcor Tamugan. There was a notable price differential between Hedcor Consortium's winning bid price of Php4.09 per kWh and the next lowest bid price of Php5.10 per kWh. Over the life of the supply contract, the differential will amount to approximately Php4.9 bn at current peso value, representing significant savings for Davao Light customers. Davao Light decided to secure the new supply contract in anticipation of the full utilization of the existing contracted energy supply under the ten-year contract with NPC for 1,363,375 MWh and the 12-year contract with Hedcor Consortium.

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

Mindanao experienced severe power shortage until April 2016 resulting to rotating power interruptions in the Davao Light franchise area. This was largely due to reduced capabilities of major hydroelectric plants caused by the extended El Niño phenomenon, separate incidents of sabotaging of transmission lines and decrease of Davao Light's power supply contract with the NPC-PSALM from 289 MW to 140 MW in January 2016.

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

The power supply from Hedcor Sibulan's 49-MW and Hedcor's 4-MW Talomo hydroelectric plants in the area likewise augmented the power requirements of Davao Light.

Davao Light further optimizes additional power supply from TMI's power barges. It entered into a PSA with TMI on 21 March 2011, as approved by the ERC on 30 May 2011, and subsequently into another PSA for an additional 15 MW.

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

To keep pace with the rising demand for power and to support the uptrend of growing economies within its franchise, Davao Light signed a 100-MW PSA with TSI on 25 October 2012, and an additional 50-MW PSA with SPPC in 2016.

Cotabato Light and Power Company

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

Cotabato Light was incorporated in April 1938. Its original 25-year franchise was granted by the Philippine Legislature through RA 3341 in June 1939. Its franchise was extended until June 1989 through RA 3217 in 1961, and for another 25 years or until August 2014. Cotabato Light's current franchise was granted under RA 10637, signed into law by then President Benigno C. Aquino III on 16 June 2014, for another 25 years or until 2039.

As of 2016, Cotabato Light has three substations of 10 MVA, 12 MVA and 15 MVA, backed up by a 10 MVA power transformer. It is served by one 69-kV transmission line with a distribution voltage of 13.8 kV. These lines can be remotely controlled using the Supervisory Control and Data Acquisition (SCADA).

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

To sustain a below cap systems loss, Cotabato Light is continuously innovating its systems and processes. As of December 2016, its systems loss stands at 7.75%, lower than the systems loss cap of 8.5%, as implemented by the ERC.

Cotabato Light is part of the second batch (Group B) of private utilities to enter PBR and is currently under the second regulatory period from 1 April 2013 to 1 March 2017. A reset process is underway to start the third regulatory period covering 1 April 2017 to 1 March 2022.

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

San Fernando Electric Light & Power Co., Inc.

SFELAPCO was incorporated on May 17, 1927 and was granted a municipal franchise in 1927. In 1961, RA 3207 was passed by the Philippine Congress granting SFELAPCO a legislative franchise to distribute electricity for a period of 50 years or until June 2011. SFELAPCO's current legislative franchise is granted through RA 9967, for another 25 years commencing on March 24, 2010. As of December 2016, SFELAPCO's peak demand was recorded at 117,401 kW, and it is serving a total of 97,847 customers.

SFELAPCO's franchise in the City of San Fernando, Pampanga covers an area of 78.514 square kilometers. Its franchise spans 402.92 and 662.74 circuit-kilometers on its 13.8-kV and 240-volt distribution lines, respectively. SFELAPCO supplies 35 barangays in the City of San Fernando, Barangays San Isidro and Cabalantian in Bacolor, Pampanga, 25 barangays in the municipality of Floridablanca, and one barangay in Guagua, Pampanga. This area consists of 125.0 square kilometers with approximately 143.34 and 246.18 circuit-kilometers on its 13.8-kV and 240-volt distribution lines, respectively.

SFELAPCO is part of the fourth batch (Group D) of private utilities to enter PBR and is currently under the four-year regulatory period starting 1 October 2011 until September 2015.

AboitizPower has an effective interest of 43.78% in SFELAPCO.

Subic Enerzone Corporation

In May 2003, the consortium of AEV and Davao Light won the competitive bid to provide distribution management services to SBMA and to operate the SBFZ power distribution utility for a period of 25 years. On June 3, 2003, SEZ was incorporated as a joint venture company owned by a consortium comprised of Davao Light, AEV, SFELAPCO, Team Philippines, Okeelanta and PASUDECO to undertake the management and operation of the SBFZ power distribution utility. On October 25, 2003, SEZ was formally awarded the contract to manage SBFZ's power distribution utility, and took over operations. As of December 2016, SEZ's peak demand was recorded at 48,017 kW and it is serving a total of 3,149 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 Php92 mn. Together with Davao Light's 35% equity in SEZ, this acquisition brought AboitizPower's total equity in SEZ to 100%.

SEZ is part of the fourth batch (Group D) of private utilities to enter PBR. 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 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 has seen a smooth transition in implementing new PBR power rates in 2012. In July 2012, ERC certified SEZ as a Local RES.

For SEZ's second regulatory year covering 1 October 2012 to September 30, 2013, it was able to implement the new rate schedule starting January 2013. Consequently, the resulting under-recoveries from the lag starting from 1 October 2012 were included by SEZ as under-recoveries in its rate filing in the third regulatory year.

The approved recalculated MAP and distribution rates for the third regulatory year covering October 2013 to September 2014 was implemented in the May 2014 billing.

On March 2, 2015, the ERC approved the recalculated MAP and its translation into distribution rates for the different customer classes for the fourth regulatory year from October 2014 to September 2015. The approved rates were implemented in the April 2015 billing period.

The Second Regulatory Period ended September 30, 2015. The reset process for the supposed Third Regulatory Period (the succeeding four years) 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 RDWR. Said paper aims to revisit various matters relating to the reset process. The ERC solicited comments from industry participants and held various public consultations on said paper.

The Revised Rules for Setting Distribution Wheeling Rates for Privately Owned Electricity Distribution Utilities Operating under Performance Based Regulation was approved in ERC Resolution No. 25 Series of 2016 dated 12 July 2016, entitled "Resolution Modifying the Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities Entering Performance Based Regulation (PBR)". Based on said rules, the Fourth Regulatory Period shall be on 1 October 2019 to 30 September 2023.

On 21 November 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 6 and 9 January 2017 in Cebu and Manila, respectively.

A petition was filed by Matuwid na Singil sa Kuryente Consumer Alliance, Inc. (MSK) on December 22, 2015 wherein MSK proposed a modified Return-on-Rate Base (RORB) methodology or even a modified PBR methodology, wherein the distribution utilities' capital expenditures and rate recover 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. The first public consultation was scheduled on January 23, 2017.

Mactan Enerzone Corporation

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

On 8 June 2007, AboitizPower entered into an agreement to acquire AboitizLand's 100% equity stake in MEZ, representing 8,754,443 common shares. Pursuant to the agreement, AboitizPower acquired AboitizLand's ownership interest in MEZ valued at Php609.5 mn, in exchange for AboitizPower's common shares issued at the IPO price of Php5.80 per share.

MEZ sources its power from NPC pursuant to a CSEE. Under the said contract, NPC is required to provide power to MEZ up to the amount of contracted load, which is based on the projections provided by MEPZ II locators under their respective PSCs with MEZ. As of December 2016, MEZ's peak demand was recorded at 21,018 kW and is serving a total of 82 customers.

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

Balamban Enerzone Corporation

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

On 4 May 2007, CIPDI declared property dividends to its stockholders in the form of equity in BEZ. On 8 June 2007, AboitizPower entered into an agreement to acquire AboitizLand's 60% equity stake in BEZ, represented by 4,301,766 common shares of BEZ. Pursuant to the agreement, AboitizPower acquired AboitizLand's ownership interest in BEZ valued at Php266.9 mn, in exchange for AboitizPower's common shares issued at the IPO price of Php5.80 per share.

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

In January 2011, BEZ secured firm contracts from various power suppliers such as GCGI, Cebu Energy and EAUC to ensure sufficient power supply to the different industries within the WCIP-SEZ. In the same period, BEZ became a direct member of the PEMC to avail of the power available at the WESM. As of December 2016, BEZ's peak demand was recorded at 30.105 MW and is serving a total of 32 customers.

LiMA Utilities Corporation (LUC)

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

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

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

As of December 2016, Lima Enerzone's peak demand was recorded at 28 MW. The company is currently serving 101 industrial and commercial customers, and 371 residential customers.

RETAIL ELECTRICITY AND OTHER RELATED SERVICES

One of the objectives of electricity reform in the Philippines is to ensure the competitive supply of electricity at the retail level. With the start of commercial operations of Open Access, large-scale customers will be allowed to obtain electricity from Retail Electricity Suppliers (RES) licensed by the ERC.

Aboitiz Energy Solutions, Inc.

On 9 November 2009, AESI, a wholly owned Subsidiary of AboitizPower, was granted a license to act as a RES, which license was renewed on 29 October 2012 for another five years. With the start of commercial operations of Open Access on 26 June 2013, AESI has served 72 customers. For the year 2016, AESI had a total of 67 customers, with total energy consumption of 812mn 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. With the implementation of the January 2016 billing cycle, AESI was able to deliver a total of 318,271 MWh to its off-taker, VECO, for the year 2016.

Prism Energy, Inc.

Prism Energy was incorporated on 24 March 2009 as a joint venture between AboitizPower (60%) and Vivant Corporation (40%). It was granted a five-year RES license by the ERC on 22 May 2012 until 22 May 2017. 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.

As the power supply situation in the Visayas is being stabilized, Prism Energy is projected to begin formal operations upon procurement of generation supply contracts from generation companies that will operate in the region. It will provide retail electricity supply to end-users qualified by the ERC to contract for retail supply.

AdventEnergy, Inc.

Incorporated on 14 August 2008, AdventEnergy is a licensed RES, duly authorized by the ERC to sell, broker, market, or aggregate electricity to end-users including those within economic zones. AdventEnergy's RES license was renewed by the ERC on June 18, 2012 and is valid until 18 June 2017. The company was specifically formed to serve Contestable Customers who are located in economic zones.

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

For the year 2016, AdventEnergy supplied retail electricity to 27 customers with a total consumption of 495 mn kWh.

AboitizPower owns 100% equity interest in AdventEnergy.

SN Aboitiz Power – RES, Inc.

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

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

As of 31 December 2016, SN Aboitiz Power-RES accounts for 131 GWh or 9.5% of BCQ volumes which contributed Php62 mn or 3% of BCQ net revenue.

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

DISTRIBUTION METHODS OF THE PRODUCTS OR SERVICES

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

Currently, SN Aboitiz Power-Magat, SN Aboitiz Power-Benguet and TLI have ASPAs with NGCP as AS providers to the Luzon grid. SN AboitizPower Group delivers regulating, contingency and dispatchable reserves, as well as blackstart service through its three power plants. TLI, on the other hand, is offering contingency reserve under its ASPA.

On 22 December 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, Hedcor Tudaya Hydro 2, Hedcor Irisan Hydro 1 and Hedcor Sabagan, all in commercial operations, have been approved for inclusion in the FIT system for run-of-river hydro power plants. They have entered into REPAs with the National Transmission Corporation, the FIT-All Administrator, for the collection and payment of the FIT. The generation of Hedcor Tudaya 2 is covered by a Renewable Energy Supply Agreement (RESA).

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

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

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

AboitizPower's wholly owned RES companies, AdventEnergy and AESI, have existing electricity supply contracts to ensure continuous supply of power to their customers. AdventEnergy has 27 customers under RESCs with terms ranging from three to seven years. In 2016, AdventEnergy delivered a total of 495 mn kWhs to its customers.

In 2016, AESI had a total of 67 customers under RESCs with terms ranging from three to ten years, with a total energy consumption of 812 mn kWh.

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

New Products and Services

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

System Performance

The following table sets forth certain information concerning the performance of the Distribution Companies as of December 2016:

Business Unit	**SAIFI (frequency)**	**SAIDI (minutes)**
VECO	1.29	34.78
DLPC	1.94	92.35
CLPC	2.06	82.27
SEZ	1.83	76.14
MEZ	0.71	57.61
BEZ	1.80	64.55
LEZ	2.82	33.00
SFELAPCO	15.08	543.87

Electricity Losses

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

Total electricity losses in 2016 were 6.52% for VECO, 7.15% for Davao Light, 7.75% for Cotabato Light, 2.80% for SEZ, 1.08% for MEZ, 0.77% for BEZ, 1.16% for LEZ, and 5.35% for SFELAPCO. The current system loss cap approved by the ERC is 8.5% for private distribution utilities and 13.5% for electric cooperatives.

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

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

Power Outages

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

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

SOURCES OF RAW MATERIALS AND SUPPLIES

Generation Business

The Generation Companies generate energy using the following fuel types: hydropower, geothermal, solar, biomass, coal and oil. Renewable fuel sources comprised 36% of its production in 2016, while fossil fuel accounted for 64%.

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

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

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

STEAG Power has existing long-term coal supply agreements with PT Jorong Barutama Greston of Indonesia and Samtan Co. Ltd. of Korea. Cebu Energy also has long-term coal supply agreements with Semirara Mining Corporation, OT Adaro Indonesia and Coal Orbis AG to ensure adequate supply to operate its power plants. TLI has entered into 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. Likewise, TSI has long-term coal supply contracts for its coal plant in Mindanao.

Aseagas has a long-term feedstock offtake agreement with Absolute Distillery, Inc. for its biomass power plant in Lian, Batangas.

Distribution Business

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

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

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

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

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

To partially source its peaking requirement, VECO entered into an agreement with 1590 Energy Corporation for the supply of 30 MW for six months starting December 2014. For its long term capacity requirement, VECO entered into a 15-year PSA with TVI for the supply of 150 MW beginning in 2018. To reduce WESM exposure in 2016 until TVI's commercial operations, the company entered into a PSA with SLPGC for 50 MW in 2016. Starting 26 December 2016, the contract with SLPGC was reduced to 47.79 MW as there were Contestable Customers who migrated to Open Access. VECO will continue to renegotiate the reduction of its bilateral contract to account for the continued migration of contestable customers. VECO's PSAs with TVI is pending with the ERC for approval.

On 25 September 2015, MEZ entered into PSAs with its new suppliers, SN Aboitiz Power-Magat and GCGI for contracted energy per year of 43,920 Mwh and 87,840 Mwh, respectively.

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

Transmission Charges

SFELAPCO has an existing Transmission Service Agreement (TSA) with the NGCP until 25 December 2018 for the use of the latter's transmission facilities in the distribution of electric power from the grid to its customers. All other TSAs of the Distribution Utilities with the NGCP have expired. The Distribution Utilities have negotiated agreements with the NGCP in connection with the amount and form of security deposit that they will provide to the NGCP to secure their obligations under the TSAs.

CUSTOMERS, ANALYSIS OF DEMAND AND RATES

Customers

Out of the total electricity sold by AboitizPower's Generation Companies, approximately 91% are covered by bilateral contracts with, among others, private distribution utilities, electric cooperatives, NPC, industrial and commercial companies. The remaining approximately 9% is sold by the Generation Companies through the WESM.

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

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

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

Analysis of Demand

The following table sets forth certain information regarding total customers, electricity sales, and gross revenues for the periods ending December 31, 2016 and 2015.

DISTRIBUTION DEMAND						
COMPANY	2016			2015		
	Customers	Sales Volume	Revenue (Php Mns)	Customers	Sales Volume	Revenue (Php Mns)

		(GWh)			(GWh)	
VECO						
Industrial	1,727	1,698	11,230	1,645	1,471	10,707
Residential	365,935	781	7,140	353,485	704	6,569
Commercial	40,778	419	3,855	40,421	386	3,636
Others (Streetlights)	146	25	195	138	25	198
Total	**408,586**	**2,923**	**22,419**	**395,689**	**2,586**	**21,110**
Davao Light						
Industrial	4,150	1,198	7,691	3,850	1,165	6,844
Residential	318,033	693	5,043	304,248	639	4,305
Commercial	45,486	242	1,843	42,870	225	1,610
Others (Streetlights)	113	40	262	111	40	237
Total	**367,782**	**2,173**	**14,839**	**351,079**	**2,069**	**12,996**
SFELAPCO						
Industrial	50	240	1,260	50	233	1,274
Residential	88,024	199	1,670	84,668	177	1,618
Commercial	9,591	146	1,298	9,334	136	1,288
Others (Streetlights)	182	3	27	175	3	29
Total	**97,847**	**589**	**4,255**	**94,227**	**548**	**4,209**
Cotabato Light						
Industrial	393	52	329	376	43	263
Residential	35,473	74	479	34,266	69	430
Commercial	3,037	18	125	3,034	18	116
Others (Streetlights)	21	2	14	21	2	13
Total	**38,924**	**147**	**947**	**37,697**	**132**	**822**
SEZ						
Industrial	95	464	2,999	96	439	3,125

Residential	1,903	12	104	1,860	11	147
Commercial	1,059	57	475	992	53	442
Others (Streetlights)	94	3	21	92	2	21
Total	**3,151**	**535**	**3,600**	**3,040**	**507**	**3,735**
LEZ						
Industrial	87	162	1,176	75	147	1,048
Residential	371	1	1	0	-	0
Commercial	14	3	28	24	3	22
Others (Streetlights)	-	-	0	0	-	0
Total	**472**	**165**	**1,205**	**99**	**150**	**1,070**
MEZ						
Industrial	56	105	747	55	115	704
Residential	-	-	0	0	-	0
Commercial	26	7	50	25	6	37
Others (Streetlights)	-	-	0	0	-	0
Total	**82**	**111**	**797**	**80**	**120**	**740**
BEZ						
Industrial	20	102	746	21	113	870
Residential	-	-	0	0	-	0
Commercial	12	0	4	12	0	4
Others (Streetlights)	-	-	0	0	-	0
Total	**32**	**102**	**750**	**33**	**114**	**874**

Rates

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

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

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

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

To address the inefficiencies and legal controversies caused by the RORB rate-setting system, the ERC issued the RDWR in 2006, which sets out the manner in which PBR is to be implemented. Under PBR, the distribution-related charges that a distribution utility collects from customers will be fixed by reference to the utility's projected revenues over a four-year regulatory period, which are reviewed and approved by the ERC and thereafter used to determine the utility's efficiency factor. For each year during the regulatory period, the distribution-related charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor set and changes in overall consumer prices in the Philippines. As part of the implementation of PBR, the ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to customer calls, with utilities being penalized for failing to meet these performance targets. During the 18 months prior to the PBR start date for each Distribution Company, each of them will undergo a regulatory reset process through which the PBR rate control arrangement are established based on documents submitted by each Distribution Company with the ERC, ERC resolutions, and consultations with the Distribution Company and the general public.

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

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

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

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

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

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

In response to the directives of the then President Gloria M. Arroyo to lower the costs of electricity, the ERC proposed new regulations for the maximum recoverable systems loss caps for all distribution utilities and electric cooperatives. Under ERC Resolution No. 17, Series of 2008, which amends the systems loss caps adopted by Republic Act No. 7832 (Anti-Pilferage of Electricity and Theft of Electric Transmission Lines/Materials Act of 1994), the actual recoverable system losses of distribution utilities was reduced from 9.5% to 8.5% while that of the electric cooperatives was reduced from 14.0% to 11.0%. The new system loss caps were implemented in January 2010.

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

Others. Other charges collected from customers include: the universal charge, which is meant to cover Stranded Debt and Stranded Costs in accordance with the requirements of the EPIRA; a foreign currency adjustment rate, which is designed to address fluctuations in the foreign currency component of charges to customers, principally generation charges; and the lifeline subsidy rate, which is an amount collected from end-users to cover subsidies granted to low-consumption, low-income customers.

Customer Deposits

The bill deposit serves to guarantee payment of bills by a customer which is estimated to equal one month's consumption or bill of the customer. These deposits are refundable, together with the accrued interest, upon termination of the contract. If the deposits and the related accrued interest already exceed the customer's current monthly bills, a refund of the excess can also be made.

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

With regard to the interest rate on customer deposits, while the Implementing Guidelines of the Magna Carta provided that the interest rate on meter deposits shall be at 6% for contracts of service entered into prior to the effectivity of the Energy Resolution Board (ERB) Resolution No. 95-21, it was silent on the corresponding interest rate for bill deposits of residential customers for the same period. ERB Resolution No. 95-21 was issued by the then ERB on August 3, 1995 adopting a 10% interest on customers' deposits. Pursuant to the

Magna Carta, the rate of interest on bill deposit shall be equivalent to the interest incorporated in the Company's weighted average cost of capital, otherwise, the rate shall be "based on the prevailing interest rate on savings deposit as approved by the Bangko Sentral ng Pilipinas (BSP). In the case of non-residential customers, the DSOAR likewise provides that the Company shall pay interest on bill deposits at the rate equivalent to the prevailing interest rate for savings deposits as approved by the BSP. The DSOAR superseded ERB Resolution No. 95−21, as amended, in its entirety.

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

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

Billing Procedures

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

Each of VECO, Davao Light and Cotabato Light has policies in place that require a visit to a customer that has failed to make any required payments to try to collect any unpaid amounts before service to such customer is discontinued. Third-party contractors are retained by VECO, Davao Light and Cotabato Light to conduct such customer visits. Service to a defaulting customer cannot be discontinued in the absence of such a customer visit. In order to reduce operating costs, both VECO and Davao Light have outsourced to independent contractors several billing-related functions, including meter reading, bill printing, bill delivery and disconnections.

COMPETITION

Generation Business

The Open Access regime, declining oil and coal prices, and new power plants have toughened competition in energy sales. Competition among RES companies will be further intensified by the upcoming reduction of the threshold for qualifying as a Contestable Customers in the Open Access regime. The current threshold of 1 MW will be reduced to 750 kW, and further down to 500 kW. Customers with consumption of at least 750kW are mandated to switch to Open Access by June 2017. Additional competition for Open Access customers can come from entities that may not generate power but have RES operations by acting as demand aggregators. Generation companies or affiliates thereof are also allowed to act as RES based on ERC regulations. AboitizPower now considers these as opportunities that will allow it to expand its contracting base while having the flexibility of sources.

In 2016, AboitizPower brought new capacities to Mindanao and Visayas as the second unit of TSI and Sacasun solar plant, the Company's first venture in the solar power space, came online. TSI and Sacasun brought 150 MW and 46 MW, to Mindanao and Negros Occidental, respectively.

The successful acquisition by AboitizPower, through its Subsidiary, TPI, of the beneficial ownership of 82.8% in GNPower–Mariveles and 50% beneficial ownership in GNPower–Dinginin brings a considerable increase in capacity and augments the Company's project pipeline. AboitizPower's ownership interest in GN Power–Mariveles will ultimately be reduced to 66.1% and in GN Power–Dinginin to 40%, post return of capital.

Between 2017 to 2019, AboitizPower will further add 789 MW to the country's generation capacity through its ongoing projects. This includes its 40% beneficial share in the Bataan project of GNPower–Dinginin.

AboitizPower's portfolio consisting of different types of energy sources with a mix of renewables and non-renewables, allows for flexibility in pricing and reliability of supply, thus enhancing competitiveness.

Geographic Area

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

Principal Methods of Competition

The means by how AboitizPower can effectively compete with its competitors are set forth in the section entitled "Competitive Strengths and Business Strategy" on page 58 of this Prospectus. AboitizPower addresses its competition using a holistic approach and does not address it on a per company basis.

Principal Competitors

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

In particular, AboitizPower is expected to face competition from leading multinationals such as AES Corporation, TeaM Energy and Korea Electric Power Corporation, as well as power generation facilities owned or controlled by Filipino-owned companies such as Global Business Power Corporation, Trans-Asia Power Generation Corporation, AC Energy Holdings Corporation, First Gen Corporation, DMCI Holdings, Inc., and San Miguel Energy Corporation.

With the commencement of retail competition and Open Access, these foreign and local generation companies have already set up their own Retail Electricity Supply business.

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

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

Distribution Business

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

Under Philippine law, the franchises of the Distribution Utilities may be renewed by the Congress of the Philippines (Congress) provided that certain requirements related to the rendering of public services are met.

Each Distribution Utility intends to apply for the extension of its franchise upon expiration. Distribution Utilities may face competition or opposition from third parties in connection with the renewal of their franchises. It should be noted that under Philippine law, a party wishing to secure a franchise to distribute electricity must first obtain a CPCN from the ERC, which requires that such party proves that it has the technical and financial competence to operate a distribution franchise, and that there is a need for such franchise. Ultimately, Congress has absolute discretion in determining whether to issue new franchises or to renew existing franchises. The acquisition by competitors of any of the Distribution Utilities' franchises could adversely affect the results of the Company's operations. However, with the commencement of Open Access in Luzon and Visayas, the supply segment of the distribution business has become a contestable market, initially for customers with at least an average of 1 MW monthly demand.

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

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

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

Voluntary contestability for end users with average demand of 500 kW and below for the preceding twelve months shall be based on the continuing evaluation and assessment by the ERC.

TRANSACTIONS WITH AND/OR DEPENDENCE ON RELATED PARTIES

AboitizPower and its Subsidiaries, in their regular conduct of business, have entered into related party transactions consisting of professional and technical services, rental, money market placements, and power sales and purchases. These are made on an arm's length basis and at current market prices at the time of the transactions.

AEV, the parent company of AboitizPower, and certain Associates have Service Level Agreements (SLAs) with AboitizPower for corporate center services rendered, such as human resources, internal audit, legal, treasury and corporate finance, among others. These services are obtained from AEV to enable the Group to realize cost synergies and optimize expertise at the corporate center. AEV maintains a pool of highly qualified professionals with business expertise specific to the businesses of the Group. Transaction costs are priced on an arm's length basis, and covered with SLAs to ensure quality of service.

AboitizPower and its Subsidiaries enter into transactions with its parent, associates and other related parties.

Details of the significant account balances of the foregoing related party transactions, retirement fund and compensation of the Board and key management personnel of the Group can be found in the section entitled *"Financial Information"* on page 246 of this Preliminary Prospectus, particularly Note 32 of the 2016 AFS.

GOVERNMENT APPROVALS, PATENTS, COPYRIGHTS, FRANCHISES

Generation Business

Power generation is not considered a public utility operation under RA 9136 or the Electric Power Industry Reform Act of 2001 (EPIRA). Thus, a national franchise is not needed to engage in the business of power generation. Nonetheless, no person or entity may engage in the generation of electricity unless such person or entity has secured a Certificate of Compliance (COC) from the ERC to operate a generation facility and has complied with the standards, requirements and other terms and conditions set forth in the said COC.

Additionally, a generation company must meet the minimum financial capability standards set out in the Guidelines for the Financial Standards of Generation Companies issued by the ERC. Under the said guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Philippine Grid Code and Philippine Distribution Code.

AboitizPower's Distribution Utilities, Davao Light and Cotabato Light, have their own generation facilities and are required under the EPIRA to obtain a COC from the ERC for its generation facilities.

An IPPA such as TLI is not required to obtain a COC. It is nevertheless required, along with all entities owning and operating generation facilities, to comply with technical, financial and environmental standards provided by existing laws and regulations for their operations.

AboitizPower's Generation Companies, which operate hydroelectric facilities, are also required to obtain water permits from the NWRB for the water flow used to run their respective hydroelectric facilities. These permits specify the source of the water flow that the Generation Companies can use for their hydroelectric generation facilities, as well as the allowable volume of water that can be used from the source of the water flow. Water permits have no expiration date and generally are not terminated by the Government as long as the holder of the permit complies with the terms of the permit regarding the use of the water flow and the allowable volume.

AboitizPower, together with its Subsidiaries and Affiliates, is in various stages of project development. Some of its projects have been awarded renewable energy service contracts by the DOE.

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

Title of Document	Issued under the name of	Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	Date of Issuance
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
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
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
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

Title of Document	Issued under the name of	Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	Date of Issuance
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
COC No. 13-11-GN-329-20028L	Hedcor, Inc.	Ampohaw	Hydroelectric Power Plant	Banengbeng, Sablan, Benguet	8.00 MW	Hydro	25	November 11, 2013
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
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	Hydroelectric Power Plant	Calinan, Davao City	1,000 kW	Hydro	20	May 4, 2016
COC No. 16-05- M-00062M	Hedcor, Inc.	Talomo 2	Hydroelectric Power Plant	Mintal Proper, Davao City	600 kW	Hydro	20	May 4, 2016
COC No. 16-05- M-00063M	Hedcor, Inc.	Talomo 2A	Hydroelectric Power Plant	Upper Mintal, Davao City	650 kW	Hydro	20	May 4, 2016
COC No. 16-05- M-00064M	Hedcor, Inc.	Talomo 2B	Hydroelectric Power Plant	Upper Mintal, Davao City	300 kW	Hydro	20	May 4, 2016
COC No. 16-05- M-00065M	Hedcor, Inc.	Talomo 3	Hydroelectric Power Plant	Catalunan, Pequeño, Davao City	1,920 kW	Hydro	20	May 4, 2016
COC No. 16-03- M-00052L	Hedcor, Inc.	FLS Plant – 2*	Hydroelectric Power Plant	Poblacion, Bakun, Benguet	4.0 MW	Hydro	25	March 10, 2016
COC No. 13-110GN327-20026L	Hedcor, Inc.		Hydroelectric Power Plant	Poblacion, Bakun, Benguet	5.90 MW	Hydro	25	November 11, 2013
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
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

Title of Document	Issued under the name of	Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	Date of Issuance
COC No. 16-03- S-17273M	Hedcor Sibulan, Inc.	Darong	Diesel Engine	Brgy. Darong, Sta. Cruz, Davao del Sur	345.6 kW	Diesel	15	March 2, 2016
COC No. 16-03- S-17272M	Hedcor Sibulan, Inc.	Tibolo	Diesel Engine	Brgy. Tibolo, Sta. Cruz, Davao del Sur	306 kW	Diesel	15	March 2, 2016
COC No. 16-03- S-17269M	Hedcor, Inc.	Talomo 2	Diesel Engine	Proper Mintal, Davao City	20 kW	Diesel	15	March 2, 2016
COC No. 16-03- S-17271M	Hedcor, Inc.	La Trinidad (Beckel)	Diesel Engine	214 Beckel, La Trinidad, Benguet	216 kW	Diesel	15	March 2, 2016
COC No. 16-03- S-17270M	Hedcor, Inc.	Talomo 3	Diesel Engine	Brgy. Catalunan, Pequeño, Davao City	20 kW	Diesel	15	March 2, 2016
COC No. 15-04-S- 00027L	Hedcor Sabangan, Inc.	N/A	Diesel Engine	Namatec, Sabangan, Mountain Province	80 kW	Diesel	25	April 28, 2015
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
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
COC No. 13-02-GXT-19345-19870L	Luzon Hydro Corporation - Alilem	N/A	Diesel Engine	Amilongan, Alilem, Ilocos Sur	572 kW	Diesel	15	February 27, 2013
COC No. 13-02-GXT-19346-19871L	Hedcor Inc. - Beckel	N/A	Diesel Engine	214 Ambuklao Road, Beckel, La Trinidad	188 kW	Diesel	15	February 27, 2013
COC No. 13-02-GXT-19344-19869L	Luzon Hydro Corporati	N/A	Diesel Engine	Poblacion, Bakun	80 kW	Diesel	15	February 27, 2013

Title of Document	Issued under the name of	Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	Date of Issuance
	on - Bakun							
COC No. 15-05-M-56M	Hedcor Sibulan, Inc.	Sibulan A - Unit 1	Hydroelectric Power Plant	Brgy. Sibulan, Sta. Cruz, Davao del Sur	16.33 MW	Hydro	25	May 18, 2015
COC No. 15-05-M-54M	Hedcor Sibulan, Inc.	Sibulan B	Hydroelectric Power Plant	Brgy. Sibulan, Sta. Cruz, Davao del Sur	26.3 MW	Hydro	5	May 18, 2015
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	25	March 10, 2014
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
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	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
			Blackstart		483.20 kW	Diesel	20	
Provisional Authority to Operate**	Cotabato Light and Power Company, Inc.	N/A	Bunker C-Fired Diesel Engine	CLPC Compound, Sinsuat Ave., Cotabato City	9.927 MW	Diesel / Bunker C	25	November 29, 2016 - May 28, 2017
			Blackstart		10 kW	Diesel	25	
COC No. 13-	East Asia	N/A	Bunker C-Fired	Barrio Ibo,	49.60	Bunker C	16	June 10, 2013

Title of Document	Issued under the name of	Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	Date of Issuance
06-GXT 2-0002V	Utilities Corporation		Power Plant	Mactan Export Processing Zone 1 (MEPZ 1), Lapu- Lapu City, Cebu	MW			
COC No. 13-05-GXT 1-0001V	Cebu Private Power Corporation	N/A	Bunker C-Fired Power Plant	Old VECO Compound, Brgy. Ermita, Cebu City	70.65 MW	Bunker C	25	May 27, 2013
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
		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, Saranggani Province	61.72 MW	Bunker C/ Diesel	18	August 5, 2013
COC No. 15-11-M-2860L	SN Aboitiz Power – Magat, Inc.	Magat – Unit 1	Hydroelectric	Ramon, Isabela and A. Lista, Ifugao	90 MW	Hydro	25	November 11, 2015
		Magat – Unit 2			90 MW			
		Magat – Unit 3			90 MW			
		Magat – Unit 4			90 MW			
		Magat Hydroelectric Power Plant	Blackstart		600 kW	Diesel	25	
COC No. 15-04-M-309L	SN Aboitiz Power – Benguet,	Binga – Unit 1	Hydroelectric Power Plant	Brgy. Tinongdan, Itogon,	35 MW	Hydro	48	April 6, 2015

Title of Document	Issued under the name of	Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	Date of Issuance
	Inc. (Binga Hydroelectric Power Plant)	Binga – Unit 2	Hydroelectric Power Plant	Benguet	35 MW			
		Binga – Unit 3	Hydroelectric Power Plant		35 MW			
		Binga – Unit 4	Hydroelectric Power Plant		35 MW			
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	45	August 18, 2016
		Ambuklao – Unit 2	Hydroelectric Power Plant		34.85 MW			
		Ambuklao – Unit 3	Hydroelectric Power Plant		34.85 MW			
		Ambuklao Hydroelectric Power Plant	Auxiliary Generator Set		320 KW	Diesel	20	
		Ambuklao Hydroelectric Power Plant	Blackstart Generator Set		314 KW	Diesel	20	
COC No. 16-06-M- 00016M	STEAG State Power, Inc.	N/A	Coal Fired	Phividec Industrial Estate, Balacanas, Villanueva, Misamis Oriental	232.00 MW	Coal	August 30, 2016 – August 29, 2021	June 13, 2016
			Emergency Generating Set		1.25 MW	Diesel		
COC No. 15-03-S- 00013M	STEAG State Power, Inc.	N/A	Diesel Engine	Phividec Industrial Estate, Balacanas, Villanueva, Misamis Oriental	400 kW	Diesel	25	March 25, 2015
COC No. 15-	AP	Makban –	Geothermal	Brgy. Bitin,	63.2 MW	Geo-	23	May 4, 2015

Title of Document	Issued under the name of	Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	Date of Issuance
05-M- 00007L	Renewables, Inc.	Bay, Plant A, Unit 1	Power Plant	Bay, Laguna		thermal Steam		
		Makban – Bay, Plant A, Unit 2			63.2 MW			
		Makban – Bay, Plant D, Unit 7			20.0 MW			
		Makban – Bay, Plant D, Unit 8			20.0 MW			
COC No. 15-05-M- 00008L	AP Renewables, Inc.	Makban – Calauan, Plant B, Unit 3	Geothermal Power Plant	Brgy. Limao, Calauan, Laguna	63.2 MW	Geo-thermal Steam	23	May 4, 2015
		Makban – Calauan, Plant B, Unit 4			63.2 MW			
		Makban – Calauan, Plant C, Unit 5			55.0 MW			
		Makban – Calauan, Plant C, Unit 6			55.0 MW			
COC No. 15-05-M- 00009L	AP Renewables, Inc.	Makban – Sto. Tomas, Plant E, Unit 9	Geothermal Power Plant	Brgy. Sta. Elena, Sto. Tomas, Batangas	20.0 MW	Geo-thermal Steam	23	May 4, 2015
		Makban – Sto. Tomas, Plant E, Unit 10			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
		Plant A,			60 MW			

Title of Document	Issued under the name of	Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	Date of Issuance
		Unit 2						
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
		Plant C, Unit 6			57 MW			
Provisional Authority to Operate***	AP Renewables, Inc.	Ormat – Mak- Ban Binary GPP (Binary 1)	Geothermal Power Plant	Brgy. Sta. Elena, Sto. Tomas, Batangas	7 MW	Geo-thermal Brine	N/A	November 7, 2016- May 6, 2017
COC No. 16-03-M-00286ggM	Therma Marine, Inc.	Mobile 1 (M1)	Diesel Power Plant	Brgy. San Roque, MACO, Compostela Valley	100.33 MW	Diesel	25	March 30, 2016
			Blackstart		1.68 MW	Diesel	5	
COC No. 16-03-M-00286bbM	Therma Marine, Inc.	Mobile 2 (M2)	Diesel Power Plant	Nasipit, Agusan del Norte	100.33 MW	Diesel	25	March 30, 2016
			Blackstart		1.68 MW	Diesel	5	
COC No. 13-07- GXT 305-19938L	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	15	July 1, 2013
COC No. 13-07- GXT 306-19939L	Therma Mobile, Inc.	Barge 2/ Mobile 4	Bunker C-Fired Diesel Power Plant	Navotas Fish Port Complex, Navotas, Metro Manila	67.2 MW	Bunker C/ Diesel	15	July 1, 2013
COC No. 13-07- GXT 307-19940L	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	15	July 1, 2013

Title of Document	Issued under the name of	Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	Date of Issuance
COC No. 13-07- GXT 308-19941L	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	15	July 1, 2013
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	January 19, 2016
		Unit 2	Coal Fired Power Plant	Brgy. Binugao, Toril District, Davao City	150 MW	Coal	25	January 19, 2016

** Two effective COCs since the plant was expanded.*
*** Cotabato Light was granted Provisional Authority to Operate until May 28, 2017.*
**** APRI was granted Provisional Authority to Operate until May 6, 2017.*

Distribution Business

Under the EPIRA, the business of electricity distribution is a regulated public utility business that requires a national franchise that can be granted only by Congress. In addition to the legislative franchise, a CPCN from the ERC is also required to operate as a public utility. Except for Distribution Utilities operating within ecozones, all Distribution Utilities possess franchises granted by Congress.

All Distribution Utilities are required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Distribution Code (which provides the rules and regulations for the operation and maintenance of distribution systems) and the performance standards set out in the implementing rules and regulations of the EPIRA.

Shown below are the respective expiration periods of the Distribution Utilities' legislative franchises:

Distribution Company	Expiration Date
VECO	2030
Davao Light	2025
Cotabato Light	2039
SFELAPCO	2035
SEZ[1]	2028

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

MEZ, BEZ and LEZ, which operate the power distribution utilities in MEPZ II, WCIP and LTC, respectively, are duly registered with PEZA as Ecozone Utilities Enterprises. Cotabato Light's franchise was renewed for another 25 years upon the signing of RA 10637 on 16 June 2014, by then President Benigno C. Aquino III.

Supply Business

For a time, the business of supplying electricity was being undertaken solely by franchised distribution utilities. On 26 July 2013, the implementation of Open Access commenced in Luzon and Visayas. Like power generation, the business of supplying electricity is not considered a public utility operation under the EPIRA. It is, however, considered a business affected with public interest. As such, the EPIRA requires all suppliers of electricity to end-users in the contestable market, other than distribution utilities within their franchise areas, to obtain a license from the ERC in accordance with the ERC's rules and regulations. With the implementation of Open Access, AboitizPower's Subsidiaries, AESI, AdventEnergy and Prism Energy, obtained separate licenses to act as RES and Wholesale Aggregator.

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).

Trademark	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
A Better Future (Class No. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004383 November 11, 2010	Application for trademark "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 last October 26, 2016 with the IP Office. The 10th year Anniversary DAU and application for renewal are due for filing on or before November 11, 2020 with the IP Office.
Better Solutions (Class No. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004384 November 11, 2010	Application for trademark "A Better Solutions"	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 last October 26, 2016 with the IP Office. The 10th year Anniversary DAU and application for renewal are due for filing on or before November 11, 2020 with the IP Office.

Aboitiz Power word mark (Class No. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004385 November 11, 2010	Application for “AboitizPower” word mark.	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 last October 26, 2016 with the IP Office. The 10th year Anniversary DAU and application for renewal are due for filing on or before November 11, 2020 with the IP Office.
AboitizPower Spiral Device (Class No. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004380 February 10, 2011	Application for trademark “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 DAU was filed on April 23, 2013 with the IP Office. The 5th year Anniversary DAU was filed last February 3, 2017 with the IP Office. The 10th year Anniversary DAU and application for renewal are due for filing on or before February 10, 2021 with the IP Office.
Cleanergy (Class No. 42)	Aboitiz Power Corporation	October 19, 2001	4-2001-07900 January 13, 2006	Application for trademark “Cleanergy”	Original Certificate of Registration for the mark CLEANERGY was issued on January 13, 2006. The 5th year Anniversary DAU was filed last 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.
Cleanergy and Device (Class No. 42)	Aboitiz Power Corporation	July 30, 2002	4-2002-06293 July 16, 2007	Application for trademark “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 5th year Anniversary DAU was filed last July 15, 2013 with the IP Office. The 10th year Anniversary DAU and application for renewal of registration are due for filing on or before July 16, 2017 with the IP Office.

Cleanergy Get It and Device (Class No. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004381 November 11, 2010	Application for trademark "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 last October 26, 2016 with the IP Office. The 10th year Anniversary DAU and application for renewal are due for filing on or before November 11, 2020 with the IP Office.
Cleanergy Got It and Device (Class 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004382 November 11, 2010	Application for trademark "Cleanergy got it and device". The word "Cleanergy" with the phrase "got it" below it with both words enclosed by a 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 last October 26, 2016 with the IP Office. The 10th year Anniversary DAU and application for renewal are due for filing on November 11, 2020 with the IP Office.
AboitizPower and Device (Class 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004379 February 10, 2011	Application for trademark "AboitizPower and Device". The words "Aboitiz" and "Power" rendered in two shades of blue with the representation of a spiral above the words "A Better Future" below it.	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 with the IP Office.
Alterspace (Class 9, 39 and 40)	Aboitiz Power Corporation	April 6, 2011	4-2011-003968 February 24, 2012	Application for "ALTERSPACE" word mark.	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 year Anniversary DAU is due for filing on or before February 24, 2018 with the IP Office.

					For abandonment due to non- use and plans to dissolve the system.
Aboitiz Energy Solutions and Device (w/ color claim) (Class No. 42)	Aboitiz Energy Solutions, Inc.	January 25, 2007	4-2007-000784 September 3, 2007	Application for trademark ABOITIZ EBERGY SOLUTIONS and Device with color claim.	Original Certificate of Registration was issued on September 3, 2007. The 3rd year Anniversary DAU was filed with the IP Office on February 4, 2010. The 5th year DAU was filed with the IP Office on August 30, 2013. The10th year DAU and application for renewal of registration are due for filing on or before September 3, 2017 with the IP Office.
iEngage (Class No. 39, 40 and 42)	Aboitiz Power Corporation	Februar y 7, 2014	04-2014-001638 August 28, 2014	Application for "iEngage" word mark.	Original Certificate of Registration was issued on August 28, 2014. The 3rd year Anniversary DAU is due for filing on or before February 7, 2017 with the IP Office. For abandonment due to non- use and plans to dissolve the system.
iEngage My Portal (Class No. 39, 40 and 42)	Aboitiz Power Corporation	Februar y 7, 2014	04-2014-001637 August 28, 2014	Application for "iEngage MyPortal" word mark.	Original Certificate of Registration was issued on August 28, 2014. The 3rd year Anniversary DAU is due for filing on or before February 7, 2017 with the IP Office. For abandonment due to non- use and plans to dissolve the system.
iEngage MyBill (Class No. 39, 40 and 42)	Aboitiz Power Corporation	Februar y 7, 2014	04-2014-001636 August 28, 2014	Application for "iEngage MyBill" word mark.	Original Certificate of Registration was issued on August 28, 2014. The 3rd year Anniversary DAU is due for filing on or before February 7, 2017 with the IP Office. For abandonment due to non- use and plans to dissolve the system.
iEngage MyTax (Class No. 39, 40 and 42)	Aboitiz Power Corporation	Februar y 7, 2014	04-2014-001635 August 28, 2014	Application for "iEngage MyTax" word mark.	Original Certificate of Registration was issued on August 28, 2014. The 3rd year Anniversary DAU is due for filing on or before February 7, 2017 with the IP Office. For abandonment due to non- use and plans to dissolve the system.
Subic EnerZone	Subic EnerZone	July 6, 2006	4-2006-007306 August 20,	Trademark application for Subic EnerZone	Original Certificate of Registration was issued on August 20, 2007.

Corporation and Logo (with color claim) (Class No. 39)	Corporation		2007	Corporation and Logo (blue and yellow). The mark consists of the words “SUBIC ENERZONE” in fujiyama extra bold font with the word “CORPORATION” below it, also in fujiyama font, rendered in cobalt medium blue color, and a representation of the letter “S” taking the shape of a flame (the company logo) above the words. The logo is likewise rendered in the cobalt medium blue color in a yellow background.	The 3rd year Anniversary DAU was filed with the IP Office on July 6, 2009. The 5th year Anniversary DAU was filed with the IP Office on June 5, 2013. The 10th year Anniversary DAU and application for renewal of registration are due for filing on or before August 20, 2017 with the IP Office.
Subic EnerZone Corporation and Logo (plain only) (Class No. 39)	Subic EnerZone Corporation	July 6, 2006	4-2006-007305 August 20, 2007	Trademark Application for Subic EnerZone Corporation wordmark and logo (gray). The mark consists of the words "SUBIC ENERZONE" in fujiyama extra bold font with the word "CORPORATION" below it, also in fujiyama font, and a representation of the letter "S" taking the shape of a flame (the company logo) above the words.	Original Certificate of Registration was issued on August 20, 2007. The 3rd year Anniversary DAU was filed with the IP Office on January 6, 2010. The 5th year Anniversary DAU was filed with the IP Office on June 5, 2013. The 10th year Anniversary DAU and application for renewal of registration are due for filing on or before August 20, 2017 with the IP Office.
Subic EnerZone Corporation (wordmark) (Class No. 39)	Subic EnerZone Corporation	July 6, 2006	4-2006-007304 June 4, 2007	Trademark Application for Subic EnerZone Corporation (wordmark).	Original Certificate of Registration was issued on June 4, 2007. The 3rd Year Anniversary DAU was filed with the IP Office on July 6, 2009. The 5th year Anniversary DAU was filed with the IP Office on June 4, 2013. The 10th year Anniversary DAU and application for renewal of registration are due for filing on or before June 4, 2017 with the IP Office.

EFFECT OF EXISTING OR PROBABLE GOVERNMENT REGULATIONS ON THE BUSINESS

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Among the provisions of the EPIRA that have had or will have considerable impact on AboitizPower's businesses relate to the following:

Wholesale Electricity Spot Market (WESM)

The WESM is a mechanism established by the EPIRA to facilitate competition in the production and consumption of electricity. It aims to provide the mechanism for identifying and setting the price of actual variations from the quantities transacted under contracts between sellers and purchasers of electricity by: (a) establishing the merit order dispatch instructions for specific time periods; (b) determining the market clearing price for such time periods; (c) reflecting accepted economic principles; and (d) providing a level playing field to all electric power industry participants.

The WESM provides an avenue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. Where there are such bilateral contracts, these contracts are nevertheless declared in the market but only to determine the appropriate merit order of generators. Settlement for bilateral contracts between the contracting parties will, however, occur outside the market. Traded electricity not covered by bilateral contracts will be settled through the market on the basis of the market clearing prices for each of the trading periods.

An amended Joint Resolution No. 2 was issued by the DOE, ERC, and PEMC on 27 December 2013, adjusting the WESM Offer Price Cap. In this resolution, the Offer Price Ceiling of Php62,000.00 per MWh as set by the WESM Tripartite Committee was reduced to Php32,000.00 per MWh. This price cap is provisional in nature and shall be subject to public consultations and review by the WESM Tripartite Committee.

In May 2014, the ERC issued an urgent resolution that established a mechanism to impose an interim secondary price cap of Php6,245.00 per MWh in the WESM. In December 2014, the ERC adopted a permanent pre-emptive mitigation measure, where the price cap of Php6,245.00 per MWh would be imposed in the event the average spot price in WESM would exceed Php9,000.00 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 Circular2015-10-0015 entitled "Providing Policies for Further Enhancement of the Wholesale Electricity Spot Market (WESM) Design and Operations" was issued. The enhancements to the WESM Design are summarized below:

1. Removal of Pmin constraint in the Market Dispatch Optimization Model (MDOM);
2. Five minutes dispatch intervals from one hour;
3. Ex-ante pricing only;
4. Maintaining the one hour settlement interval for settlement purposes;
5. Automated pricing corrections;
6. Mandatory integration of distribution utilities' sub-transmission network (with material effect) into the Market Network Model (MNM);
7. Changing the values and priorities of some of the Constraint Violation Coefficients (CVCs);
8. Imposition of WESM offer cap and floor for energy and reserve as determined through joint study by the DOE, ERC and PEMC;
9. Implementation of hourly Day-Ahead Projection (DAP) with sensitivities and Hour-Ahead Dispatch (HAD);
10. Implementation of nodal-based short-term demand forecasting;
11. Enhanced training of WESM participants; and
12. Any other enhancements as may be deemed necessary and issued by the DOE.

Interim Mindanao Electricity Market (IMEM) and WESM Mindanao

On 9 January 2013, the DOE issued Department Circular No. 2013-01-0001 establishing the Interim Mindanao Electricity Market (IMEM). The IMEM intends to address the supply shortage in Mindanao through transparent and efficient utilization of available capacities. However, there were some deficiencies on the processes of the IMEM that led to its inability to collect from customers and to pay the generators. Though the IMEM started in December 2013, it has been suspended indefinitely after three months of operation.

Retail Competition and Open Access (Open Access)

The EPIRA provides for a system of Open Access to transmission and distribution wires, whereby Transco, its concessionaire, the NGCP, and any distribution utility may not refuse the use of their wires by qualified persons, subject to the payment of transmission and distribution retail wheeling charges. Conditions for the commencement of Open Access are as follows:

1. Establishment of the WESM;
2. Approval of unbundled transmission and distribution wheeling charges;
3. Initial implementation of the cross subsidy removal scheme;
4. Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
5. Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPPAs.

As provided in the EPIRA, Open Access shall be implemented in phases. The WESM began operations in Luzon in June 2006 and in Visayas in December 2010.

In 2011, the ERC *motu proprio* initiated proceedings to determine whether Open Access may already be declared in Luzon and Visayas. Following various public hearings, the ERC declared 26 December 2011 as the Open Access Date when full operations of the Competitive Retail Electricity Market in Luzon and Visayas should commence. All electricity end-users with an average monthly peak demand of 1MW for the 12 months preceding 26 December 2011, as certified by the ERC to be Contestable Customers, were given the right to choose their own electricity suppliers. However, on 24 October 2011, upon the request of MERALCO, Private Electric Power Operators Association and Philippine Rural Electric Cooperatives Association, Inc. for re-evaluation of the feasibility of the 26 December 2011 Open Access Date, the ERC declared the deferment of the implementation of Open Access in Luzon and Visayas by reason of the inadequacy of rules, systems, preparations and infrastructure required therefor.

In 2012, the ERC, together with the DOE and PEMC, worked on the development of the Transitory Rules to govern the initial implementation of Open Access, which rules were finalized and issued by the ERC in December 2012. Under the said rules, the ERC declared 26 December 2012 as the Open Access Date, while the period from 26 December 2012 to 25 June 2013 was declared as the Transition Period during which the required systems, processes and information technology structure relating to Open Access would be developed and finalized, and registration of retail electricity suppliers and Contestable Customers into the WESM database would be instituted. The period from 26 June 2013 to 25 December 2013 would cover the initial commercial operation of Open Access. From 26 December 2013 onwards, full retail competition was implemented, with PEMC assigned to perform the functions of the Central Registration Body tasked to undertake the development and management of the required systems, processes and information technology structure and the settlement of transactions in the WESM relating to Open Access.

In Mindanao, a truly competitive environment required by Open Access is not expected in the near future because the largest generating asset owned by NPC in Mindanao has yet to be privatized. In December 2013, however, the IMEM commenced operations to address the supply shortfall in the grid through the utilization of available resources such that all registered generating facilities are mandated to fully account for their capacities in the market.

In December 2013, ERC issued revised licensing regulations for RES operating in the retail supply segment. In the ERC revised rules, no RES licenses would be issued to generating companies, IPPA and affiliates of distribution utilities during a transition period or until the ERC deems appropriate in consideration of market conditions. Additional restrictions were provided such as: (1) including the contracted capacity of the RES in the grid limitations imposed on the total capacity controlled by its affiliate generation companies; (2) limiting the supply by a RES to its affiliate end-users up to 50% of the RES' capacity; and (3) limiting the supply by a generation company to its affiliate RES up to 50% of the generation requirements of such RES. The Retail Electricity Suppliers Association of the Philippines, Inc. has filed in the RTC of Pasig City a petition for declaratory relief with an urgent application for an injunction on the ground that the revised rules are unconstitutional and invalid.

On 22 October 2014, the ERC issued Resolution No. 17, Series of 2014 that held in abeyance the evaluation of RES license applications and suspends the issuance of RES licenses pending the ERC's promulgation of the amended RES License Rules. Currently, ERC is reviewing the RES Licensing Rules and Rules for Contestability.

On 12 May 2016, the ERC issued Resolution No. 11, Series of 2016 (ERC Resolution No. 11-16), which disallowed distribution utilities from engaging in the supply of electricity to end-users in the contestable market unless it is a Supplier of Last Resort. Local RES are also mandated to wind down business within three years from the effectivity of ERC Resolution No. 11-16. Retail Supply Contracts (RSC) executed by Local RES shall remain valid until their expiration, but no new RSCs can be signed or executed. ERC Resolution No. 11-16 further provides that no RES are allowed to supply more than 30% of the total average monthly peak demand of all Contestable Customers in the CREM. RES are also not allowed to transact more than 50% of the total energy transactions of its supply business with its affiliate Contestable Customers.

In its Resolution No. 10, Series of 2016, the ERC approved the Revised Rules of Contestability that establishes the conditions and eligibility requirements for end-users to be part of the contestable market.

On 27 May 2016, MERALCO filed a Petition for Declaratory Relief, docketed as SCA No.4149-PSG, with a prayer for the issuance of a Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction to (a) enjoin the DOE and the ERC from enforcing and implementing: (i) DOE Circular No. DC2015-06-0010 in connection with the full implementation of RCOA, (ii) Article 1, Sections 2 and 3 of ERC Resolution No. 5, Series of 2016, (iii) ERC Resolution No. 10, Series of 2016 on the revised rules for contestability, and (iv) ERC Resolution No. 11, Series of 2016 regarding restrictions imposed on the operations of DUs and RES in the CREM; and (b) declare the said DOE Circular and ERC Resolutions void.

On 13 July 2016, a Writ of Preliminary Injunction enjoining the implementation of the issuances of the ERC was granted by Branch 157, RTC of Pasig City. The ERC and the DOE, assailing the jurisdiction of the RTC, separately filed Petitions for Certiorari and Prohibition before the Supreme Court, on 5 July 2016 (G.R. No. 225141) and on 27 September 2016 (G.R. No. 226800), respectively.

On 10 October 2016, the Supreme Court, acting on the Petition filed by DOE, issued a TRO enjoining Branch 157, RTC of Pasig City from continuing with the proceedings in SCA No. 4149-PSG and from enforcing all orders, resolutions and decisions rendered in SCA No. 4149-PSG.

In December 2016, the Philippine Chamber of Commerce and Industry, San Beda College Alabang, Inc., Ateneo De Manila University, and Riverbanks Development Corporation filed a new petition before the Supreme Court to enjoin the ERC and the DOE from implementing DOE Circular No. 2015-06-0010, ERC Resolution No. 5, Series of 2016, ERC Resolution No. 10, Series of 2016, ERC Resolution No. 11, Series of 2016, and ERC Resolution No. 28, Series of 2016.

On 21 February 2017, the Supreme Court issued a TRO, 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.

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.

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

On 13 December 2006, the ERC issued the Rules for Setting Distribution Wheeling Rates (RSDWR) for privately-owned distribution utilities entering PBR for the second and later entry points, setting out the manner in which this new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR replaces the Return-on-Rate Base (RORB) mechanism, which has historically determined the distribution charges paid by customers. Under PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period is set by reference to projected revenues which are reviewed and approved by ERC and used by ERC to determine the distribution utility's efficiency factor. For each year during the regulatory period, the distribution utility's distribution-related charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor as against changes in overall consumer prices in the Philippines.

The ERC has also implemented a PIS whereby annual rate adjustments under PBR will take into consideration the ability of a distribution utility to meet or exceed service performance targets set by ERC, such as the: (1) average duration of power outages; (2) average time of restoration to customers; and (3) average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

The second regulatory period of Cotabato Light ended on March 31, 2013, while that of VECO and Davao Light ended on 30 June 2014. In addition, the second regulatory period of SEZ and SFELAPCO ended on 30 September 2015. A reset process should have been initiated 18 months prior to the start of the third regulatory period of 1 April 2013 to 31 March 2017 for Cotabato Light, 1 July 2014 to 30 June 2018 for VECO and Davao Light, and 1 October 2015 to 30 September 2019 for SEZ and SFELAPCO.

The reset process, however, has been delayed due to the issuance by the ERC in 2013 of an Issues Paper on the Implementation of PBR for distribution utilities under RSDWR. Said paper aims to revisit various matters relating to the reset process. The ERC has solicited comments from industry participants and has been holding public consultations on the Issues Paper.

Through ERC Resolution No. 25 Series of 2016 dated 12 July 2016, the ERC adopted the Resolution Modifying the Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities Entering Performance Based Regulation (PBR). Based on said Resolution, the Fourth Regulatory Period shall be as follows:

1. Cotabato Light: 1 April 2017 to 31 March 2021
2. Davao Light and VECO: 1 July2018 to 30 June 2022
3. SEZ and SFELAPCO: 1 October 2019 to 30 September 2023

On 21 November 2016, the ERC posted for comments the draft Regulatory Asset Base (RAB) Roll Forward Handbook for Privately Owned Electricity Distribution Utilities. Public consultations were conducted on 6 and 9 January 2017 in Cebu and Manila, respectively.

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. The first public consultation was held on 23 January 2017.

Compliance with the Philippine Distribution Code and the Philippine Grid Code

Each of AboitizPower's Distribution Utilities has submitted to ERC a Compliance Monitoring Report based on a self-assessment of a distribution utility's compliance with the Philippine Distribution Code. These Compliance

Monitoring Reports were accompanied by Compliance Plans, which outline the activities and projects to be undertaken by a distribution utility to fully comply with the prescribed technical, performance and financial standards of the Philippine Distribution Code.

Similarly, APRI, TMI and Hedcor have submitted to the ERC their respective Grid Compliance Monitoring Reports based on self-assessments of their compliance with all prescribed technical specifications and performance standards of the Philippine Grid Code. Reliable and attainable Compliance Plans accompanied these reports to outline the activities and projects that will cause compliance by a generation company with the requirements of the Philippine Grid Code. On 5 October 2016, the ERC approved the 2016 Edition of the Philippine Grid Code in Resolution No. 22, Series of 2016. Pertinent revisions are as follows:

1. Redefinition of various reserves;
2. Inclusion of Run-of-River power plants requirements;
3. Amendments to Variable Renewable Energy (VRE) requirements;
4. Changes on definition of Large Generating Plant; and
5. Inclusion of Must-Run Unit (MRU), Constrained Off and Constrained On

On 21 November 2016, the ERC posted for comments the draft Regulatory Asset Base (RAB) Roll Forward Handbook for Privately Owned Electricity Distribution Utilities. Public consultations were conducted on January 6 and 9, 2017 in Cebu and Manila, respectively.

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.

Proposed Amendments to the EPIRA

Since the enactment of the EPIRA, members of Congress have proposed various amendments to the law and its implementing rules and regulations. A summary of the significant proposed amendments are as follows:

1. Classification of power projects as one of national significance and imbued with public interest;
2. Exemption from Value Added Tax (VAT) of the sale of electricity by generation companies;
3. Modification of the definition of the term “Aggregator,” which is proposed to refer to a person or entity engaged in consolidating electric power demands of end-users of electricity in the contestable market, for the purpose of purchasing, reselling, managing for optimum utilization of the aggregated demand, or simply pooling the tendering process in looking for a supply of electricity on a group basis;
4. Requirement for distribution utilities to conduct public and competitive selection processes or Swiss challenges for the supply of electricity and to fully or adequately contract their future and current energy and demand requirements;
5. Grant of access to electric cooperatives over the missionary electrification fund collected through universal charges;
6. Exclusion of the following items from the rate base charged by Transco and distribution utilities to the public: corporate income tax, value of the franchise, value of real or personal property held for possible future growth, costs of over-adequate assets and facilities, and amount of all deposits as a condition for rendition and continuation of service;
7. Regulation of generation, transmission, distribution and supply rates to allow RORB up to 12%;
8. Classification of power generation and supply sectors as public utilities, which would be required to secure legislative franchises;
9. Prohibition of cross-ownership between generation companies and distribution utilities or any of their subsidiaries, affiliates, stockholders, officials or directors, or the officials, directors, or other stockholders of such subsidiaries or affiliates, including the relatives of such stockholders, officials or

directors within the fourth civil degree of consanguinity;

10. Prohibition against or restriction on distribution utilities from sourcing electric power supply requirements, under bilateral electric power supply contracts, from a single generation company or from a group of generating companies wholly-owned or controlled by the same interests;
11. Lowering of the allowable extent of ownership, operation and control of a company or related groups as determined from the installed generating capacity of the grid and/or nationally installed generating capacity;
12. Exemption or deferral of the privatization of some assets of NPC, such as the Unified Leyte (Tongonan) Geothermal Complexes, Agus and Polangui Complexes, and Angat Dam;
13. Expansion of the definition of host communities to include all barangays, municipalities, cities and provinces or regions where hydro generation facilities are located and where waterways or water systems that supply water to the dam or hydroelectric power generating facility are located;
14. Prohibition on distribution utilities, except rural electric cooperatives to recover systems losses and placing a 5% cap on recoverable system loss;
15. Imposition of a uniform franchise tax for distribution utilities equivalent to 3% of gross income in lieu of all taxes;
16. Grant of authority for NPC to generate and sell electricity from remaining assets;
17. Removal of the requirement of a joint congressional resolution before the President may establish additional power generating capacity in case of imminent shortage of supply of electricity; and
18. Creation of a consumer advocacy office under the organizational structure of the ERC

The Renewable Energy Act of 2008 (RE Law)

The RE Law was signed into law by former President Gloria Macapagal-Arroyo on December 16, 2008 and became effective in January 2009. Among the RE Law's declared policies is to accelerate and develop the use of the country's renewable energy (RE) resources to (a) reduce the country's dependence on fossil fuels, thereby minimizing exposure to price fluctuations in the international markets, and (b) reduce or prevent harmful emissions and promote a healthy and sustainable environment.

The RE Law imposes a government share on existing and new RE development projects at a rate of 1% of the gross income from the sale of renewable energy and other incidental income from generation, transmission and sale of electric power, except for indigenous geothermal energy which shall be at a rate of 1.50% of gross income. Proceeds from micro-scale projects for communal purposes and non- commercial operations, not exceeding 100 kW, and proceeds from the development of biomass resources will not be subject to the said government share.

The RE Law offers fiscal and non-fiscal incentives to RE developers, including developers of hybrid systems, subject to certification by the DOE in consultation with the BOI. These incentives include an ITH for the first seven years of commercial operations; duty-free importations of RE machinery, equipment and materials effective within ten years upon issuance of certification, provided, said machinery, equipment and materials are directly and actually needed and exclusively used in RE facilities; special realty tax rates on civil works, equipment, machinery and other improvements of a registered RE developer not exceeding 1.50% of the net book value; net operating loss carry-over; corporate tax rate of 10% after the seventh year; accelerated depreciation; zero-percent VAT on sale of fuel or power generated from RE sources and other emerging sources using technologies such as fuel cells and hydrogen fuels and on purchases of local supply of goods, properties and services needed for the development, construction and installation of RE facilities; cash incentives for missionary electrification; tax exemption on the sale of carbon emission credits; and tax credit on domestic purchases of capital equipment and services.

All fiscal incentives apply to all RE capacities upon the effectivity of the RE Law. RE producers from intermittent RE resources are given the option to pay transmission and wheeling charges on a per kilowatt-hour basis at a cost equivalent to the average per kilowatt-hour rate of all other electricity transmitted through the grid. Qualified and registered RE generators with intermittent RE resources shall be considered "must dispatch" based on available energy and shall enjoy the benefit of priority dispatch. Electricity generated from RE resources for the generator's own consumption and/or for free distribution to off-grid areas is exempt from the universal charge. The RE Law further provides financial assistance from government financial institutions for the development, utilization and commercialization of renewable energy projects, as may be recommended and endorsed by the DOE.

Pursuant to Department Circular No. DO2009-05-008 dated 25 May 2009 (Rules and Regulations Implementing the Renewable Energy Act of 2008), the DOE, the BIR and the Department of Finance shall, within six months from its issuance, formulate the necessary mechanism and/or guidelines to implement the entitlement to the general incentives and privileges of qualified RE developers. However, as of this date, no specific guidelines or regulations have been issued by the relevant implementing agencies. Such being the case, the RE companies of AboitizPower, such as APRI, LHC, Hedcor Sibulan, Hedcor Tamugan, SN Aboitiz Power-Magat and SN Aboitiz Power-Benguet, filed on 6 August 2010 a request before the BIR Law Division for a ruling on the application of zero-rated VAT on all its local purchases of goods and services needed for the development of RE plant facilities, exploration and development of RE sources and their conversion into power. To date, the said request is still pending with the BIR Law Division.

In Resolution No. 10, Series of 2012, the ERC adopted the following FIT and degression rates for electricity generated from biomass, run-of-river hydropower, solar and wind resources:

	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 Php8.69/kWh for the second set of installation target. On 6 October 2015, the ERC issued Resolution No. 14, Series of 2015 adopting the Wind FIT2 rate of Php7.40/kWh. On 29 September 2016, a Petition for Rule Making was filed by Alternergy Wind One Corporation, Petrowind Energy, Inc. and Trans-Asia Renewable Energy Corporation seeking to amend Resolution No. 14, Series of 2015, and praying to increase the Wind FIT2 rate of Php7.40/kWh to Php7.93/kWh. A public consultation was held on the Petition for Rule Making on 6 January 2017.

Acting upon the application of Transco as Fund Administrator of the FIT Allowance (FIT-All), the ERC issued its final approval for the FIT-All of Php0.0406 per kWh, for calendar years 2014 and 2015. Subsequently, Transco filed an application for approval of the FIT-All for calendar year 2016. In an Order dated 16 February 2016, the ERC provisionally approved a FIT-All of Php0.1240 per kWh.

In 2013, the ERC had issued the rules enabling the net metering program for RE. The rules, among others, seek to encourage end-users to participate in RE generation by requiring distribution utilities, upon the request of a distribution end-user with an installed RE system, to enter into a net metering agreement with such end-user, subject to technical considerations and without discrimination.

In early 2014, the ERC issued the guidelines on the collection of the FIT-All and the disbursement of the FIT-All Fund by Transco. The FIT-All shall be a uniform charge to be collected for the guaranteed payment of the FIT for electricity generator from emerging renewable energy technologies and actually delivered to the transmission and/or distribution network by RE developers. The distribution utilities and RES entities started collecting the FIT-All from their respective customers in February 2015.

The National Renewable Energy Board (NREB) is presently in the process of preparing the Renewable Portfolio Standards which, under the RE Law, shall be a market-based policy requiring electricity suppliers to source an agreed portion of their energy supply from eligible RE resources.

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. As of date, public consultations on the proposed rules were concluded and the Company is still awaiting the final rules from the ERC.

On 20 October 2015, ERC issued Resolution No. 13, Series of 2015, entitled, "A Resolution Directing All Distribution Utilities (DUs) to conduct a Competitive Selection Process (CSP) in the Procurement of their Supply to the Captive Market." This resolution provides that a PSA shall be awarded to a winning Generation Company following a competitive selection process or by direct negotiation, after at least two failed CSPs. This Resolution was restated in ERC Resolution No. 1, Series of 2016, entitled, "A Resolution Clarifying the Effectivity of ERC Resolution No. 13, Series of 2015."

ERC Resolution No. 1, Series of 2016 further clarified that automatic renewal clauses or extension of PSAs will no longer be permitted. However, PSAs approved by the ERC or filed with the ERC before the effectivity of this Resolution may have one automatic renewal or extension for a period of one year from the end of their respective terms.

Pricing and Cost Recovery Mechanism (PCRM)

Reserves are forms of ancillary services that are essential to the management of power system security. The provision of reserves facilitates the orderly trading, and ensures the quality of electricity.

As provided in the WESM Rules, when reasonably feasible, the Market Operator, in coordination with the System Operator, shall establish and administer a spot market for the purchase of certain reserve categories. The reserve categories that shall be traded in the WESM are regulating, contingency and dispatchable reserves as well as interruptible loads in lieu of reserves.

The WESM Reserve PCRM is intended to supplement the WESM Price Determination Methodology for purposes of providing the details of formula and procedures by which reserve trading amounts and reserve cost recovery charges for the categories of reserve that will be traded in the WESM are calculated. Once approved by the ERC, this Reserve PCRM will apply to all reserve categories traded in the WESM and will supersede, to this extent, the Ancillary Services Cost Recovery Mechanism of the Transco.

The Reserve PCRM covers the determination of (1) reserve trading amounts of reserve providers; (2) reserve cost recovery charges; and (3) administered reserve prices and reserve cost recovery charges. As of date, the Reserve PCRM is the subject of an application by the Market Operator, which is pending the approval of the ERC.

On 2 December 2014, DOE Circular No. 2014-12-0022, otherwise known as the Central Scheduling and Dispatch of Energy and Contracted Reserves, was issued. The Circular aims to prepare the market participants in the integration of ancillary reserves into the WESM. The ancillary service providers will be paid based on their respective ASPAs with NGCP, while the scheduling of capacity and energy will be based on market results.

Proposed Joint Resolution for the Establishment of Additional Generating Capacity

On 12 September 2014, former President Benigno C. Aquino III requested the House of Representatives and the Senate for authority to establish additional generating capacity. The President cited the DOE's report and projection of a critical electricity situation in the summer of 2015 in Luzon arising from the expected effects of the El Niño phenomenon, the 2015 Malampaya turnaround, increased and continuing outages of power plants, and anticipated delays in the commissioning of committed power projects.

After due deliberation, the Philippine House of Representatives ("House") approved House Joint Resolution No. 21, entitled “A Joint Resolution Authorizing the President of the Philippines, His Excellency Benigno S. Aquino III, to Provide for the Establishment of Additional Generating Capacity as Mandated by Republic Act No. 9136, also known as the ‘Electric Power Industry Reform Act (EPIRA)’, to Effectively Address the Projected Electricity Shortage in the Luzon Grid from March 1, 2015 to July 31, 2015.” On the other hand, the Philippine Senate ("Senate") approved Senate Joint Resolution No.12, entitled "A Joint Resolution Authorizing the President of the Philippines, His Excellency Benigno S. Aquino III, to Address the Projected Electricity Imbalance in the Luzon Grid and Providing the Terms and Conditions Therefor." A bicameral conference committee was constituted to reconcile the provisions of said House and Senate versions of the Joint Resolution. No bicameral conference committee version has been approved as of the date of submission of this Information Statement.

The Joint Resolution aims to address the projected critical power supply situation in Luzon through the expansion of the ILP, acceleration of power projects and implementation of energy efficiency programs.

On the other hand, the ERC has issued its Resolution No. 5, Series of 2015, which would enable the implementation of the ILP with respect to Contestable Customers, customers directly-connected to the grid, ecozone locators, and ecozone utility enterprises. Prior to Resolution No. 5, the ILP could only be implemented by distribution utilities which enter into an agreement with their captive customers.

DOE Circular Directing All Power Generation Companies, the Transmission Service Provider, and All Distribution Utilities to Ensure Adequate and Reliable Electric Power Supply in the Country

Under DOE Department Circular No. 2010-03-0003 dated 26 February 2010, generation companies are enjoined to ensure the availability of its generation facilities at all times subject only to technical constraints duly communicated to the system operator in accordance with existing rules and procedures. For this purpose, generation companies shall have, among others, the following responsibilities:

1. All generation companies shall operate in accordance with their maximum available capacity which shall be equal to the registered maximum capacity of the (aggregate) unit less: (1) forced unit outages, (2) scheduled unit outages, and (3) de-rated capacity due to technical constraints which include: (i) plant equipment related failure and ambient temperature, (ii) hydro constraints which pertain to limitation on the water elevation/ turbine discharge and megawatt output of the plant, and (iii) geothermal constraints which pertain to capacity limitation due to steam quality, steam pressure and temperature variation, well blockage and limitation on steam and brine collection and disposal system;
2. Oil-based generation companies shall maintain an adequate in-country stocks of fuel equivalent to at least 15 days of running inventory which includes shipments in transit;

3. Coal power plants shall ensure the required 30-day coal running inventory which includes shipments in transit;

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

5. All generation companies with natural gas-fired, geothermal and hydroelectric generating plants shall submit to the DOE a monthly report on the current status and forecast of the energy sources of its generating plants;

6. All generation companies must notify and coordinate with the system operator of any planned activity such as the shutdown of its equipment;

7. All generation companies must immediately inform the DOE of any unexpected shutdown or de-rating of the generating facility or unit thereof; and

8. Generation companies shall seek prior clearance from the DOE regarding any plans for deactivation or mothballing of existing generating units or facilities critical to the reliable operation of the grid.

ESTIMATE OF AMOUNT SPENT FOR RESEARCH AND DEVELOPMENT ACTIVITIES

AboitizPower and its Subsidiaries do not allocate specific amounts or fixed percentages for research and development. All research and developmental activities are done by AboitizPower's Subsidiaries and Affiliates on a per project basis. The allocation by said Subsidiaries and Affiliates for such activities varies according to the nature of the project.

COSTS AND EFFECTS OF COMPLIANCE WITH ENVIRONMENTAL LAWS

AboitizPower's generation and distribution operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations address concerns relating to, among other things:

1. air emissions
2. wastewater discharges
3. the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials, and waste;
4. workplace conditions; and
5. employee's exposure to hazardous substances

Standard laws and regulations that govern AboitizPower's business operations include the Ecological Solid Waste Management Act, Clean Water Act, Toxic Chemical Substances and Hazardous Waste Act, the Philippine Environmental Impact Statement System, and the RE Law. These laws usher in new opportunities for the Company and set competitive challenges for businesses covered by these laws.

The DOE's Energy Regulation 1-94, as amended, further requires companies to allocate funds for the benefit of the host communities, both for the protection of the natural environment and for the people living within the area. Funds are set for the management of carbon sinks and watershed areas through a nationwide reforestation program.

The inherent drive of AboitizPower to align with international best practices through the pursuit and maintenance of Quality Management Systems, Environmental Management Systems, and Occupational Health & Safety Systems has yielded a 90% adherence rate as of 2016. The Company aims to achieve 100% adherence rate in 2017.

The Tiwi-Makban geothermal plants of APRI have collectively spent Php2.6 mn for their environmental management programs in 2016, Php1.4 mn less than the amount spent for the previous year due to decreased waste hauling activities and more competitive rates for third party laboratory testing.

For 2016, Hedcor and its Subsidiaries, TSI, SN Aboitiz Power–Magat and SN Aboitiz Power-Benguetallocated Php13,982,808.00, Php5,203,132.00 and Php335,480.00, respectively, for the environmental management of their renewable energy operations.

The oil-fired power plants—TMO's barges, TMI's Mobile 1 and 2, and CPPC—allocated Php4,248,828.00 for environmental management. This is a Php2 mn increase from previous year's cost due to third party certification programs that gained them ISO 14001 and OHSAS 18001 certifications.

AboitizPower's Subsidiaries received several environmental awards and recognition in 2016, including: a Plaque of Recognition for the practices of APRI Makban's Multi Partite Monitoring Team from EMB Region IV-A; a citation for APRI Makban's power plant for its exemplary practice on the implementation of different environmental mandates from EMB-Calabarzon; the Saringaya Award for outstanding environmental management for APRI Tiwi from EMB-Region V; and Best in Sustainability Practices for the Solid Waste Management Programs of Hedcor Benguet from EMB – Cordillera Administrative Region.

The Philippine Chamber of Commerce and Industry also cited SN AboitizPower-Benguet's Ambuklao and Binga power plants as finalists for the Excellence in Economy and Ecology Award.

AboitizPower's Subsidiaries received recognitions from the DOLE's 2016 National Gawad Kaligtasan at Kalusugan (GKK) Awards, namely: (1) SN AboitizPower-Benguet's Ambuklao and Binga plants (the National Silver Award for Occupational Safety and Health Programs); (2) Hollis Fernandez, SN AboitizPower- Benguet's SHESQ Manager (Gold Award for Outstanding Safety Management Professional); (3) TMI-M1 (Bronze Award for Occupational Safety and Health Programs); and (4) TSI (Finalist for Region IX).

SN AboitizPower-Benguet, SN AboitizPower-Magat, and Hedcor Benguet were accorded the 2016 Safety and Health Association of the Philippines Energy Sector Inc. (SHAPES) Excellence in Safety Management Award and its respective focal points: Hollis Fernandez, Jessie Palma, Clifford Dallay, Cesar Vicente and Rocky Marquez received individual awards for Outstanding Safety Professional.

The Safety Organization of the Philippines gave APRI's Makban and Tiwi plants the Award of Excellence in recognition for its continued no-lost-time injury for the past five years.

In 2016, AboitizPower and its Subsidiaries and Affiliates did not incur any major sanctions for violation of environmental standards and law. Moreover, AboitizPower continues to be cognizant of new opportunities to comply with regulatory requirements and improvement of systems to promote safety and prevent adverse impacts to the environment or affected ecosystems.

EMPLOYEES

On the parent company level, AboitizPower has a total of 342 employees as of 31 March 2017 composed of executive, supervisory, rank and file staff, and contractual employees. There is no existing Collective Bargaining Agreement (CBA) covering AboitizPower employees.

The following table provides a breakdown of total employee headcount on a per company basis, according to employees' function, as of 31 March 2017:

Business Unit	**Number of Employees**						**Unionized Employee**	**Expiry of Collective Bargaining Agreement (CBA)**
	Total	**Executives**	**Managers**	**Supervisors**	**Rank & File**	**Contractual**		
Aboitiz Power	342	64	54	51	173	2	N/A	N/A
AESI	7	0	1	0	6	0	N/A	N/A
BEZ	6	0	0	1	5	0	N/A	N/A
MEZ	6	1	0	1	7	0	N/A	N/A
LEZ	8	0	1	0	7	0	N/A	N/A
ARI	0	0	0	0	0	0	N/A	N/A
APRI*	290	6	19	47	218	0	44	February 28, 2017
CPPC**	118	1	2	14	34	67	N/A	N/A
EAUC	94	1	2	11	27	53	N/A	N/A

Business Unit	Number of Employees						Unionized Employee	Expiry of Collective Bargaining Agreement (CBA)
	Total	Executives	Managers	Supervisors	Rank & File	Contractual		
LHC	36	0	1	5	24	6	N/A	N/A
MORE	97	12	16	28	33	4	N/A	N/A
SEZ	34	2	4	3	25	0	N/A	N/A
SN Aboitiz Power-Generation	21	1	2	1	7	10	N/A	N/A
SN Aboitiz Power - Magat	48	1	3	17	17	10	N/A	N/A
SN Aboitiz Power - Benguet	62	1	3	28	26	4	N/A	N/A
STEAG Power	203	3	17	40	140	3	N/A	N/A
WMPC	60	0	6	13	41	0	N/A	N/A
SPPC	48	0	3	10	35	0	N/A	N/A
Cotabato Light	52	1	3	11	37	0	31	June 30, 2019
Davao Light	314	8	24	65	217	2	130	June 15, 2021
Hedcor, Inc.	466	12	14	50	356	34	145	September 18, 2018
VECO*	365	4	23	49	268	21	163	December 31, 2016
SFELAPCO	267	3	15	7	56	181	56	May 9, 2019
TOTAL NO. OF EMPLOYEES	2,944	121	213	452	1,759	397	569	

** Under negotiation*
*** Figures as of February 28, 2017.*

The Company does not anticipate any increase in manpower within the next twelve months unless new development projects and acquisitions would materially require an increase.

INSURANCE

It Is the Company's policy to obtain and maintain insurance coverage for its operating assets and employees that is in line with industry standards and good business practices. All policies are renewed annually, except for the policies on Group Insurance Program - Industrial All Risks which has a policy period of 18 months.

Power Generation Companies

Group Insurance Program – Industrial All Risks.

To maximize the coverage and competitiveness of insurance terms and conditions, the company had grouped the insurance coverage of the following generating companies:

- AP Renewables, Inc. (APRI)
- Hedcor Sibulan, Inc. (HIS)
- Hedcor Tudaya, Inc. (HTI)
- Hedcor Sabangan Inc. (HSI)
- Luzon Hydro Corporation (LHC)
- Therma Marine, Inc. (TMI)
- Therma Mobile, Inc. (TMO)
- SN Aboitiz Power (SNAP)
- Therma Luzon, Inc. (TLI)
- Therma South, Inc. (TSI)

The Group Policy covers Industrial All Risks (IAR) insurance that will respond to losses and/or damages to (a) declared properties including machinery breakdown and (b) business interruption, procured through Pioneer Insurance and Surety Corporation with policy period of 30 November 2016 to 31 May 2018.

Declared values per generation unit above are as follows:

Group Insurance Program – Political Violence. The company has procured Sabotage and Terrorism insurance that covers property damage and business interruption caused by any acts of sabotage and/or terrorism and/or political violence for AEV Group including power generation and distribution units. This is a group policy with shared limit of US$250 million for any acts of sabotage and/or terrorism and/or political violence. This cover is from 30 November 2016 to 30 November 2017 insured through PNB General Insurers.

Group Property and Electronic Equipment Insurance. Noting that office-based properties has lesser risk exposure compared to the generating plants, the company has procured a separate policy to cover properties which are considered as office-based. This was procured from PNB General Insurers with policy period of 31 July 2016 to 31 July 2017.

Group Comprehensive General Liability Insurance. To mitigate risks related to Third Party Liability for bodily injury and/or property damage, the company procured group cover for the following business units through Starr International Insurance Philippines with policy period of 30 November 2016 to 30 November 2017

BU	Limit per Occurrence (in US$)
Hedcor Sibulan	2,000,000
AP Renewables	2,000,000
SNAP – Benguet	10,000,000
SNAP – Magat	200,000
Therma South, Inc.	5,000,000
Luzon Hydro Corporation	5,000,000

Power Distribution Companies

Group Insurance Program. Seeing the benefits of grouping the insurance coverage, the Company has procured group cover for the following distribution companies:

- Visayan Electric Company
- Davao Light and Power Company
- Cotabato Light and Power Company
- Mactan Enerzone
- Balamban Enerzone
- Subic Enerzone
- Lima Enerzone

The Group Policy covers Industrial All Risks (IAR) insurance that will respond for losses and/or damages to declared properties through PNB General Insurers as lead insurer and Malayan Insurance Co., In., Pioneer Insurance Company Ltd., Charter Ping An Insurance Corporation and MAA General Assurance Phils., Inc., as co-insurers, with policy period of 30 November 2016 to 30 November 2017. Total declared value of the properties are as follows:

BU	Declared Values (in Php)
Visayan Electric Company	4,037,072,083
Davao Light	2,647,522,629
Cotabato Light	446,924,678
Mactan Enerzone	89,708,466
Balamban Enerzone	96,521,799
Subic Enerzone	479,564,764
Lima Enerzone	124,010,034

Group Comprehensive General Liability Insurance. The operations of Distribution Companies comes with Third Party Liability exposures. The company has procured a Comprehensive General Liability insurance from Pioneer Insurance and Surety Corporation with combined single limit for bodily injury and/or property damage of Php5 million per occurrence and in the aggregate with sub-limit of Php1 million for losses related to transmission and distribution. Policy period is from 30 November 2016 to 30 November 2017.

Group Money Insurance. To ensure that cash exposures of the distribution companies are protected, the Company has procured Money Insurance from PNB General Insurers for the following units to respond for losses/da mages in relation to cash inside and outside premises with extension to payroll robbery with policy period of 31 July 2016 to 31 July 2017. Limit of Liabilities are as follows:

BU	Limit per Occurrence (in Php)
Visayan Electric Company	6,000,000
Davao Light	8,900,000
Cotabato Light	3,100,000

Insurance Program for Transmission & Distribution Lines. Seeing the need to mitigate major exposure on Transmission and Distribution lines, an insurance program for Visayan Electric Company (VECO) and Davao Light & Power Company (DLPC) in relation to loss of or damage to said properties including loss of gross profit was procured through Pioneer Insurance and Surety Corporation with a limit of US$30,000,000 each occurrence and policy period of 1 March 2017 to 1 March 2018.

Applicable to Both Generation & Distribution Companies

Group Comprehensive Motor Vehicle Insurance. As motor vehicle is an integral part of operation, all registered motor vehicles of Aboitiz Power is covered under the Aboitiz Group's Motor Vehicle insurance through Mapfre Insular Insurance Corporation with policy period of 31 December 2016 to 31 December 2017.

Directors and Officers' Liability Insurance. In order to protect the balance sheet of the company as well as the personal assets of the company's directors and officers, a Directors and Officers Liability Insurance was procured. The coverage includes all subsidiaries of AEV. The policy has a total limit of US$25,000,000 issued by AIG Philippines Insurance, Inc. with policy period of 28 February 2017 and expiring on 28 February 2018.

Stand-alone Program. On a per business unit basis, stand-alone insurance programs were procured to ensure that unique risk exposures of particular business unit is mitigated.

CORPORATE SOCIAL RESPONSIBILITY

The Company strongly believes that business sustainability can be achieved by balancing the interests of people, planet and profit. To ensure a profitable enterprise that will last for generations, it is imperative for every business to operate with a strong social component amid a healthy environment, while practicing the core principles of good governance and transparency.

The Company recognizes that its operations have an impact on society and on the environment. Along with operational efficiency in its generation and distribution facilities and compliance to Government's environmental standards, the Company ensures that the communities where it operates also benefit and develop together with the Company. To this end, the Company has sponsored community development projects in partnership with local government units and other stakeholders to help address the economic, socio-cultural, health, education and environmental concerns of these communities.

The Company contributes to social development programs implemented by the Aboitiz Group. In partnership with the Aboitiz Foundation, Inc., the Group's social development arm, the Company identified three major areas of focus, namely Education, Enterprise Development, and Environment. The Company also continues to address the health care and childcare needs of its host communities, and to offer assistance to disaster-stricken areas.

In 2014, the Aboitiz Foundation launched CSR 2.0, a set of parameters that could measure the significance and impact of projects implemented by the different companies of the Aboitiz Group. These projects are measured based on sustainability, inclusiveness, and alignment to the Group's core competencies. About 50% of group wide CSR programs reached 2.0 status in 2016.

Education

The Company invests in numerous initiatives that aim to nurture and enlighten the minds of students. These are primarily done through scholarship grants for high school, college and technical-vocational students. As of 2016, the Company has a total of 1,138 scholars.

The Company also provides infrastructure projects for educational institutions such as the construction of classrooms, rewiring of electricals, and library revitalization. The Company has also put effort in providing for the basic educational needs of the host communities by donating armchairs, desks, computers and school supplies.

Enterprise Development

The Company recognizes that to empower the host communities, there is a need to widen the livelihood options of the community members. With this, the Company provides opportunities for skills training under its enterprise development program.

Capability building efforts were done in 2016 through several business units. These include Project BELT.COM of Cotabato Light and Davao Light, wherein both distribution units conducted basic electrical lineman's trainings. A similar training was conducted by Davao Light entitled, "Project Best." Project Best aimed to equip citizens of host barangays with the skills needed to become their own resident electricians. Hedcor also conducted trainings that utilized the agriculture of the communities, including community food livelihood development projects, cacao farming lectures and the Gulayan sa Barangay 2016 project.

Environment

The Aboitiz Group, driven by its passion for a better world, is committed to the highest standards of environmental management and performance. One of the notable greening initiatives of the Group is the A-Park program. As of 2016, the Group has already planted 5.4 million seedlings across the country under the program, well in advance of its goal to plant 9 million trees by 2020.

The Company is also involved in seedling nursery, waste management, adopt-a-river, and coastal or river clean-up programs. Moreover, the Company has been taking care of watershed forests that are vital to the business. For instance, Hedcor completed its pledge in 2015 to manage 1,000 hectares of watershed within the protected areas of Mt. Apo Natural Park, where more than half a million trees were planted for reforestation, roadside rehabilitation, riverbank stabilization and agro-forestry.

The Company also features the Aboitiz Cleanergy Park as one of its environmental programs. Located in Davao City, the eight-hectare Park showcases a mangrove reforestation site, nursery, and botanical garden for the propagation of 29 native tree species. Aside from helping reduce carbon emissions, the Park is also actively promoting habitat conservation and biodiversity management in an urban setting. Most importantly, the Park serves as a sanctuary and safe nesting ground for the hawksbill sea turtles, commonly called pawikan. From 2014 to 2016, the Park released more than 1,800 hawksbill hatchlings.

Other Initiatives

In 2016, the Philippines was hit with multiple calamities and disasters, affecting some of the Company's host communities. In the aftermath of typhoons Ferdie, Lawin, and Nina, a number of fire incidents, armed conflict in Mindanao, and even El Niño, the Aboitiz Group and Aboitiz Foundation immediately extended assistance to affected communities nationwide by providing relief packs to 9,887 families. The Distribution Companies also shared their time and assistance to electric cooperatives in restoring electricity in the homes and streets of 14,579 residents, specifically in Tiwi, Albay and Cagayan Province.

The Company is also working with donors from the private sector to support the Philippine Government's efforts in reducing weather-related disaster risks through WeatherPhilippines Foundation. WeatherPhilippines operates a premiere weather forecasting system through the installation of automated weather stations (AWS) across the country. The system delivers free, accurate and localized weather information to help local governments and communities prepare for severe weather conditions. As of December 2016, WeatherPhilippines has completed the deployment of 792 AWS across the country.

In 2013, the Company launched its Cleanergy Center at the MakBan Geothermal Complex in Bay, Laguna to firm up its longstanding commitment to responsible energy development and education. The Cleanergy Center–taken from the words "clean energy" and named after AboitizPower's brand for clean and renewable energy–is the country's first renewable energy learning facility. Since it opened, the Cleanergy Center has accommodated close to 30,000 visitors.

In 2016, the Aboitiz Group invested a total of Php442 mn to assist its host communities and committed Php27.56 mn for its environmental programs, consistent with its commitment to protect and enrich our planet and uplift the well-being of its communities. Through responsible operations and the implementation of various sustainability and CSR projects, the Company is constantly finding better solutions to ensure that its entire value chain continues to be environmentally friendly and remains consistent in promoting sustainable development for A Better Future.

PROPERTIES

The Company's head office is located at the 32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines. The office space occupied by the Company is leased from a third party.

The Company plans to continually participate in future biddings and projects that become available to it.

On a consolidated basis, AboitizPower's Property, Plant and Equipment were valued at around Php192.63 bn in 2016 as compared to Php134.81 bn for 2015. The breakdown of the Company's Property, Plant and Equipment as of December 31, 2016 and December 31, 2015 is as follows:

Property, Plant and Equipment as of December 31	2016	2015
Land	Php1,436,461	Php1,340,282
Buildings, Warehouses and Improvements	21,361,116	14,090,427
Powerplant, Equipment and Streamfield Assets	137,228,130	99,658,102
Transmission, Distribution and Substation Equipment	16,005,968	14,683,602
Transportation Equipment	1,359,708	1,001,932
Office Furniture, Fixtures and Equipment	826,632	505,273
Leasehold Improvements	2,735,378	2,696,862
Electrical Equipment	3,516,283	3,179,186
Meter and Laboratory Equipment	1,345,439	1,546,645
Tools and Others	1,152,427	764,908
Construction in Progress	42,900,110	22,578,043
Less: Accumulated Depreciation and Amortization	37,324,106	27,234,635
TOTAL	**Php192,633,546**	**Php134,810,627**

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
Aseagas	Raw land and improvements	Lian, Batangas	Undergoing development
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
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, Davao del Sur	In use for operations
Hedcor Tudaya	Hydropower plant	Santa Cruz, Davao del Sur	In use for operations

Subsidiary	Description	Location/Address	Condition
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
APRI	Geothermal power plants	Tiwi, Albay, Caluan, Laguna; and Sto. Tomas, Batangas	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
GNPower-Mariveles	Coal-fired thermal power plants	Mariveles, Bataan	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
LEZ	Industrial land, buildings/plants, equipment and machineries	Lipa City and Malvar, Batangas	In use for operations
BEZ	Buildings/plants, equipment and machineries	Balamban, Cebu	In use for operations

MATERIAL CONTRACTS

AboitizPower PhP 10 Billion Fixed Rate Bonds due 2021 and 2026

On 10 September 2014, AboitizPower issued fixed-rate bonds (the "2014 Bonds") in two series: (a) Series A 2013 Bonds, with a term of seven (7) years from issue date and in the aggregate amount of PhP6,600,000,000.00 bn, and (b) Series B Bonds, with a term of twelve (12) years from issue date in the aggregate amount of PhP3,400,000,000.00 bn. The Series A 2014 Bonds had an optional redemption on the fifth (5th) year and one (1) quarter from issue date, and on the sixth (6th) year from issue date. On the other hand, the Series B 2014 Bonds had an optional redemption on the seventh (7th) year from issue date, the eighth (8th) year from issue date, the ninth (9th) year from issue date, the tenth (10th) year from issue date, and the eleventh (11th) year from issue date. BPI Capital Corporation ("BPI Capital") acted as the Issue Manager and Lead Underwriter while Bank of the Philippine Islands – Asset Management Group was appointed as Trustee.

The 2014 Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of AboitizPower and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by AboitizPower pursuant to Section 5.02 (a) of the Trust Agreement for the 2014 Bonds or as may be allowed therein, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of the relevant issue date.

Transfers of the Bonds shall be coursed through the Philippine Depository & Trust Corporation ("PDTC") as Registrar. Transfer and/or settlement of the Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and Registrar.

AboitizPower is subject to the following negative covenants, among others:

1. Encumbrances - AboitizPower shall not permit any Indebtedness to be secured by or to benefit from any Lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Issuer or the right of the Issuer to receive income; *Provided*, however that this shall not prohibit the following:

    a. any Lien over any asset to secure: (i) payment of the purchase price or cost of leasehold rights of such asset; or (ii) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (iii) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;
    b. Liens or charges for current taxes, assessments, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings, and adequate reserves have been provided for payment thereof;
    c. any Lien constituted over the investment of the Issuer in any of its affiliates, for any obligation or credit facility incurred for the purpose of pursuing any power generation, distribution, or retailing project or investment therein, whether such power generation, distribution, or retailing project is undertaken by the Issuer itself, by its affiliates, and/or by the Issuer or its affiliates with third parties;
    d. any Lien to secure, in the normal course of the business of the Issuer or its affiliates: (x) statutory or regulatory obligations; or (y) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;
    e. any Lien to secure, in relation to a pending judicial, administrative, or arbitral proceeding, the Issuer or its affiliates' (x) surety or appeal bonds; or (y) bonds for release of attachment, stay of execution or injunction;
    f. any Lien constituted for the purpose of guaranteeing an affiliate's obligation in connection with any contract or agreement that has been assigned to such affiliate by the Issuer;
    g. any Lien constituted for the purpose of guaranteeing an obligation in connection with any contract or agreement of sale of any asset by the Issuer, provided that the Lien is removed or discharged within twelve (12) months of the date of the sale of the asset;
    h. any Lien created over (i) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency other than Philippine Pesos ("foreign currency"); or (ii) financial instruments denominated in foreign currency owned by the Issuer, in each case solely for the purposes of raising an equivalent amount of Peso denominated indebtedness
    i. any Lien created over or affecting any asset acquired by any affiliate after the date of the Trust Agreement, if:
    j. the Lien was not created in contemplation of the acquisition of that asset by such affiliate;
    k. the principal amount secured has not been increased in contemplation of, or since the acquisition of that asset by such affiliate; and
    l. the Lien is removed or discharged within twelve (12) months of the date of the acquisition of such asset;
    m. any Lien on the properties and assets of the Issuer: (i) imposed by Law, such as carriers' Liens, warehousemen's Liens, mechanics' Liens, unpaid vendors' Liens, and other similar Liens arising in the ordinary course of business; (ii) arising out of pledges or deposits under workmen's compensation Laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation, or retirement benefit plans of the

Issuer; or (iii) arising out of the set-off provision on other agreements of the Issuer relating to Indebtedness;

n. any Lien in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations of other juridical entities which secure a preferential financing obtained by the Issuer under a governmental program and the aggregate principal amount of such preferential financing does not exceed Thirty Five percent (35%) of the Issuer's total assets;

o. any Lien over its cash deposits, short-term cash investments, and marketable investment securities in favor of banks and other financial institutions, which secure (i) any borrowed money in connection with a Treasury Transaction in the ordinary course of business of Issuer, provided that the aggregate amount of security does not at any time exceed United States Dollars: Ten Million (US$10,000,000.00) or its equivalent; and/or (ii) standby letters of credit to be used to guarantee additional equity infusions by the Issuer in its Subsidiaries or Affiliates and/or used in the ordinary course of business of Issuer, its Subsidiaries and/or Affiliates;

p. other Liens: (i) created solely by operation of law; and (ii) on such other assets, whether constituted before or after the Issue Date, as may be disclosed in writing by the Issuer to the Trustee on or before the execution of this Agreement; and

q. any Lien constituted over the investment of the Issuer in any of its affiliate, and whether such investment is in the form of shares, deposits or advances to guarantee or secure the obligations of the said affiliates;

Provided that for purposes of "affiliate" as used in Section 5.02 (a) (c), (d), (e), (h), and (m) above, it shall refer to any Person in which the Issuer has investment, whether direct or indirect.

2. Declaration and Payment of Cash Dividends/Issuance of Share. AboitizPower shall not declare or pay any dividends to its stockholders (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the 2014 Bonds are current and updated;

3. Maintenance of Financial Ratios. AboitizPower shall not permit its Net Debt to Consolidated Equity Ratio to exceed 3:1 calculated based on the AboitizPower's year-end audited financial statements.

TPI Syndicated Bridge Loan Facility Agreement

On 4 October 2016, Therma Power, Inc. as borrower, and AboitizPower as guarantor, entered into a Syndicated Bridge Loan Facility Agreement with The Bank of Tokyo-Mitsubishi, UFJ, Ltd., DBS Bank Ltd., The Hongkong and Shanghai Banking Corporation, Ltd., Maybank Kim Eng Securities Pte. Ltd., Mizuho Bank, Ltd., and Standard Chartered Bank as Arrangers, and the The Bank of Tokyo-Mitsubishi, UFJ, Ltd. as Agent.

The Syndicated Bridge Loan was for an aggregate amount of US$650,000,000.00 that was guaranteed by the Company.

CERTAIN LEGAL PROCEEDINGS

AboitizPower and its Subsidiaries are currently involved in various legal proceedings in the ordinary conduct in their businesses. The Company believes that the results of these actions will not have a material 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 Php14mn to Php67 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. MDI-56 entitled "Mactan Electric Co. vs. Acoland, Inc.", RTC Branch 56, Mandaue City
June 16, 1996

On July 16, 1996, Mactan Electric Company (MECO) filed a quo warranto case against Acoland, Inc. (now Aboitiz Land, Inc.) questioning the latter's authority to distribute power within the MEPZ II as well as the PEZA's power to grant such authority to AboitizLand. MECO argues that AboitizLand does not possess the legal requirements to distribute power within MEPZ II, and that the amendment of AboitizLand's Articles of Incorporation to include the right to engage in the operation, installation, construction and/or maintenance of electric and other public utilities only six days after the filing of this case was an afterthought.

AboitizLand claims that the Special Economic Zone Act of 1995 (RA 7916) that created the PEZA grants the latter broad powers and functions to manage and operate special economic zones, and that these include the power to grant the right to distribute electricity within PEZA-registered economic zones.

The PEZA intervened and argued that it is authorized by its charter to undertake and regulate the establishment and maintenance of utilities including light and power within economic zones under its jurisdiction.

In 2007, with the approval of the PEZA, AboitizLand transferred all of its power assets and business to another corporation, MEZ, which is now the real party in interest in the case.

MECO asks that AboitizLand/MEZ be adjudged as unlawfully exercising the functions of a public utility and usurping the franchise rights of MECO. It further prays that AboitizLand/MEZ be excluded from exercising its purported right to distribute electricity within MECO's franchise area in MEPZ II.

This case has been unresolved for more than 20 years and remains pending before the RTC of Mandaue City. This case is now at the stage of Judicial Dispute Resolution.

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 Php40.40 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.

The court set the Motion for Reconsideration for hearing on May 15, 2014. However, on May 15, 2014, the judge was unavailable, and the hearing was reset to August 13, 2014.

During the hearing on August 13, 2014, Benguet requested for ten (10) days to file its Reply to LHC's Opposition. LHC was given the option to file a Rejoinder within the same period from receipt of the Reply. LHC received the Reply on September 3, 2014 and filed its Rejoinder on September 15, 2014.

On March 17, 2016, LHC received a notice of hearing from the RTC that the case will be heard on April 21, 2016 at 2:00 p.m.

During the hearing on April 21, 2016, the counsel for Benguet informed the court that he did not receive the order and appeared only after receiving a phone call at 10:00 a.m. from the staff of the court. The Court acknowledged, from checking its records, that indeed there was no proof of service to the counsel for Benguet and thus the hearing was reset to May 24, 2016 at 9:00 a.m.

During the hearing on May 24, 2016, only LHC appeared. The Court stated that with no additional arguments coming from respondent, 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)
"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 Php11 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 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 granting LHC's Motion to Resolve the Joint Motion for Judgment based on Compromise. The CTA though, denied such motion. The CTA further stated that without necessarily giving due course to the Petition for Review, LHC and the other respondents were ordered to file their respective comments on the Petition for Review.

On April 12, 2016, LHC filed a Motion for Partial Reconsideration asking that the CTA (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 Memorandum of Agreements, and render a Decision based on the foregoing ("Motion for Partial Reconsideration"). Respondents Municipal Treasurer of Bakun, Benguet, the Provincial Assessor of Benguet and the Provincial Treasurer of Benguet filed their comments to the motion, and a Motion for Extension to file Comment by the Office of the Solicitor General. On October 2016, the CTA denied LHC's Motion for Partial Reconsideration for lack of merit.

On December 12, 2016, LHC filed with the SC a Petition for Certiorari assailing the above resolutions of the CTA for acting with grave abuse of discretion amounting to lack or excess of jurisdiction when it denied the parties' joint motion for judgment based on compromise. To date, LHC has not received any further orders or pleadings.

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 Php4.3 mn for the fourth quarter of 2002, while the second notice required LHC to pay Php17.2 mn for 2003. The notices of assessment also contained an additional imposition of 40% of the acquisition cost, which allegedly represented installation costs, and a further imposition of 15%, which allegedly represented freight costs.

LHC filed a Protest before the LBAA which ruled against LHC by upholding the notices of assessment. LHC appealed directly to the CBAA.

On September 26, 2012, the CBAA rendered a decision denying LHC's appeal. On November 14, 2012, LHC filed its Motion for Reconsideration. On March 21, 2013, the CBAA issued a resolution denying LHC's Motion for Reconsideration, a copy of which was received by LHC only on November 6, 2013. LHC filed its Petition for Review with the CTA En Banc on December 6, 2013. The CTA En Banc consolidated the instant case with CTA EB Case No. 1024.

On January 26, 2015, the CTA En Banc denied the Petition, prompting LHC to file a Motion for Reconsideration on February 10, 2015.

On May 13, 2015, LHC filed a Motion to take Judicial Notice of Executive Order No. 173 and suspend proceedings.

On March 18, 2016, LHC received a copy of the CTA En Banc's resolution wherein the court took judicial notice of the EO, however, denied the motion to suspend the proceedings. LHC filed its Petition for Review on Certiorari with the SC on April 4, 2016, which the SC later on consolidated with petition filed by NPC.

On November 29, 2016, LHC received the comment of the Province of Ilocos Sur.

G.R. No. 210245 entitled "Bayan Muna Representative Neri Javier Colmenares, et al. v Energy Regulatory Commission, et al.", Supreme Court; December 19, 2013
G.R. No. 210255 entitled "National Association of Electricity Consumers for Reforms, et al. v 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, (i) the legality of Section 6, 29 and 45 of the EPIRA, (ii) the failure of ERC to protect consumers from high prices of electricity, and (iii) the 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. The Supreme Court also ordered all 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 last 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.

The 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. v. 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 Php234.9 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 breach of 3,578 counts under the Must-Offer-Rule and sustained the imposition of financial penalties amounting to Php234.9 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 last 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 a) refrain from demanding or collecting the amount of Php234.9 mn as financial penalty; b) refrain from charging interest on the financial penalty and having the same accrue; and c) refrain from transmitting PEMC-ECO's investigation report to the ERC. TMO posted a bond in the amount of Php234.9 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 Court of Appeals (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. This petition is still pending before the Supreme Court.

ERC Case No. 2014-001 entitled “In the Matter of the Investigation on the Alleged Anti-Competitive Behavior and Possible Abuse of Market Power Committed by Some Participants in the WESM”, ERC (Investigation Unit);
ERC Case No. 2015-025 MC entitled “ERC vs MERALCO and Therma Mobile, Inc.[For Violation of Section 45 of RA 9136, otherwise known as EPIRA, Rule 11, Section 1 of IRR or the EPIRA (Commission of an Anti-Competitive Behavior, particularly Economic Withholding)]”, ERC Pasig City, June 4, 2015; and

ERC Case No. 2015-027 MC entitled "ERC 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 or 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 clarifications 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 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 days from receipt of notice, and another Order directing TMO to file its Answer to the Complaint for Physical Withholding within 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, ERC-IU manifested the resignation of Atty. Isabelo Tomas as Investigating Officer and the appointment of Director Alfredo Vergara, Jr. and Engr. Nelson Canlas as new Investigating Officers (IO). In a separate pleading, the new IOs filed their Reply to various motions filed by TMO. On November 21, 2016, TMO filed its Counter-Manifestation and Rejoinder with the ERC.

In an Order dated February 2, 2017, the ERC denied TMO's motion to dismiss for lack of jurisdication. On February 23, 2017, TMO filed its Motion for Reconsideration of the above ERC Order. The company is still waiting for further orders from the ERC.

ERC Case No. 2015-038 MC entitled "Energy Regulatory Commission vs. APRI ([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 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 geothermal power 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, ERC-IU manifested the resignation of Atty. Isabelo Tomas as Investigating Officer and the appointment of Director Alfredo Vergara, Jr. and Engr. Nelson Canlas as new Investigating Officers (IO). In a separate pleading, the new IOs filed their Reply to various motions filed by APRI.

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. APRI is still waiting for further orders from the ERC.

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 28, 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 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 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 Court of Appeals on November 19, 24, December 1, and 4, 2014, respectively. The Court of Appeals subsequently ordered the consolidation of the Petitions on October 9, 2015. The case is still pending with the Court of Appeals.

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 (a) 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 (b) 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, et al.", 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 Naga Power Plant Complex (NPPC). A Notice of Award was issued to TPVI on April 30, 2014.

However, SPC Power Corporation (SPC), the other bidder, exercised its RTT 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 and to enjoin PSALM from implementing SPC's RTT in connection with the NPPC bidding and to have the said RTT be declared null and void. PSALM, SPC and TPVI were impleaded as respondents.

In its September 28, 2015 Decision, the Supreme Court declared the RTT 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 RTT 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.

The Supreme Court directed the Notice of Award in favor of TPVI be reinstated, and for PSALM to execute the NPPC APA and LLA with TPVI with dispatch.

SPC filed an Urgent Motion for Reconsideration in response to the October 10, 2016 Resolution. The Supreme Court denied it with finality in a Resolution dated November 28, 2016.

On February 14, 2017, TPVI thru counsel, received a copy of the Entry of Judgment 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 Judgment.

MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

AboitizPower's common shares are traded on the PSE.

The high and low stock prices of AboitizPower's common shares for each quarter of the past two years and first quarter of 2017 were as follows:

	2017		2016		2015	
	High	**Low**	**High**	**High**	**High**	**Low**
First Quarter	44.25	41.55	44.40	39.40	46.50	42.20
Second Quarter	N/A	N/A	48.90	42.80	45.50	41.50
Third Quarter	N/A	N/A	46.65	44.00	45.75	42.00
Fourth Quarter	N/A	N/A	46.40	41.50	43.90	39.10

The closing price of AboitizPower common shares as of March 31, 2017 is Php41.75 per share.

HOLDERS

As of March 31, 2017, AboitizPower has 636 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 31, 2017 are as follows:

Name	Number of Shares	Percentage
1) Aboitiz Equity Ventures, Inc.	5,657,530,774	76.88%
2) PCD Nominee Corporation (Filipino)	871,204,959	11.84%
3) PCD Nominee Corporation (Foreign)	570,491,514	7.75%
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) Cal Management Corporation	2,972,829	0.04%
18) Tris Management Corporation	2,939,466	0.04%
19) Tinkerbell Management Corporation	2,869,506	0.04%
20) Gitana Management & Development Corporation	2,817,091	0.04%
SUBTOTAL	**7,215,898,635**	**98.06%**
Other Stockholders	**142,705,672**	**1.94%**
TOTAL SHARES	**7,358,604,307**	**100.00%**

NET ISSUED AND OUTSTANDING SHARES	**7,358,604,307**	**100.00%**

DIVIDENDS

The cash dividends declared by AboitizPower to common stockholders from 2015 to the first quarter of 2017 are shown in the table below:

Year	Cash Dividend Per Share	Total Declared	Declaration Date	Record Date	Payment Date
2017 (regular)	Php1.36	Php10.00 bn	3/7/2017	3/21/2017	4/10/2017
2016 (regular)	Php1.20	Php8.83 bn	3/8/2016	3/22/2016	4/19/2016
2016 (special)	Php0.46	Php3.38 bn	3/8/2016	3/22/2016	4/19/2016
2015 (regular)	Php1.14	Php8.39 bn	3/10/2015	3/24/2015	4/20/2015
2015 (special)	Php0.52	Php3.83 bn	3/10/2015	3/24/2015	4/20/2015

During the regular board meeting of the Company held on 28 November 2012, the Board approved a revised dividend policy consisting of an annual cash dividend payment ratio of 50% of its consolidated net income from the previous fiscal year based on the audited financial statements of the Company. The new policy changes the previous cash dividend payment ratio of 33% of previous year's net profits. The Company's new dividend policy was effective starting 2013.

RECENT SALES OF UNREGISTERED OR EXEMPT SECURITIES INCLUDING RECENT ISSUANCES OF SECURITIES CONSTITUTING AN EXEMPT TRANSACTION

AboitizPower does not have any recent sales of unregistered or exempt securities including recent issuances of securities constituting an exempt transaction.

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

The following 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, 2016 compared with the year ended December 31, 2015 and 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 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: Associate'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 extra-ordinary 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 31 December 2016 versus Year Ended 31 December 2015

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

Key Performance Indicators	2016	2015
Amounts in thousands of ₱s, except for financial ratios		
SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	**3,641,210**	**3,979,974**
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 Western Mindanao Power Corporation (WMPC) and Southern Philippines Power Corporation (SPPC), STEAG State Power Inc. (STEAG) and large hydroelectric power plant, SN Aboitiz Power-Magat, Inc. (SNAP Magat) decreased this year versus 2015.

The main driver of the 12% increase in consolidated EBITDA is from the full year EBITDA contributions from Therma South Inc. (TSI) which started commercial operations for its first coal-fired on September 2015, and a second unit on February, 2016.

During the year, cash and cash equivalents decreased by P 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 is at 2.25x from 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 1.39 at the end of 2015.

Results of Operations

Net income for the year increased, from P17.60 bn to P20.00 bn improving by 14% year on year (YOY). This translates to earnings per share of P2.72. During the year, the Company recognized non-recurring losses of P612 mn (versus last year's loss of P762 mn) mainly coming from 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 P20.6 bn, up by 12% YoY.

Power Generation

The power generation group continue to lead in terms of earnings contribution, accounting for 82% of earnings contributions from the Company's business segments. Income share for 2016 was P16.26 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 P17.16 bn for the period, which was 16% higher than last year.

Attributable net energy sold rose 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% from 1,168 GWh to 1,216 GWh.

As of year-end 2016, AboitizPower's net sellable capacity stood at 2,975 MW after the Philippine Competition Commission (PHCC) granted its approval of the acquisition of GNPower-Mariveles (604-MW) and GNPower Dinginin (2x668-MW).

Power Distribution

The power distribution group's earnings share for 2016 decreased by 4%, from P3.81 bn to P3.67 bn. This is equivalent to 18% of 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 P1.59 from P1.61 a year ago.

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 in the distribution segment accounting 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 Visayan Electric Company, Inc. (VECO) and Davao Light & Power Company, Inc.'s. (Davao Light) led to higher operating revenues.

The generation segment likewise noted a 7% increase in operating revenues versus last year. This is 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 the year, 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 is mainly due to higher average cash and cash equivalent balances carried at the Parent Company and at the intermediate holding companies, Aboitiz Renewables Inc. (ARI) and Therma Power Inc. (TPI) for most of the year.

Interest Expense and other financing costs
(16% increase from ₱6.63 bn to ₱7.70 bn)

The higher interest expense is due to the recognition of interest expense on TSI's project debt, as well as the interest expense on a notes facility which AP Renewable Inc.'s (APRI's) 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 Nino led to lower water levels affecting the income contributions from SN Aboitiz-Magat.

Other Income (Expenses) – net
(Increase from ₱337 mn other expense to ₱1.67 bn other income)

The increase in the account is from other income recognized on insurance proceeds from settlement of liquidated damages during the year, gain on step-acquisition of East Asia Utilities Corp. (EAUC) as well as lower foreign exchange losses.

Provision for Taxes
(3% decrease from ₱3.59 bn to ₱3.50 bn)

The decrease is due to lower provision for taxes recognized at Davao Light and TL 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 the year. The balance of the increase is due to the take up of the minority shareholder's participation in the income of Cebu Energy Development Corp. (CEDC) and Cebu Private Power Corp.'s (CPPC) net income for the year.

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 (versus ₱ 226 mn in the previous year). Total consolidated comprehensive income was ₱21.58 bn for the year in review.

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% during the year. Cash generated from operations continue to provide significant liquidity for the Company, but as a result of a major acquisition and to fund on going greenfield projects, the consolidated cash position of the company decreased by P 4.00 Bn.

b. Trade and other receivables increased by 13% (from ₱13.69 bn in 2015 to ₱15.47 bn in 2016) primarily due to the take up of the trade receivables at newly consolidated Subsidiary 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-Marivels and higher inventory balances at TSI and TLI

d. Other current assets is higher by 90% (from ₱3.39 bn in 2015 to ₱6.45 bn in 2016) mainly driven by P 2.10 bn in restricted cash at TSI to comply with the covenants on its project debt. The balance of the increase is 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 P 22.55 bn at the end of 2015 to P 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 the increase of 43% (from ₱134.81 bn in 2015 to ₱ 192.63 bn in 2016) The group also continued and entered the final stages of the construction of its hydro facilities under Hedcor Sabangan and continues the construction of its various coal plants under Therma Visayas Inc. (TVI) and Pagbilao Energy Corporation (PEC).

g. Intangible assets increased by P 36.05 bn as the Company recognized 36.27 bn of provisional goodwill resulting from the acquisition of GNPower-Mariveles, net of P 169 mn of goodwill impaired on the Company's investment in MEZ.

h. The additions on derivative instruments as a result of business combinations (the acquisition of GNPower-Mariveles) led to derivative assets net of derivative liabilities (current and non-current) to increase.

i. Available for sale (AFS) investments went up by P97 mn mainly from the consolidation of AFS investments at GNPower-Mariveles.

j. Net pension assets went up by P 11mn or 31% due to the increase in the fair value of plan assets as contributions were 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 is driven by the take up of deferred tax assets at newly consolidated GNPower-Mariveles. The balance is 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 from Aboitiz Renewables Inc. (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 are up 62% or P1.59 bn mainly from temporary advances 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 consolidates trade and other payables of GNPower-Mariveles. Also adding to the increase are the higher payables to suppliers and contractors as construction of various power plants continues.

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.

   The increase is attributable to the following:
   1. TPI's Php30.49 bn bridge financing to fund the acquisition of GNPower-Mariveles and GNPower-Dinginin;
   2. New loans during the year for APRI (Php11.61 bn) and Hedcor Sibulan (Php4.05 bn)
   3. Increase in long-term debt relating to the drawdowns on various financing facilities for Therma Visayas Inc. (TVI) , Pagbilao Energy Corp (PEC) and Hedcor Bukidnon Inc. (HBI); and
   4. Consolidation of GNPower-Mariveles' project debt of Php26.43 bn.

e. Long term obligation on power distribution system (PDS) decreased by 5% as regular annual payments are made

f. Customers' deposits increased by 7% (₱6.38 bn in 2015 to ₱6.83 bn in 2016) due to increase in deposits at Davao Light and VECO as both companies continue to see growth in their customer base during the year, as well as additional deposits from retail supply customers in 2016.

g. As a result of the revaluation of the future obligation on APRI's asset retirement obligation the account decreased 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) on account of 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) is mainly 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 P 334 mn at the end of 2016 due to retention payables at PEC as provided for under their Engineering Procurement and Construction (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 mainly 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 P29.89 bn continued to provide a source of liquidity during the year, growing by P4.69 bn as compared to last year. Cash from operations of fully commissioned TSI augmented the cash streams from operations.

During the year the group used P 81.38 bn cash for investing activities. This is P72.48 bn more than 2015, in which the largest portion was used to acquire indirect, majority interests in GNPower's plants in Mariveles and a minority interest in GNPower-Dinginin, which is set to construct a coal plant in Dinginin, Bataan. 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. In the first half of the year, the Company declared P

12.22 bn in dividends to its shareholders. These activities led to cash flow from financing activities of P47.48 bn during the year.

As of December 31, 2016, the Group's cash and cash equivalents decreased from ₱51.10 bn as of the end of 2015 to ₱47.09 bn.

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 as it incurs project and bridge financing 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	2016
Amounts in thousands of ₱s, except for financial ratios		
SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	3,979,974	4,009,488
EBITDA	33,664,121	31,765,156
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 from 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, at beginning	40,231,875	31,383,499
Cash & Cash Equivalents, at 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 year 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 t with the higher income recognized this year.

The Group generated an additional P1.76 bn in cash from operations this year versus last year 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 is at 3.12x from3.36x by year end 2014 due mainly 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 liability increased.

Results of Operations

The Company grew its full year income by 5% from P16.71 bn in 2014 to P17.60 bn in 2015. A non-recurring loss of P762 mn was recognized this year versus last year's loss of P136 mn. This was mostly 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 P18.37 bn, up by 9% year-an-year (YoY).

Power Generation

The generation business continues to contribute significantly to the Company's bottom line. This year they represent 79% of earning contributions from business segments, recording an income share of P13.92 bn, up 3% YoY. Netting out the effects of non-recurring foreign exchange losses, the business generated P14.81 bn for the year in review.

For the year, 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 went down 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 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 is now at 2,532 MW 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 from P3.20 bn to P3.81 bn. This accounts for 21% of earnings contribution from business segments.

The gross margin on a per kWh basis in 2015 declined from P1.71 to P1.61. This was due to the higher operating costs at Davao Light as it ran its embedded power plant to mitigate the shortfall in power supply which was felt not only within its franchise area but in the whole Mindanao grid. The overall better 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 the year was augmented by the full year contributions of Lima Enerzone.

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 P16.71 bn in 2014 to P17.60 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	**P 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	**P 17,603,797**

Operating Revenues
(2% decrease from P86.76 bn to P85.17 bn)

Operating revenues from the Generation segment decreased by 10% from P36.88 bn in 2014 to P33.37 bn. The lower passed on fuel costs on the selling prices from the thermal and geothermal power plants drove the 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 the year.

The distribution segment also increased its operating revenues from P39.98 bn in 2014 to P41.38 bn in 2015. The 4% increase in operating revenues from the sale of power from the distribution group, is due to an increase in electricity sales.

Higher revenues was recognized from the Group's Retail Electricity Supplier Licensed Companies - AESI and AdventEnergy which began their respective operations after the start of Open Access.

Operating Expenses
(6% decrease from P64.41 bn to P60.49 bn)

The main driver for the drop in operating expenses for the year is due to lower cost of generated power as fuel costs dropped significantly during the year.

Cost of purchased power also decreased by 6% as lesser downtime lead to lower requirements to replace internally generated power. Also, the price of purchased power this year was lower due to lower spot prices.

Interest Income
(79% increase from P472 mn to P846 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 P5.99 bn to P6.63 bn)

The increase, is mainly due to the full year interest burden on the bond offering of the Parent Company taken 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 P4.01 bn to P3.98 bn)

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

Other Income (Expenses) - net
(Decrease from P592 mn other income to P33 7 mn other expense)

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

Provision for Taxes
(5% increase from P3.42 bn to P3.59 bn)

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

Net Income Attributable to Non-controlling Interests
(4% increase from P1.30 bn to P1.35 bn)

The increase is 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 drove the lower total net other comprehensive income for 2015 at P226 mn (versus P260 mn in the previous year). This brought total consolidated comprehensive income to P19.18 bn for the year.

Assets

Total assets (as of December 31, 2015 vs. December 31, 2014) increased by P25.73 bn or 12%. The major movements of the accounts leading to the increase are as follows;

a. Cash and cash equivalents grew by 27% (from P40.23 bn in 2014 to P51.10 bn in 2015). Cash flows from operating activities increased over last year 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 P12.33 in 2014 to P13.69 bn in 2015) primarily to advance payments made to contractors for project mobilization which are offset against future progress billings.

c. Derivative assets increased significantly at the end of the year as new forward contracts were entered into to hedge the foreign currency risk arising from the forecasted US$ denomination payment under the EPC contract related to the construction of a power plant.

d. Inventories decreased by 6% (from P2.17 bn in 2014 to P2.04 bn in 2015) due to lower cost of purchased fuel for the Company’s thermal plants.

e. Other current assets is higher by 75% (from P1.94 bn in 2015 to P3.39 bn in 2015). VAT input is reclassified from non-current to current as it is expected that these VAT inputs can be offset against VAT output generated as a major subsidiary goes into commercial operations.

f. Investments and advances decreased mainly as a result of redemption of preferred shares made during the year by Manila-Oslo Renewable Enterprise, Inc. (MORE) amounting to P2.65 bn.

g. Property, plant and equipment (PPE) increased by 13% (from P119.65 bn IN 2014 TO p13.81 BN in 2015) as the group continued the construction of its coal plants in Davao under TSI, Pagbilao under PEC and its hydro facilities under Hedcor Sabangan, and starts the construction of its hydro plant under Hedcor Bukidnon and coal plant under TVI.

h. Intangible assets – service concession rights decreased by 5% mainly due to amortization expenses charged during the year.

i. Investment properties decreased by P25mn after a sale made by the Company.

j. Net pension assets decrease of P44 mn is mainly due to actuarial losses recognized by the group during the period.

k. Deferred income tax (DTA) increased by 140% (from P244 mn in 2014 to P585 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 current year.

l. Other noncurrent assets decreased by 12% (from p10.66 bn in 2014 to P9.39 bn in 2015) mainly due to the reclassification of Input VAT from noncurrent to current assets.

Liabilities

Consolidated liabilities increased by 17% from P120.68 bn as of December 31, 2014 to P140.88 bn as of December 31, 2015.

a. Bank loan balance increased by P2.47 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 P12.78 bn in 2014 to P14.14 bn in 2015) mainly on account of higher payables to contractors for ongoing construction.

c. Income tax payable increased by 41% (from P604 mn in 2014 to P853 mn in 2015) primarily due to higher tax payables of the Group.

d. Total long-term debt increased by 36% (from P42.78 bn in 2014 to P58.38 bn in 2015). The increase is mainly attributable to new project financing availed by TVI to finance the construction of a coal plant in Toledo, Cebu and Hedcor Bukidnon to construct a hydro plant. Adding to the increase are drawdowns made during the year by TSI and PEC on their existing project debt facilities.

e. Customers' deposits increased by 12% (P5.69 bn in 2014 to P6.38 bn in 2015) mainly due to: increase in deposits for Davao Light and VECO as it continues to see growth in its customer base during the year and additional deposits from retail supply customers in 2015.

f. Asset retirement obligation increased by 28% (P2.35 bn in 2014 to P3.02 bn in 2015). Increase is due to additional provision and interest accreted during the year.

g. Pension liability increased by 21% (P406 mn in 2014 to P493 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% (P1.25 bn in 2014 to P1.13 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 P91.96 bn in 2014 to P97.57 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 continued robust EBITDA increasing by 6%, cash generated from the Group's operations brought in P25.20 bn for the year.

The Group utilized less cash for investing activities during the year which totaled P8.90 bn versus P12.98 bn in the prior year. This is mainly due to cash proceeds from the redemption of preferred shares. The Company continued to spend heavily for capital expenditures to fund ongoing construction of various greenfield projects during the year.

The significant net cash outflows relating to financing activities during the year of P5.45 bn is due to dividend payments to shareholders of P12.22 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 P40.23 bn as of the end of 2014 to P51.10 bn.

Financial Ratios

On a consolidated basis, current ratio moved from 3.36x to 3.12x. This is 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 remains to be comfortable at 1.39x as of end 2015 versus 1.26x as of December 31, 2014 owing to the Company's increasing debt position through project financing as it pursues its strategy to grow the business.

MANAGEMENT

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

The overall management and supervision of the Company is undertaken by its Board. The Company's executive officers and management team cooperate with the Board by preparing appropriate information and documents concerning the Company's business operations, financial condition and results of operations for its review. The Company currently has nine directors, three of whom are Independent Directors.

The table below sets forth the members of the Company's Board and its executive officers as of the date of this Preliminary Prospectus.

ENRIQUE M. ABOITIZ Chairman of the Board of Directors Chairman – Board Risk and Reputation Management Committee	Mr. Enrique M. Aboitiz, 63 years old, Filipino, has served as a 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 on May 16, 2011. Mr. Aboitiz is currently a director of Aboitiz Equity Ventures, Inc. (AEV), a publicly-listed company, and Aboitiz & Company, Inc. (ACO). He holds a degree in Bachelor of Science in Business Administration, Major in Economics from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.
JON RAMON ABOITIZ Vice Chairman of the Board of Directors Chairman – Board Corporate Governance Committee	Mr. Jon Ramon Aboitiz, 68 years old, Filipino, has been a director of AboitizPower since February 13, 1998 and served as Chairman of the Board from 1998 until 2008. He has been the Vice Chairman of the Board of Directors of AboitizPower since May 18, 2009. He was appointed Chairman of the Board Corporate Governance Committee on May 19, 2008. Mr. Aboitiz began his career with the Aboitiz Group in 1970. From being a manager of Aboitiz Shipping Corporation, Mr. Aboitiz 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 holds the following positions in publicly-listed companies: Chairman of the Board of Directors of AEV, Vice Chairman of the Board of Directors of Union Bank of the Philippines (UnionBank), and a director of Bloomberry Resorts Corporation and International Container Terminal Services, Inc. (ICTSI). Mr. Aboitiz is the Chairman of the Board of Directors of ACO. He is Chairman of UnionBank's Executive Committee, Risk Management Committee and Vice Chairman of the Corporate Governance Committee, including the latter's Compensation Remuneration and Nomination Sub-Committees. He is a trustee and Vice President of Ramon Aboitiz Foundation, Inc. (RAFI), a trustee of Philippine Business for Social Progress (PBSP) and the Association of Foundations, 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, 60 years old, Filipino, has served as Chief Executive Officer and Director of AboitizPower since February 13, 1998. He is currently the President & Chief Executive Officer of AEV, a publicly-listed company. Mr. Aboitiz has been a director of AEV since 1994. He was its Executive Vice President and Chief Operating Officer from 1994 to 2008. Mr. Aboitiz is a director of UnionBank, a publicly-listed company. He is also President and Chief Executive Officer of ACO; and Chairman of the Board of Directors of Aboitiz InfraCapital, Inc. (Aboitiz InfraCapital), San Fernando Electric Light and Power Co., Inc. (SFELAPCO), Subic EnerZone Corporation (SEZ), SN Aboitiz Power–Magat, Inc. (SN Aboitiz Power-Magat), SN Aboitiz Power-Benguet, Inc. (SN Aboitiz Power-Benguet), Aboitiz Renewables, Inc. (ARI), CRH Aboitiz Holdings, Inc. (CRH Aboitiz), Therma Power, Inc. (TPI), Aboitiz Land, Inc. (AboitizLand), Abovant Holdings, Inc. (Abovant), Balamban Enerzone Corporation (BEZ), Lima Enerzone Corporation (LEZ), Manila-Oslo Renewable Enterprise, Inc. (MORE) and Aboitiz Infracapital, Inc. (Aboitiz InfraCapital). He is Vice Chairman of Republic Cement and Building Materials, Inc. (RCBM) and a director of Pilmico Foods Corporation (Pilmico), Davao Light and Power Company, Inc. (Davao Light), Cotabato Light & Power Company (Cotabato Light), AboitizPower International Pte. Ltd. (AP International), AEV International Pte. Ltd. (AEV International), Archipelago Insurance Pte. Ltd. (Archipelago Insurance), AP Renewables, Inc. (APRI), Apo Agua Infrastructura, Inc. (Apo Agua), Cebu Energy Development Corporation (Cebu Energy), PETNET, Inc. (PETNET), Pilmico Animal Nutrition Corporation (PANC) Therma South, Inc. (TSI) and Therma Luzon, Inc. (TLI). Mr. Aboitiz is also Chairman of the Board of Trustees of Aboitiz Foundation, Inc. (AFI), and a director of the Philippine Disaster Recovery Foundation. He holds a Bachelor of Science degree in Business Administration, Major in Accounting and Finance, from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.
ANTONIO R. MORAZA Director President and Chief Operating Officer Member – Board Audit Committee – Board Risk and Reputation Management Committee	Mr. Antonio R. Moraza, 60 years old, Filipino, has been a director of AboitizPower since February 13, 1998 and its 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. He has been a director of AEV, a publicly-listed company, since May 2009. Mr. Moraza is also Chairman of the Board of Directors of Pilmico, PANC, Therma Visayas, Inc. (TVI), TSI, TLI, Luzon Hydro Corporation (LHC), Hedcor, Inc. (Hedcor),), Hedcor Sabangan, Inc. (Hedcor Sabangan), Hedcor Bukidnon, Inc. (Hedcor Bukidnon), Hedcor Tudaya, Inc. (Hedcor Tudaya), Hedcor Sibulan, Inc. (Hedcor Sibulan), Cebu Private Power Corporation (CPPC), APRI, Cotabato Light, Davao Light Pagbilao Energy Corporation (PEC), Aseagas Corporation

	(Aseagas), and Aboitiz Power Distributed Energy, Inc. (APX). He is likewise Vice Chairman of Cebu Energy; a director and Senior Vice President of ACO; President and Chief Executive Officer of Abovant and ARI; and a director of SN Aboitiz Power- Benguet, SN Aboitiz Power-Magat, SN Aboitiz Power-Gen, Southern Philippines Power Corporation (SPPC), STEAG State Power, Inc. (STEAG Power), Western Mindanao Power Corporation (WMPC), Redondo Peninsula Energy, Inc. (RP Energy), Therma Marine, Inc. (TMI), Therma Mobile, Inc. (TMO), East Asia Utilities Corporation (EAUC) and Aboitiz InfraCapital. Mr. Moraza holds directorship and management positions in GNPower Mariveles Coal Plant Ltd. Co. (GNPower-Mariveles) and GNPower Dinginin Ltd. Co. (GNPower-Dinginin) and its holding companies. He is also a director and President of TPI; and a trustee of AFI. He holds a degree in Business Management from the 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, 62 years old, Filipino, has been Director of AboitizPower since February 13, 1998. He has been a member of the Board Audit Committee of AboitizPower since October 26, 2007, and of the Board Risk and Reputation Management Committee since May 19, 2014. He was formerly President and Chief Executive Officer of City Savings Bank, Inc. (CitySavings) from 2001 to 2014; and Senior Vice President of AEV, a publicly-listed company, from 2004 to 2015. He is currently a director of ACO and a trustee and Treasurer of RAFI. He holds a degree in Bachelor of Science, Major in Business Administration, from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality. He is also not a director of any other publicly-listed company.
JAIME JOSE Y. ABOITIZ Director Executive Vice President and Chief Operating Officer – Power Distribution Group	Mr. Jaime Jose Y. Aboitiz, 55 years old, Filipino, was a director of AboitizPower from 2004 to April 2007, and re-elected on May 18, 2009. He is currently AboitizPower's Executive Vice President and Chief Operating Officer - Power Distribution Group, a position he has held since August 14, 2008. He is a member of the Board of Advisers of ACO; and Chairman of the Boards of Aboitiz Construction, Inc. (Formerly: Aboitiz Construction Group, Inc.) (ACI) and Cebu Praedia Development Corporation (CPDC). He is also Vice Chairman and President of Visayan Electric Company, Inc. (VECO); Director and President and Chief Executive Officer of Cotabato Light, Davao Light and SEZ; a director and President of Mactan Enerzone Corporation (MEZ), LEZ, and BEZ; a director of ARI, CPPC, SFELAPCO, AboitizLand, Abovant, Cebu Industrial Park Developers, Inc. (CIPDI), Hedcor, Hedcor Sibulan, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor Bukidnon, Hijos de F. Escano, Inc. (Hijos) and Tsuneishi Heavy Industries Cebu, Inc. (THI). He is also a trustee of AFI. He 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 also not a director of any other publicly-listed company.
CARLOS C. EJERCITO Independent Director Chairman – Board Audit Committee Member – Board Risk and Reputation Management Committee – Board Corporate Governance Committee	Mr. Carlos C. Ejercito, 71 years old, Filipino, has been an Independent Director of AboitizPower since May 19, 2014. He has served as Chairman of the Board Audit Committee and member of the Board Corporate Governance Committee and Board Risk and Reputation Management Committee since May 19, 2014. He is currently the President and Chief Executive Officer of Mount Grace Hospitals, Inc. He is an Independent Director and a member of the Board Audit Committee of Bloomberry Resorts Corporation and Century Properties Group, Inc., both publicly-listed companies, and an Independent Director of Monte Oro Resources and Energy Corporation. Mr. Ejercito is the Chairman and President of CR Nichrome, Inc., and the Chairman and Chief Executive Officer of Forum Cebu Coal Corporation. Mr. Ejercito is a Board Member of eight hospitals including Medical Center Manila, VR Potenciano Medical Center, Tagaytay Medical Center, Pinehurst Medical Services Inc., and Silvermed Corporation. He is also the President of Pinehurst Medical Services, Inc. Mr. Ejercito 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 served as President and Chief Executive Officer of United Laboratories, Inc., Unilab Group of Companies, Univet Agricultural Products, Inc. and Greenfield Development Corporation. 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 completed the Management Development Program of the Harvard Business School in 1983 and the coursework for Master's 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.
ROMEO L. BERNARDO Independent Director Member – Board Audit Committee – Board Corporate Governance Committee – Board Risk and Reputation Management Committee	Mr. Romeo L. Bernardo, 62 years old, Filipino, has been an Independent Director of AboitizPower since May 19, 2008, and has been a member of its Board Audit Committee and Board Corporate Governance Committee for the same period. He was appointed as member of the Board Risk and Reputation Management Committee on May 18, 2015. He 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 held various positions in the 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 Attache 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 member of the College of Business Administration of the University of the Philippines. Mr. Bernardo holds a degree in Bachelor of Science in Business Economics from the University of the Philippines (magna cum laude) and a Master's degree in Development Economics (top of the class) from Williams College in Williamstown, Massachusetts. He is not connected with any government agency or instrumentality.
ALFONSO A. UY Independent Director Member – Board Audit Committee – Board Risk and Reputation Management Committee – Board Corporate Governance Committee	Mr. Alfonso A. Uy, 77 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 for the same period. He 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. Mr. Uy is a Director of State Properties, Inc., State Investment Trust, Inc., STEAG Power, BDO Private Bank and Global Business Power Corporation. He acts as Chairman Emeritus of Iloilo Economic Development Foundation. In the past, Mr. Uy served in various capacities in government and non-government organizations, such as President of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. and Member of the City Council of Iloilo City. He was the 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. He graduated magna cum laude from the 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.
LUIS MIGUEL O. ABOITIZ Executive Vice President/Chief Operating Officer – Corporate Business Group	Mr. Luis Miguel O. Aboitiz, 52 years old, Filipino, has been AboitizPower's Executive Vice President/Chief Operating Officer-Corporate Business Group since January 1, 2016. He was previously AboitizPower's Senior Vice President-Power Marketing and Trading from 2009 to 2015. He is currently Senior Vice President of AEV, a publicly-listed company, Director and First Vice President of ACO, Trustee of AFI, Director of STEAG Power, ARI, TPI, PFC, PANC, MORE, TSI, TLI, APRI, PEC and CPDC, MORE, Aseagas, APX, Aboitiz InfraCapital. Mr. Aboitiz holds directorship and management positions in GNPower-Mariveles and GNPower-Dinginin and its holding companies. He is also a director of UnionBank, a publicly listed company. He graduated from Santa Clara University, California, U.S.A. with a Bachelor of Science degree in Computer Science and Engineering and took his Masters in Business Administration at the University of California in Berkeley, U.S.A. He is not connected with any government agency or instrumentality.
EMMANUEL V. RUBIO Executive Vice President and Chief Operating Officer – Power Generation Group	Mr. Emmanuel V. Rubio, 52 years old, Filipino, was appointed as the Executive Vice President and Chief Operating Officer - Power Generation Group of AboitizPower on May 19, 2014. He is President and Chief Executive Officer of SN Aboitiz Power-Magat, SN Aboitiz Power-Gen and SN Aboitiz Power-Benguet since 2011. Mr. Rubio is currently Chairman of EAUC San Carlos Sun Power, Inc. (Sacasun), Maaraw Holdings San Carlos, Inc. (Maaraw San Carlos), TMI and TMO; Director and Chief Executive Officer of APRI; and Director of ARI, Abovant, CEDC, CPPC, Hedcor, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor Bukidnon, LHC, PEC, STEAG Power, TLI, TPI, TSI and TVI. Mr. Rubio holds directorship and management positions in GNPower-Mariveles and GNPower-Dinginin and its holding companies. He is also a member of the Board of Trustees of Philippine Independent Power Producers Association, Inc. (PIPPA). 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 also not a director of a publicly-listed company.
JUAN ANTONIO E. BERNAD Executive Vice President – Regulatory	Mr. Juan Antonio E. Bernad, 60 years old, Filipino, has been AboitizPower's Executive Vice President for Regulatory since May 16, 2016. He previously served AboitizPower in several capacities, as Director from 1998 until May 18, 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. He is Director and the Executive Vice President - Regulatory Affairs of Davao Light; Director and Senior Vice President of VECO; and Director of Cotabato Light, AEV Aviation, Inc. (AEV Av), SFELAPCO, and UnionBank, a publicly listed company. He has an Economics degree 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 connected with any government agency or instrumentality.
GABRIEL T. MAÑALAC Senior Vice President – Group Treasurer	Mr. Gabriel T. Mañalac, 60 years old, Filipino, has been AboitizPower's Treasurer since May 11, 2004 and its Senior Vice President - Group Treasurer since May 17, 2010. He has been Senior Vice President - 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 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 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 also 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, 56 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/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 Chief Corporate Services Officer of AEV, a publicly-listed company, since December 18, 2015. Ms. Valdez is also

	Trustee, President and Member of the Executive Committee of AFI; Trustee and President of WeatherPhilippines Foundation, Inc. (WeatherPhilippines); and Director of Archipelago Insurance. Before joining AEV, she 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. She 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 Masters 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/Chief Financial Officer/Corporate Information Officer Ex-officio Member – Board Risk and Reputation Management Committee	Ms. Liza Luv T. Montelibano, 41 years old, Filipino, is Senior Vice President/Chief Financial Officer/Corporate Information Officer of AboitizPower since May 16, 2016. She 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 is a Director of MORE, SEZ, TPI, VECO, ARI, Hedcor Bukidnon, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor, LHC, TPI, MORE, APRI, AP International. Ms. Montelibano holds directorship and management positions in GNPower-Mariveles and GNPower-Dinginin and its holding companies. Prior to joining AboitizPower, she 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, Incorporated 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 also not a director of a publicly-listed company.
MA. CHONA Y. TIU First Vice President & Chief Financial Officer – Power Distribution Group	Ms. Ma. Chona Y. Tiu, 59 years old, Filipino, is First Vice President and Chief Financial Officer – Power Distribution Group since January 2, 2014. She 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 ACI and AboitizLand. She joined the AboitizPower Group where she was appointed Vice President - Administration and Chief Finance Officer of AboitizPower's Affiliate, VECO, in 2007. Ms. Tiu has been Chief Financial Officer - Power Distribution Group since March 6, 2009 and was Vice President from 2009 to 2013. She is Director and Vice President/Chief Financial Officer/ Treasurer of BEZ, LEZ, MEZ and SEZ; Director and Vice President - Chief Financial Officer of Cotabato Light, Davao Light and VECO; and Director of SFELAPCO. 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/Chief Financial Officer – Power Generation Group	Ms. Beverly B. Tolentino, 46 years old, Filipino, was appointed First Vice President/Chief Financial Officer - Power Generation Group of AboitizPower on December 4, 2015. She is currently Chief Finance Officer of Abovant, EAUC, TSI and Hedcor; Chief Financial Officer and Treasurer of ARI, APRI, Hedcor Bukidnon, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, PEC, TLI and CPPC; and Treasurer of LHC, Sacasun, Maaraw San Carlos, TMI, TMO, TPI, TVI, EAUC and Aseagas. She has extensive local and offshore experiences in general management, finance leadership and controllership roles. She held key positions in the SN Power Group for the past three years, most recently as the 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 – Regulatory	Mr. Alvin S. Arco, 56 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 also Accounting Manager of AboitizPower from 1998 to 1999, Assistant Vice President - Finance from 2000 to 2004 and Vice President - Finance in 2005. Mr. Arco is a Certified Public Accountant. He obtained his degree in Accountancy from the University of San Jose - Recoletos, Cebu City. He is not connected with any government agency or instrumentality. He is also not a director of a publicly-listed company.
ROCHEL DONATO R. GLORIA	Mr. Rochel Donato R. Gloria, 51 years old, Filipino, was

First Vice President – Trading and Sales	appointed First Vice President - Trading and Sales on June 15, 2015. Prior to joining AboitizPower, he was the Senior Director/Specialist for Corporate Development and Finance of OGE Energy Corporation, a company listed with the New York Stock Exchange (NYSE). He has extensive experience in corporate development and finance, financial planning and analysis, strategic planning, capital budgeting, risk assessment and business analysis and financial modelling. Mr. Gloria graduated from De La Salle University with a degree in Bachelor of Science in Industrial Management, Minor in Mechanical Engineering. He completed his Masters Degree in Business Administration from the Ateneo de Manila University Graduate School of Business. 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 – Project Development	Mr. Ralph T. Crisologo, 57 years old, Filipino, was appointed First Vice President - Project Development of AboitizPower on December 4, 2015. He has over 20 years of experience in the different aspects of the Power Systems Engineering Industry, such as power system operations and planning, plant maintenance and operation, scheduling and dispatch, and power supply contracting, among others. Prior to joining AboitizPower, Mr. Crisologo was a freelance power and energy consultant. He was the Chief Market Officer of the SN Aboitiz Power Group and also held key positions in MORE and the SN Power 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	Mr. Joseph Trillana T. Gonzales, 50 years old, Filipino, was appointed First Vice President – General Counsel of AboitizPower on January 1, 2015. 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, a publicly-listed company, from 2008 to 2014. Mr. Gonzales was Special Counsel of SyCip Salazar Hernandez & Gatmaitan Law Offices until he joined the Aboitiz Group in 2007 as Assistant Vice President of the Corporate and Legal Services of ACO. He 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, Michigan, U.S.A. He is not connected with any government agency or instrumentality. He is also not a director of a publicly-listed company.

ROBERT MCGREGOR Executive Director – Investments	Mr. Robert McGregor, 57 years old, British, was appointed Executive Director - Investments of AboitizPower on September 24, 2015. Mr. McGregor is concurrently the Senior Vice President-Chief Strategy and Investment Officer of AEV, a publicly-listed company, since November 27, 2014 and a Director of PETNET. He was initially joined AEV as 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 37 years of experience in energy markets. He 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 honors degree in Applied Chemistry from The University of Strathclyde, 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.
DONALD L. LANE Executive Director – Project Development and Execution	Mr. Donald L. Lane, 58 years old, British, was appointed Executive Director for Project Development and Execution on December 4, 2015. Prior to this, he held the position of Executive Director-Business Development of AboitizPower from September 3, 2014. Mr. Lane has over 25 years of experience in the power business in the Philippines and abroad. Prior to joining AboitizPower, Mr. Lane was the General Manager for Power at WorleyParsons Resources and Energy for its Southeast Asia Power Hub based in Singapore. Mr. 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.
THOMAS J. SLIMAN, JR. Executive Director – Projects	Mr. Thomas J. Sliman, Jr., 56 years old, American, was appointed Executive Director for Projects of AboitizPower on August 1, 2013. He was appointed as AboitizPower's Vice President - Business Development in May 17, 2010, and was its First Vice President for Business Development from 2012 to 2013. He holds directorship and management positions in GNPower-Mariveles and GNPower-Dinginin 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. He 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, Long Beach, Mississippi. 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 – Chief Technology Officer, Power Generation Group	Mr. John Earl Crider, Jr., 57 years old, American, was appointed as Executive Director – Chief Technology Officer, Power Generation Group on February 13, 2017. Mr. Crider first joined the Aboitiz Group in February 2014 as Executive Director for Operations and Maintenance of TLI. Prior to this, Mr. Crider served as Senior Director for Engineering & Operations of Oxbow Carbon from June 2010 to September 2013 and Executive Vice President of Foster Wheeler Inc. from 2006 through 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. He is not connected with any government agency or instrumentality. He is also not a director of a publicly-listed company.
M. JASMINE S. OPORTO Corporate Secretary and Compliance Officer Ex-officio Member – Board Corporate Governance Committee	Ms. M. Jasmine S. Oporto, 57 years old, Filipino, has been the Corporate Secretary of AboitizPower since January 16, 2007 and Compliance Officer since December 2012. She is concurrently Senior Vice President - Chief Compliance Officer/ Corporate Secretary of AEV, a publicly-listed company, since May 17, 2004. Ms. Oporto is the Vice President for Legal Affairs of Davao Light; Corporate Secretary of Hijos de F. Escaño, Inc. (Hijos) and Aboitiz InfraCapital; and Assistant Corporate Secretary of VECO. Prior to joining the Aboitiz Group, she worked in various capacities at the Hong Kong office of Kelley Drye & Warren, LLP, a New York-based law firm, and the Singapore-based consulting firm Albi Consulting Pte. Ltd. She graduated magna cum laude with a degree in Bachelor of Science in Landscape Architecture and obtained her Bachelor of Laws degree from the University of the Philippines - Diliman. She is a member of both the Philippine and New York State bars. Ms. Oporto is a teaching fellow of the Institute of Corporate Directors (ICD), after completing the Professional Director's Program conducted by ICD. She is a member of GRC Institute of Australia and is involved in governance and compliance work within the organization. She has completed the mandatory accreditation course of the Bangko Sentral ng Pilipinas on Corporate Governance and Risk Management for Board of Trustees/Directors,

	and is an accredited provider of Harrison Assessment Talent Solutions. In addition, she has attended various seminars on corporate governance and compliance, including Compliance and Regulatory Management, Scenario Planning for Strategy, Management of Legal Risk and Services, and the Corporate Secretary Training of Trainers Program conducted by the International Finance Corporation and the ICD. Ms. Oporto was awarded Corporate Secretary of the Year in 2014 and 2015 by Corporate Governance Asia, Hong Kong. She is not connected with any government agency or instrumentality. She is not a director of any publicly listed company.
MAILENE M. DE LA TORRE Assistant Corporate Secretary	Ms. Mailene M. de la Torre, 35 years old, Filipino, was appointed Assistant Corporate Secretary of AboitizPower on November 24, 2016. She is Senior Associate General Counsel for Governance & Compliance since November 2016, and previously an Associate General Counsel for Legal and Corporate Services of AEV from May 2010 to October 2014. She is also the Assistant Corporate Secretary of AEV. Ms. De la Torre is the Corporate Secretary of various AEV subsidiaries: ARI, APRI, EAUC, BEZ, LEZ, MEZ, SEZ, Hedcor Bukidnon, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, LHC, PANC, PFC, PEC, TPI, TMI, TMO, TSI, TLI, TVI and PETNET as well as Assistant Corporate Secretary for Aboitiz InfraCapital, AboitizLand, Cotabato Light, Davao Light, MORE, SN Aboitiz Power-Benguet, SN Aboitiz Power-Magat and VECO. Ms. de la Torre has practice in the areas of compliance and corporate governance, securities and corporation law, acquisitions, joint ventures and litigation. Prior to joining the Aboitiz Group, she was an Associate at the Esguerra & Blanco Law Office from 2007 to 2010. She earned her Bachelor's Degree in Political Science (cum laude) and her Bachelor of Laws from the University of the Philippines – Diliman, Quezon City. She is a graduate member after completing the Professional Director's Program conducted by ICD. She is not connected with any government agency or instrumentality. She is also not a director of a publicly-listed company.

Period in which the Directors Should Serve

The directors shall serve for a period of one year.

Term of Office of a Director

Pursuant to the Amended By-Laws of AboitizPower, the directors are elected at each annual stockholders' meeting by stockholders entitled to vote. Each director holds office until the next annual election or for a term of one year and until his successor is duly elected, unless he resigns, dies or is removed prior to such election.

Any vacancy in the Board, other than by removal or expiration of term, may be filled by a majority vote of the remaining members thereof at a meeting called for that purpose, if they still constitute a quorum. The director so chosen shall serve for the unexpired term of his predecessor in office.

Significant Employees

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

Family Relationships

Messrs. Jaime Jose and Luis Miguel Aboitiz are first cousins. Messrs. Jon Ramon and Mikel Aboitiz are brothers. Messrs. Erramon and Enrique Aboitiz are brothers as well. Other than these, no other officers or directors are related within the fourth degree of consanguinity.

Involvement in Certain Legal Proceedings as of March 31, 2017

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, 2017, which would put to question his/her ability and integrity to serve AboitizPower and its stockholders.

Parent Company

AboitizPower's parent company is AEV. As of March 31, 2017, AEV owns 76.88% of the voting shares of AboitizPower. In turn, ACO owns, as of March 31, 2017, 48.56% of the voting shares of AEV.

Resignation or Refusal to Stand for Re-election by Members of the Board of Directors

No director has resigned or declined to stand for re-election to the Board since the date of AboitizPower's last Annual Stockholders' Meeting because of a disagreement with AboitizPower on matters relating to its operations, policies and practices.

CORPORATE GOVERNANCE

Guided by the Organization for Economic Co-operation and Development (OECD)'s 5 Principles of Corporate Governance, AboitizPower refreshed its efforts starting in 2014 to strengthen the roles and responsibilities of its Board; adopted new protocols and improved existing systems and policies to protect the rights of its shareholders; safeguarded shareholders' equitable treatment; continuously recognized the value and participatory role of all stakeholders; and, practiced the appropriate level of transparency and improved corporate disclosures.

SHAREHOLDER RIGHTS AND EQUITABLE TREATMENT

All shareholders, regardless of the amount of their shareholdings, are given the right to participate in the decision- making, pursuant to the Company's One Share, One Vote policy.

Moreover, to ensure that directors, officers, and even majority shareholders do not take advantage of their positions, all shareholders are apprised of all related party transactions, with amounts disclosed, within the Aboitiz Group. All related party transactions in the Group are reported in AboitizPower's Consolidated Audited Financial Statements every year.

All shareholders likewise receive notices of all shareholders' meetings, and all agenda items to be discussed and decided upon during the said meetings are set out in the notices and that no new agenda item will be taken up during the conduct of the meeting. For the guidance of shareholders, included in the notices to shareholders' meetings are the rationale of agenda items which are submitted to the shareholders for their approval.

STAKEHOLDER ENGAGEMENT

The Aboitiz Group is committed to the principles of sustainability to balance the interests of People, Planet, and Profit. By following this rule, AboitizPower has obtained and maintained a good health, safety, and environmental track record. The Group launched its Sustainability Policy in 2013, in the belief that all stakeholders must be treated with fairness and that corporate social responsibility is an integral part of doing business. In support of this policy, in 2014, the Group launched its BetterWorld campaign to encourage all stakeholders to adopt this policy for sustainability.

AboitizPower has a Manual of Corporate Governance (Manual) and Code of Ethics and Business Conduct (Code) to guide the attainment of its corporate goals and strategies. In 2016, the Board of Directors, upon the endorsement of the Board Corporate Governance Committee, approved the revised Code which now includes a more defined anti-corruption and bribery policy, sustainability policy and digital media policy, among others. To ensure compliance, copies of the Manual and the Code are made available to the Board of Directors, management and all employees through AboitizPower's website. Company-wide orientations on the Manual and the Code are conducted yearly.

The Compliance Officer, together with the Human Resources Department, regularly monitors and evaluates compliance by the Board of Directors, management and employees to the Manual, the Code, other company policies, and existing laws and regulations. The Compliance Officer also ensures the implementation of AboitizPower's rule against conflicts of interests and the misuse of confidential and proprietary information throughout the organization.

The Compliance Officer regularly reports to the Board Corporate Governance Committee the Company's compliance status with existing laws and regulations, as well as the Board's, management's and employees' compliance with internal governance policies.

There are no major deviations from the Manual as of the date of this report. The Board of Directors regularly reviews the Manual to ensure that the same remains relevant and responsive to the needs of the organization. Any amendments to the Manual are promptly submitted to the SEC for confirmation and approval.

DISCLOSURE AND TRANSPARENCY

Pursuant to its commitment to transparency and accountability, AboitizPower, in its website, www.aboitizpower.com, has its own dedicated corporate governance webpage which serves as a resource center and library for its stakeholders. The Company also maintains a comprehensive Corporate Governance report every year which will be uploaded in the Company's website before the Annual Stockholders' Meeting. As part of its commitment to sustainability, AboitizPower is maximizing the use of digital technology rather than the use of scarce paper sources.

A copy of the complete annual Corporate Governance Report (CG Report) of the Compliance Officer is available at www.aboitizpower.com under Governance Reports and Scorecards of the Corporate Governance webpage. A condensed copy of the CG Report is also included in AboitizPower's Annual Report and can be accessed at www.aboitizpower.com under Annual Report of the Investor Relations webpage (Investor's Kit).

BOARD RESPONSIBILITY

The Board's primary objectives are to improve shareholder returns, to develop responsible long-term investments, and to achieve disciplined and sustainable growth. To this end, board attendance and active participation during board and committee meetings are encouraged from directors. Attendance during board meetings are closely monitored and reported by the Compliance Officer to the SEC and PSE, as well as in the Company's 2016 SEC Annual Corporate Governance Report uploaded in the company website.

In 2016, the Board held a total of nine regular and special meetings. Below is a summary of the attendance of the Directors.

Aboitiz Power Corporation Board Meetings	**Regular and Special Board Meetings 2016**									**Total No. of Meetings Attended by Each Member**	**Percentage of Attendance**
	27-Jan Regular	8-Mar Special	31-Mar Regular	16-May Regular	27-Jul Regular	19-Aug Special	22-Sept Regular	27-Oct Special	24-Nov Regular		
ENRIQUE M. ABOITIZ	P	P	P	P	P	P	P	A	P	8	88.89%
JON RAMON ABOITIZ	P	P	P	P	P	P	P	P	P	9	100.00%
ERRAMON I. ABOITIZ	P	P	P	P	P	P	P	P	P	9	100.00%
ANTONIO R. MORAZA	P	P	P	P	P	A	P	P	P	8	88.89%
MIKEL A. ABOITIZ	P	P	P	A	P	P	P	P	A	7	77.78%
JAIME JOSE Y. ABOITIZ	P	P	P	P	A	P	P	P	P	8	88.89%
CARLOS C. EJERCITO	P	P	P	P	P	P	P	P	P	9	100.00%
ALFONSO A. UY	P	P	P	P	P	P	P	P	P	9	100.00%
ROMEO L. BERNARDO	P	P	P	P	P	P	P	P	P	9	100.00%
Total No. of Members Present in Each Meeting	9	9	9	8	8	8	9	8	8		
Percentage of No. of Members Present in Each Meeting	100.00%	100.00%	100.00%	88.89%	88.89%	88.89%	100.00%	88.89%	88.89%		

Legend: P - Present, A - Absent

Pursuant to SEC Memorandum Circular No. 1-2014, the Company reported the attendance of the Board of Directors for the year 2015 to the SEC and the PSE through its 2015 SEC Annual Corporate Governance Report. A copy of the report was uploaded in the Company's website and can be accessed at www.aboitizpower.com under Governance Reports and Scorecards of the Corporate Governance webpage.

Corporate governance is further fostered by the Board's active role in reviewing and approving corporate goals and strategies set by management, as well as in monitoring and evaluating management performance in meeting such goals. The different Board committees - Audit, Corporate Governance, and Risk and Reputation Management - report regularly to the Board and are crucial in maintaining Board oversight in key management areas.

The mandate and the composition of each Board committee are described below:

- The **Board Corporate Governance Committee** represents the Board in discharging its responsibility relating to issues around the Group's governance principles and guidelines, nomination of persons into Board and Group senior leadership roles, and the various compensation matters. Independent Directors comprise majority of the voting members of the Board Corporate Governance Committee.

  Chairman: Jon Ramon Aboitiz; Members: Erramon I. Aboitiz, Carlos C. Ejercito, Romeo L. Bernardo and Alfonso A. Uy; Ex-Officio Members: M. Jasmine S. Oporto and Xavier Jose Y. Aboitiz

- The **Board Audit Committee** represents the Board in discharging its responsibility related to audit matters for the Group. Independent Directors comprise majority of the members of the Board Audit Committee, including its Chairman.

  Chairman: Carlos C. Ejercito; Members: Romeo L. Bernardo, Alfonso A. Uy, Mikel A. Aboitiz and Antonio R. Moraza; Invited Attendees: Liza Luv T. Montelibano and Susan V. Valdez

- The **Board Risk and Reputation Management Committee** represents the Board in discharging its responsibility relating to risk management and related matters for the Group.

  Chairman: Enrique M. Aboitiz; Members: Antonio R. Moraza, Mikel A. Aboitiz, Romeo L. Bernardo, Carlos C. Ejercito and Alfonso A. Uy; Ex-Officio Members: Liza Luv T. Montelibano and Susan V. Valdez

- The **Board Related Party Transaction Committee** represents the Board in discharging its responsibility relating to transactions entered into between or among the Company or any of its subsidiaries, affiliates, directors and officers.

  The Committee shall consist of at least three directors, three of whom must be independent directors. The members of the Committee shall be elected during the Organizational meeting of the Board of May 15, 2017.

CORPORATE GOVERNANCE INITIATIVES

Going beyond mere compliance and box-ticking, the Company regularly updates its corporate governance policies to ensure that they are relevant to the needs of the organization and, at the same time, at par with global best practices.

In 2013, AboitizPower launched its corporate governance e-learning course which was made available to all newly hired employees of the Company. This e-learning course superseded the mandatory corporate governance seminar conducted for all employees during previous years and supplements the annual corporate governance training required by the SEC on all directors and key officers starting 2014, pursuant to SEC Memorandum Circular 1, Series of 2014.

The Company has in place a performance evaluation system for corporate governance. It participates in the annual Corporate Governance Scorecard Surveys of the SEC and the PSE to benchmark its corporate governance practices against best practices. AboitizPower likewise participated in the ASEAN Corporate Governance Scorecard, the successor of the Institute of Corporate Directors (ICD)'s Corporate Governance Scorecard, which was adopted by the Philippines in September 2012. The 2016 ASEAN Corporate Governance Scorecard Assessment of the Company showed a marked improvement in the Company's score, a clear proof of the Company's serious efforts in adapting the best corporate governance practices available.

For a full discussion on the Company's initiatives, a copy of the complete CG Report of the Compliance Officer is available at www.aboitizpower.com under Full Corporate Governance Report of Corporate Governance webpage.

CORPORATE GOVERNANCE AWARDS

As a testament to its commitment to adopt best practices, AboitizPower has been consistently recognized in local and international surveys, assessments, and scorecards as among the Philippines' best-managed companies and cited for its commitment to good corporate governance practices.

The numerous awards received by AboitizPower, especially in the field of corporate governance and stakeholder engagement, reflect the commitment of the Aboitiz Group to adopt and implement good corporate governance best practices. AboitizPower, along with its subsidiaries and affiliates have been consistently recognized in local and international surveys, assessments, and scorecards as among the Philippines' best-managed companies.

In 2015, AboitizPower received the following awards:

Award Giving Body	Year	Awards Received
Corporate Governance Asia	5th Asian Excellence Awards	Best Investor Relations Company
		Best Environmental Responsibility
Finance Asia	15th Finance Asia Best Companies in Asia	Most Committed To Paying Good Dividends (8th place)
		Best In Corporate Governance (10th place)

In 2016, AboitizPower has been recognized with the following awards:

Award Giving Body	Year	Awards Received
Philippine Stock Exchange, Inc.	2016 PSE Bell Awards for Excellence in Corporate Governance	Bell Awards for Corporate Governance (Top 5)
Finance Asia	16th Finance Asia Best Companies in Asia	Overall Best Managed Power Company in Asia

EXECUTIVE COMPENSATION

Information as to the aggregate compensation paid or accrued to AboitizPower's Chief Executive Officer and other highly compensated executive officers, as well as other officers and directors during the last two completed fiscal years and the ensuing fiscal year, is as follows:

Name of Officer and Principal Position	Year	Salary (in Pesos)	Bonus (in Pesos)	Other Annual Compensation (in Pesos)
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. **JAIME JOSE Y. ABOITIZ** - Executive Vice President & Chief Operating Officer – Power Distribution Group 4. **LUIS MIGUEL O. ABOITIZ** - Executive Vice President & Chief Operating Officer – Corporate Business Group 5. **EMMANUEL V. RUBIO** - Executive Vice President & Chief Operating Officer – Power Generation Group				
All above named officers as a group	**Actual 2016**	**Php159,950,000.00**	**Php5,350,000.00**	**Php15,490,000.00**
	Actual 2015*	Php122,780,000.00	Php4,630,000.00	Php21,760,000.00
	Projected 2017	Php175,950,000.00	Php5,880,000.00	Php17,040,000.00
All other officers and directors as a group	**Actual 2016**	**Php76,650,000.00**	**Php5,150,000.00**	**Php38,780,000.00**
	Actual 2015	Php57,460,000.00	Php2,950,000.00	Php23,410,000.00
	Projected 2017	Php84,310,000.00	Php5,660,000.00	Php42,660,000.00

**The four most highly compensated officers in 2015 are Messrs. Antonio R. Moraza, Jaime Jose Y. Aboitiz, Luis Miguel O. Aboitiz and Emmanuel V. Rubio.*

The 2014 Amended By-Laws of the Company, as approved by SEC on May 16, 2014, defined corporate officers as follows: Chairman of the Board, the Vice Chairman, the Chief Executive Officers, Chief Operating Officer(s), the Treasurer, the Corporate Secretary, the Assistant Corporate Secretary and such other officers as may be appointed by the Board of Directors. For the year 2016, the Company's Summary of Compensation covers the compensation of officers as reported under Item 5 (a) (1) of the Information Statement.

Except for the regular company retirement plan, which by its very nature will be received by the officers concerned only upon retirement from the Company, the above-mentioned officers do not receive any other compensation in the form of warrants, options, and/or profit-sharing.

There is no compensatory plan or arrangement between the Company and any executive in case of resignation or any other termination of employment or from a change-in-control of the Company.

COMPENSATION OF DIRECTORS

Standard Arrangements

Prior to the 2015 Annual Stockholders' Meeting, all of AboitizPower's directors received a monthly allowance of Php100,000.00, except for the Chairman of the Board who received a monthly allowance of Php150,000.00. On May 18, 2015, the stockholders approved an increase in the directors' monthly allowance to Php120,000.00 for the members of the Board, and Php180,000.00 for the Chairman of the Board.

In addition, each director and the Chairmen of the Board and the Board Committees received a per diem for every Board or Committee meeting attended as follows:

Type of Meeting	Directors	Chairman of the Board
Board Meeting	Php100,000.00	Php150,000.00

Type of Meeting	Directors	Chairman of the Committee
Committee Meeting	Php80,000.00	Php100,000.00

Other Arrangements

Other than payment of the directors' per diem and monthly allowance as stated, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There is no compensatory plan or arrangement between AboitizPower and any executive officer in case of resignation or any other termination of employment or from a change in the management or control of AboitizPower.

Warrants and Options Outstanding

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

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of March 31, 2017

Title of Class	Name, Address of Record Owner and Relationship with AP	Name of Beneficial Owner and Relationship with AP	Citizenship	No. of Shares Held and Nature of Ownership (record and/or Beneficial)	Percentage of Class Owned
Common	1. **Aboitiz Equity Ventures, Inc.**[2] 32nd Street, Bonifacio Global City, Taguig City (Stockholder)	Aboitiz Equity Ventures, Inc.[3]	Filipino	5,657,530,774 (Record and Beneficial)	76.88%
Common	2. **PCD Nominee Corporation (Filipino)**[4] G/F MSE Bldg. Ayala Avenue, Makati City (Stockholder)	PCD participants acting for themselves or for their customers[5]	Filipino	871,204,959 (Record)	11.84%
Common	3. **PCD Nominee Corporation (Foreign)**[6] G/F MSE Bldg. Ayala Avenue, Makati City (Stockholder)	PCD participants acting for themselves or for their customers[7]	Non-Filipino	570,491,514 (Record)	7.75%

Aboitiz Equity Ventures, Inc. (AEV) is the public holding and management company of the Aboitiz Group, one of the largest conglomerates in the Philippines.

The following table sets forth security ownership of the Company's Directors, and Officers, as of March 31, 2017 (Record and Beneficial):

Title of Class	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%

[2] AEV is the parent company of AboitizPower.

[3] 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.

[4] The PCD Nominee Corporation (Filipino and Foreign) is not related to the Company.

[5] Each beneficial owner of shares, through a PCD participant, is the beneficial owner of such number of shares he owns in his account with the PCD participant. AboitizPower has no record relating to the power to decide how the shares held by PCD are to be voted. The Company advised that none of the beneficial owners under a PCD participant owns more than 5% of the Company's common shares.

[6] *Supra* note 3.

[7] *Supra* note 4.

Title of Class	Name of Owner and Position	No. of Shares and Nature of Ownership (Direct and/or Indirect)		Citizenship	Percentage of Ownership
Common	**Jon Ramon Aboitiz** Vice Chairman of the Board	33,001	Direct	Filipino	0.00%
		17,176,320	Indirect		0.23%
Common	**Erramon I. Aboitiz** Director/Chief Executive Officer	1,300,001	Direct	Filipino	0.02%
		78,891,739	Indirect		1.07%
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	5,367,397	Direct	Filipino	0.07%
		3,723,873	Indirect		0.05%
Common	**Mikel A. Aboitiz** Director	1	Direct	Filipino	0.00%
		13,283,959	Indirect		0.18%
Common	**Carlos C. Ejercito** Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Romeo L. Bernardo** Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Alfonso A. Uy** Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Emmanuel V. Rubio** Executive Vice President & Chief Operating Officer – Power Generation Group	59,130	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Juan Antonio E. Bernad** Executive Vice President – 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	9,486,835	Direct	Filipino	0.13%
		0	Indirect		0.00%
Common	**Gabriel T. Mañalac** Senior Vice President – Group Treasurer	111,139	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Susan V. Valdez** Senior Vice President/Chief Reputation and Risk Management Officer	569,862	Direct	Filipino	0.01%
		0	Indirect		0.00%
Common	**Liza Luv T. Montelibano** SeniorVice President/Chief Financial Officer/Corporate Information Officer	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Beverly B. Tolentino** First Vice President/Chief Financial Officer – Power Generation Group	58,534	Direct	Filipino	0.00%
		0	Indirect		0.00%

Title of Class	Name of Owner and Position	No. of Shares and Nature of Ownership (Direct and/or Indirect)		Citizenship	Percentage of Ownership
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%
Common	**Alvin S. Arco** First Vice President – Regulatory	36,427	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Rochel Donato R. Gloria** First Vice President – Trading and Sales	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Ralph T. Crisologo** First Vice President – Project Development	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Joseph Trillana T. Gonzales** First Vice President – General Counsel	62,527	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Robert McGregor** Executive Director – Investments	0	Direct	British	0.00%
		0	Indirect		0.00%
Common	**Donald L. Lane** Executive Director – Project Development and Execution	0	Direct	British	0.00%
		0	Indirect		0.00%
Common	**Thomas J. Sliman, Jr.** Executive Director – Projects	47,866	Direct	American	0.00%
		0	Indirect		0.00%
Common	**John Earl Crider, Jr.** Executive Director – Chief Technology Officer, Power Generation Group	0	Direct	American	0.00%
		0	Indirect		0.00%
Common	**M. Jasmine S. Oporto** Corporate Secretary and Compliance Officer	113,534	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Mailene M. de la Torre** Assistant Corporate Secretary	0	Direct	Filipino	0.00%
		3,000	Indirect		0.00%
	TOTAL	**152,067,188**			**2.07%**

Voting Trust Holders of Five Per Centum (5%) or More of Common Equity

No person holds under a voting trust or similar agreement more than five per centum (5%) of AboitizPower's common equity.

Changes in Control

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

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

AboitizPower and its Subsidiaries (the Group), in their regular conduct of business, have entered into related party transactions consisting of professional and technical services, power sales and purchases, aviation services 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. The SLAs are in place to ensure quality of service.

Energy fees are billed by the Group to related parties, and the Group also purchased power from associates arising from PPA/PSA or ESA (Note 222) and (ii) replacement power contracts (Note 22).

The Group is leasing office spaces from Cebu Praedia Development Corporation and Aboitiz Land, Inc. and their Subsidiaries. Rental rates are comparable with prevailing market prices.

AboitizPower and its Subsidiaries also avail of aviation services from an Associate.

The Group has cash deposits and money market placements with UnionBank and CitySavings, earning interest at market prevailing rates. Both are AEV Associates.

The Company's retirement fund is in the form of a trust being maintained and managed by AEV.

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.

INDEPENDENT AUDITORS AND COUNSEL

LEGAL MATTERS

All legal opinions/matters in connection with the issuance of the Bonds will be passed upon by Puyat Jacinto & Santos ("PJS Law") for the Company and Picazo, Buyco, Fider, Tan and Santos for the Issue Manager and the Underwriter. PJS Law, and Picazo, Buyco, Fider, Tan and Santos have no direct interest in the Company.

PJS Law and Picazo, Buyco, Fider, Tan and Santos may from time to time be engaged to advise in the transactions of the Company and perform legal services on the basis that PJS Law and Picazo, Buyco, Fider, Tan and Santos provide such services to its other clients.

INDEPENDENT AUDITORS

The consolidated financial statements of the Company as at and for the fiscal years ended December 31, 2014, 2015, and 2016 have been audited by SyCip Gorres Velayo & Co., a member firm of Ernst & Young, independent auditors, in accordance with Philippine Standards on Auditing as set forth in their report thereon appearing elsewhere in this Preliminary Prospectus.

EXTERNAL AUDIT FEES AND SERVICES

The following table sets out the aggregate fees billed for each of the last three (3) fiscal years for the professional services rendered by the Company's external auditors:

	31 December 2014	31 December 2015	31 December 2016
Audit	Php365,400	Php383,670	Php403,000
Nonaudit	Php6,642,534		
Total Fees	Php7,007,934	Php383,670	Php403,000

Except for the preparation of the financial statements required for the Company's annual filing with the SEC and the submission of the required financial statements in relation to the registration of its securities, the afore-cited independent public accountants provide no other type of services.

SGV was engaged by the Company to audit its annual financial statements.

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 2016 and 2015 were pre-approved by the Board Audit Committee. The Board Audit Committee also reviewed the extent and nature of these services to ensure that the independence of the external auditors was preserved. SGV does not have any direct or indirect interest in the Company.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company has engaged the services of SGV during the two most recent fiscal years. There are no disagreements with SGV on accounting and financial disclosure.

BOARD AUDIT COMMITTEE

In giving effect to its duly approved charter, he Board Audit Committee of the Company provides assistance to the Board of Directors in fulfilling its oversight responsibility to the Company and its stakeholders by providing guidance relating to:

1. the adequacy and efficiency of the company's system of internal controls, governance and risk management processes;
2. the quality and integrity of the company's accounting, auditing, legal, ethical and regulatory compliances;
3. the annual independent audit of the Company's financial statements and the external auditors' qualifications and independence;
4. due observance of applicable laws and regulations that may have financial and other material exposure to the Company; and
5. providing an avenue of communication among the independent auditors, the management, the internal audit and the Company.

As part of this process, SyCip Gorres Velayo & Co. reports to the Board Audit Committee. The Board Auditing Committee is required to ensure that corporate accounting and reporting practices of the Company are in accordance with all legal requirements and are of the highest quality.

TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this Preliminary Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Bonds are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Bonds.

As used in this section, the term "non-resident alien" means an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non- resident alien doing business in the Philippines"; however, a non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year may be considered a "non- resident alien not engaged in trade or business within the Philippines". A "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines.

TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 30% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

TAX-EXEMPT STATUS OR ENTITEMENT TO PREFERENTIAL TAX RATE

Bondholders who are exempt from or are not subject to final withholding tax on interest income or entitled to be taxed at a preferential rate may claim such exemption or avail of such preferential rate by submitting the necessary documents. Said Bondholder shall submit the following requirements:

1. Proof of Tax Exemption

    i. For corporations enumerated under Section 30 of the National Internal Revenue Code (except those under Section 30(H) which shall be governed by *paragraph b* below, and those under Section 30(G) which shall be governed by *paragraph d* below), and cooperatives duly registered with the Cooperative Development Authority – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue ("BIR") not more than three (3) years before the date of each Interest Payment Date;

ii. For BIR-approved retirement benefit plan, and non-stock, non-profit educational institutions – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;

iii. For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;

iv. For Government-owned or -controlled corporations – copy of the valid and subsisting law creating them;

v. For foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments – (i) Consularized certification issued by their Ministry of Finance, or its equivalent in their country of residence, stating that the Bondholder's income is exempt from income tax, and (ii) consularized copy of the law, charter or agreement creating them, which should be written in English or accompanied with English translation;

2. With respect to tax treaty relief:

i. The original of the duly accomplished Certificate of Residence for Tax Treaty Relief ("CORTT") Form, both Parts I and II thereof, prescribed under Revenue Memorandum Order No. 8-2017, which should be consularized if executed outside the Philippines. If the Applicant prefers, Part II (A), (B), (C), and (D) of the CORTT Form may be excuted by the Applicant's authorized representative in the Philippines; and

ii. If the Applicant prefers, the duly consularized certificate of residence prescribed in their country of residence, together with Part I (A), (B), and (C) of the CORTT Form, and Part II (A), (B), (C), and (D) of the CORTT Form. If the Applicant prefers, Part II (A), (B), (C), and (D) of the CORTT Form may be excuted by the Applicant's authorized representative in the Philippines.

In addition to the foregoing:

i. At least 30 calendar days before the validity period of the certificate of residence submitted by the Applicant to the Underwriter expires, the Applicant, without the need for notice or demand from the Underwriter, shall submit a new certificate of residence to the Underwriter. The new certificate of residence, whether using Part I of the CORTT Form or the form prescribed in the Applicant's country of residence, shall be consularized if executed outside the Philippines; and

ii. at least two (2) Banking Days before each Interest Payment Date, the Applicant shall submit to the Underwriter a duly accomplished Part II (A), (B), (C), and (D) of the CORTT Form, which may be executed by the Applicant's authorized representative in the Philippines.

3. A duly notarized declaration (in the prescribed form) warranting the Bondholder's tax-exempt status or entitlement to preferential treaty rates and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities arising from the non-withholding or reduced withholding of the required tax; and

4. Such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

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

The foregoing notwithstanding, the Issuer, the Registrar and the Paying Agent shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar.

The foregoing requirements shall be submitted, (i) in respect of an initial issuance of Bonds, to the underwriters or selling agents who shall then forward the same with the Application to Purchase to the Registrar; or (ii) in respect of a transfer from a Bondholder to a purchaser, to the Registrar within three days from settlement date.

VALUE-ADDED TAX

Gross receipts arising from the sale of the Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less acquisition cost of the Bonds sold.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less: 5%
Maturity period is more than five years: 1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less: 5%
Maturity period is more than five years: 1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Bonds, at the rate of PhP1.00 for each PhP200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

TAXATION ON SALE OR OTHER DISPOSITION OF THE BONDS

Income Tax

Any gain realized from the sale, exchange or retirement of bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to the regular rates of 32%, 25%, or 30%, as the case may be. If the bonds are sold by a seller, who is an individual and who is not a dealer in securities, who has held the bonds for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) shall not be subject to income tax.

Moreover, any gain arising from such sale, regardless of the original maturity date of the bonds, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the Bureau of Internal Revenue for the availment of tax treaty benefits.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over P200,000. A Bondholder shall be subject to donor's tax based on the net gift on the transfer of the Bonds by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed P100,000 and where the donee or beneficiary is not a stranger. For this purpose, a stranger is a person who is not a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor or lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor‘s taxes.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds, trading the Bonds in a secondary market or through an exchange. However, if the transfer constitutes a renewal of the Bonds, documentary stamp tax is payable anew.

THE PHILIPPINE POWER INDUSTRY

THE PHILIPPINE ECONOMY

Highlights

The Philippine economy is leading in terms of growth in South East Asia. It continues to remain resilient in the face of the series of natural calamities that visit the country year in year out. The Philippines is geographically located in the Pacific region that is prone to typhoons, as well as being inside the so-called Pacific "Ring of Fire."

The Philippines, being one of the most dynamic and rapidly improving economies in the region, advanced eight (8) positions in the Global Competitive Index (GCI);[8] from being 65thin 2012 to ranking 57th out of the 138 countries in 2016-2017. The Philippines, together with Cambodia and China, were singled out to have posted the highest gains in their respective competitive indices since the 2007-2008 edition in the East Asia and the Pacific region. The country's performance across all twelve pillars was better with a note-worthy improvement on "institutions," which strongly manifests the government's efforts in battling corruption, advancing the country from ranking 135th in 2010 to 91st in 2016-2017.[9]

The country having received its first investment grade credit rating from the major rating agencies such as Fitch, Standard and Poor, and Moody's in 2013 continues to be a significant player in the global economy.[10]

Growth Rates

The Philippines had a stellar economic performance in 2016. The country's gross domestic product grew at an average of 6.1 percent during the period 2010-2016, the fastest 6-year moving average since 1978. The Philippine economy grew an annual 6.6 percent in the December quarter of 2016, making it a 6.8 percent growth for the entire year. Gross National Income (GNI) grew by 6.1 percent, which is slower than the previous 7.3 percent growth, but on an annual basis, GNI accelerated by 6.6 percent. This is the fastest growth that the country experienced in the last three years, and Finance Secretary Carlos Dominguez is confident that it will only grow by 6.5 to 7 percent in 2017, as projected by international and local financial institutions and experts.[11]

Socioeconomic Planning Secretary Ernesto Pernia says that the economy's growth was due to domestic demand, particularly in terms of investment and consumption.[12]

Growth in services improved to 7.4 percent and industry grew by 7.6 percent in the fourth quarter. However, agricultural growth was a letdown as it returned to negative territory, reeling from the effects of typhoons

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[8] The Global Competitiveness Report 2016-2017 assesses the competitiveness landscape of 138 economies, providing insight into the drivers of their productivity and prosperity. The Report series remains the most comprehensive assessment of national competitiveness worldwide.

[9] World Economic Forum (2016-2017). The Global Competitiveness Report 2016-2017. Retrieved 4 April 2017 from http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf..

[10] Jiao, Claire. (22 September 2016). S&P affirms PH credit rating but warns of 'uncertainties'. Retrieved 4 April 2017. From http://cnnphilippines.com/business/2016/09/22/standard-and-poors-affirms-credit-rating-but-warns-of-uncertainties.html; Jiao, Claire. (18 April 2016). Fitch affirms PH's investment grade rating Retrieved 4 April 2017. From http://cnnphilippines.com/business/2016/04/08/Fitch-affirms-PHs-credit-rating.html.

[11] NEDA (20 February 2017) Chapter 4: Philippine Development Plan2017-2022 Overall Framework. Philippine Development Plan 2016-2017. Retrieved 4 April 2017. Fromhttp://pdp.neda.gov.ph/wp-content/uploads/2017/01/Chapter-4-3292017.pdf.

[12] CNN Philippines (26 January 2017.) 2016 economic growth fastest in three years. Retrieved on 4 April 2017 from http://cnnphilippines.com/news/2017/01/26/philippines-GDP-2016.html.

"Karen" and "Lawin" during the fourth quarter of 2016. Total factor productivity of the Philippines has been the fastest in ASEAN, growing at 2.3 percent.[13]

Investments in the country grew by 15% and public investment in infrastructure remained strong at 23 percent. Private consumption also grew at 6.3%, attributable to high consumer confidence, modest inflation and interest rates, and improving labor market conditions.[14]

However, NEDA said that Philippine unemployment rate rose in January 2017, mostly due to the recent typhoons that affected the agricultural sector. Based on the January 2017 Labor Force Survey, the unemployment rate in the country increased to 6.6 percent in January 2017. This is higher than the 5.7 percent recorded in January 2016.[15] The government is continuously implementing efforts in pursuit of more inclusive growth in order to reduce poverty and unemployment rates in the succeeding years.

Outlook[16]

The World Bank now projects the Philippine economy to grow at 6.8 percent in 2016, compared with the 6.4 percent forecast released in October (World Bank Philippines Economic Update October 2016). Growth in the third quarter of 2016 was higher than expected with accelerating investment and private consumption growth. This continued the strong growth performance of the Philippines economy in the first half of 2016 which was driven by the government's pre-election stimulus. The World Bank also revised upwards its growth projection for the Philippine economy in 2017 to 6.9 percent, compared with it October forecast of 6.2 percent. In 2018, the economy is expected to expand at 7.0 percent. Growth in capital investment is projected to remain the Philippine economy's primary growth engine. Despite an expected increase in interest rates in 2017, monetary policy is expected to remain supportive of growth, resulting in continued expansion in credit. The implementation of large infrastructure investments is projected to lead to significant spillover effects into consumption growth next year. Accompanied by robust credit growth to households and healthy remittances, this is expected to fuel consumption. As the global economy is slowly adjusting, with the growth momentum shifting away from advanced economies back towards emerging markets and developing economies, Philippine exports are expected to grow in 2017 at a similar rate as in 2015-2016.[17]

The key challenge is to make this growth inclusive rather than elusive. The task is to translate growth rates into higher employment rates and to significantly drive down poverty.[18]

The Philippine Development Plan 2016-2017

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[13] BusinessWorld Online (26 January 2017). "NEDA statement on Philippines' Q4 2016 GDP growth" Retrieved on 4 April 2017 from http://www.bworldonline.com/content.php?section=TopStory&title=neda-statement-on-philippines-q4-2016-gdp-growth&id=139679.

[14] BusinessWorld Online (26 January 2017). "NEDA statement on Philippines' Q4 2016 GDP growth" Retrieved on 4 April 2017 from http://www.bworldonline.com/content.php?section=TopStory&title=neda-statement-on-philippines-q4-2016-gdp-growth&id=139679.

[15] Morallo, Audrey. (14 March 2017). Unemployment rate increases in January 2017. The Philippine Star. Retrieved on 4 April 2017 from http://www.philstar.com/business/2017/03/14/1681058/unemployment-rate-increases-january-2017..

[16] Alegado, Siegfrid and Cecilia Yap (17 November 2016) Philippines Posts Strongest Economic Growth in Asia at 7.1%. Bloomberg. Retrieved on 4 April 2017 from https://www.bloomberg.com/news/articles/2016-11-17/philippine-growth-quickens-to-7-1-on-duterte-s-spending-spree.

[17]World Bank (15 December 2016). World Bank upgrades growth projections for the Philippines. Retrieved on 4 April 2017 from http://www.worldbank.org/en/news/press-release/2016/12/15/world-bank-upgrades-growth-projections-for-the-philippines.

[18] NEDA (18 March 2014). Midterm Update of the Philippine Development Plan 2011-2016. Statement of Secretary Arsenio M. Balicasan at the Philippine Economic Briefing. Retrieved March 24, 2014. From http://www.neda.gov.ph/?p=2715. *See also* Lopez, Ron B. (2014, January 31). Philippines' GDP growth at 7.2% in 2013. Manila Bulletin. Retrieved March 24, 2014. Fromhttp://www.mb.com.ph/philippines-gdp-grows-at-7-2-in-2013/.

The 2016-2017 Philippine Development Plan (PDP) is the government's blueprint that defines the initiatives that will put the platform into an achievable target within the covered period. A part of the PDP 2016-2017 cites the need for a massive investment in physical infrastructure where the development of the energy industry is concerned. The energy sector contributes to the PDP's goals of promoting inclusive growth and poverty reduction.

Power generation has increased but is still insufficient to meet the growing demand, and the situation is further exacerbated by feedstock security concerns. Policies have been initiated to increase competition in power generation and support development in renewable energy. However, power supply is still insufficient to meet the ever-increasing demand for electricity which, in turn, contributes to the high cost of electricity. The Philippines' total installed capacity grew by 4.6 percent from 17,944 megawatts (MW) in 2014 to 18,765 MW in 2015. Power generation grew by 6.7 percent with the addition of 5,152 gigawatt-hour (GWh) from 2014 to 2015.[19]

The energy sector contributes to the PDP's goals and provides a platform for promoting inducing more growth to address poverty reduction. The budget for electrification will revitalize the manufacturing sector by helping enterprises run efficiently and bringing electricity to potential market areas, among others. Through the DOE and the National Electrification Agency (NEA), DTI, and DOST, the connection of new communities and households to the grid under the electrification program. These electrification services are seen to spur the socio-economic growth of the marginalized sectors, among others. It is envisioned that 100% of sitios and 90% of the households will have access to electricity by 2015 and 2017 respectively.[20] The table below shows the national government's plans as of 2016:

Electrification Programs For the Manufacturing Sector[21]
a segment of the 2016 People's Budget, from DBM

Household Electrification Program in Off Grid (DOE)	5,400 households	Php 169 mn
Negosyo Centers Program (DTI)	168 Negosyo Centers to assist 16,800 SMEs	Php 394 mn
Small Enterprise Technology Upgrading Program (DOST)	Will provide 2,150 firms with technology and innovation assistance	Php 780mn
Sitio Electrification Program (NEA)	3,150 sitios	Php 1.8 bn

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Accelerating Infrastructure Development[22]
a segment of the Philippine Development Plan, NEDA 2011-2016

Power Supply	**2010**		**2011**	**2012**		**2016**		**Data Source Agency**
Percentage of households provided with electric power supply								
Electric Cooperatives	74.90		76.10	78.80		88.0	**/a**	NEA
Private Investor Owned Utilities	96.70	**/a**	96.90		**/b**	98.90		DOE

[19] NEDA (20 February 2017) Chapter 19: Accelerating Infrastructure Development. Philippine Development Plan 2016-2017, page 288. Retrieved 4 April 2017. From http://pdp.neda.gov.ph/wp-content/uploads/2017/01/Chapter-19-3292017.pdf.

[20] Department of Energy. The Philippine Energy Plan 2012-2013: Overview and Executive Summary. Retrieved March 24, 2014 from https://www.doe.gov.ph/doe_files/pdf/01_Energy_Situationer/2012-2030-PEP-Executive-Summary.pdf.

[21]Department of Budget and Management. 2016 People's Budgetng.Retrieved April 7, 2017 from http://budgetngbayan.com/wp-content/uploads/PB-2016.pdf.

[22] National Statistical Coordination Board. Infrastructure Development Latest Status. Retrieved March 25, 2014 from http://www.nscb.gov.ph/stats/statdev/2012/ch4_infrastructure.asp.

Percentage Loss in Transmission								
	3.00	**/a**	2.90	2.70 *Decreasing*			**/b**	NGCP
Percentage Loss in Distribution								
DOE	11.5	**/a**	11.00	*Decreasing*	**/b**		**/b**	DOE
Meralco	7.90		7.40	7.00 *Decreasing*			**/b**	MERALCO
NEA	12.30	**/a**	11.90	11.70		8.50	**/a**	NEA
Energy Self-Sufficiency Level (in percent)								
	58.5	**/a**	59.60	56.40		60.30		DOE
Savings from Electricity and Fuel Consumption Reduction (in kiloton oil equivalent, KTOE)								
	3,700	**/a**	4,100.00	4,790.00		2,654.00		DOE
a/ Revised data provided by the concerned data source agency as in the StatDev 2011 release. b/ No data provided in the PDP-RM or by the concerned data source agency								

The country urgently needs to make up its massive infrastructure backlog; as of the end-of January 2013 the expenditures for infrastructures and other capital outlay surged to Php23.8 bn. The Secretary of the Department of Budget and Management associates the spike on expenditures to the disbursements related to the rehabilitation efforts of the calamity-affected areas last year.[23] However, the country needs to hasten other infrastructure projects that are due for 2016. The provision of fundamental infrastructure and the expansion of logistics chains combined with a change in the governance regime, coupled with the country's receipt of an investment grade credit rating from Fitch, will inevitably attract a strong response across all classes of entrepreneurs and investors.[24]

THE PHILIPPINE POWER SECTOR

History of the Philippine Power Sector[25]

Since time immemorial, NPC has been the vanguard of the power industry, it was established to construct, operate and maintain the facilities required for the generation of electricity. This was officially recognized under Presidential Decree No. 40 issued on November 7, 1972 which authorized NPC to "own and operate as a single integrated system all generating facilities supplying electric power to the entire area embraced by any grid set up by NPC."[26]

Over the years of its existence, NPC accumulated debt and therefore lacked the financial capability to operate efficiently.[27]The issuance of Executive Order no. 215 in 1987, by President Corazon Aquino, opened the generation sector to private investors or independent power producers (IPPs). Republic Act 6957, or the Build-Operate-Transfer (BOT) Law is an Act authorizing the financing, construction, operation and maintenance of infrastructure projects by the private sector. The objective of the act was to minimize the burden of infrastructure projects on the national budget as well as to mitigate external borrowing.

The end goal of restructuring the power industry is to promote efficiency, providing a reliable and reasonably priced electricity: driven by competition, while giving the consumers the power of choice. This necessitates

[23]The Official Gazette. Retrieved April 7, 2014 from http://www.gov.ph/2014/04/03/infra-spending-kicks-off-2014-with-45-1-upsurge-year-on-year/, The official Gazette).
[24] National Economic Development Authority. The Philippine Development Plan 2011-2016. Retrieved March 25, 2014 from http://www.neda.gov.ph/wp-content/uploads/2013/10/pdprm2011-2016.pdf.
[25] KPMG. Antonio, Henry D. The Energy Report, Philippines: A History of the Philippine Power Sector. Retrieved April 2, 2014 from www.kpmg.com/Global/en/.../Documents/energy-report-philippines.pdf?.
[26] KPMG. Antonio, Henry D. The Energy Report, Philippines: A History of the Philippine Power Sector. Retrieved April 2, 2014 from www.kpmg.com/Global/en/.../Documents/energy-report-philippines.pdf?.
[27] KPMG. Antonio, Henry D. The Energy Report, Philippines: A History of the Philippine Power Sector. Retrieved April 2, 2014 from www.kpmg.com/Global/en/.../Documents/energy-report-philippines.pdf?.

changing the overall structure which entails the transition of the once monopolistic industry into a competitive market; unbundling the major sectors such as generation, transmission and distribution as well as introducing the newest addition, the supply sector.

<u>Restructuring the Power Market: Electric Power Industry Reform Act (EPIRA)</u>[28]

On June 8, 2001 President Gloria Macapagal Arroyo signed and implemented Republic Act No. 9136: the Electric Power Industry Reform Act, commonly known as EPIRA. This defined and restructured the electric power industry facilitating the privatization of NPC assets, both generation and transmission, and the transition to a desired competitive market. The objectives of EPIRA are as follows:

- To ensure and accelerate the total electrification of the country;
- To ensure the quality, reliability, security and affordability of the supply of electric power.
- To ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
- To enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors;
- To ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
- To protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
- To assure socially and environmentally compatible energy sources and infrastructure;
- To promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
- To provide for an orderly and transparent privatization of the assets and liabilities of NPC;
- To establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and
- To encourage the efficient use of energy and other modalities of demand side management.

In this light, the DOE together with the other participants promulgated the law's Implementing Rules and Regulations policy on February 27, 2002. The policy governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular governmental authorities involved in implementing the structural reforms in the industry, namely, the DOE, NPC, the NEA, ERC and PSALM.

Privatization of NPC Assets[29]

In line with the government's policy to promote competition within the generation sector, and additionally, to minimize the debt of NPC, the EPIRA mandated the privatization of all generation assets of the NPC. It was in accordance to this act that PSALM was created; and PSALM's primary objectives for privatization are:

- Total electrification of the country
- Reliable, secure and affordable power supply
- Transparent and reasonable electricity prices
- Inflow of private capital
- Broader ownership base
- Fair and non-discriminatory treatment of public and private sector entities
- Protection of public interest as it is affected by rates and services of electric utilities
- Socially and environmentally compatible energy sources and infrastructure
- Utilization of indigenous and new and renewable energy resources
- Orderly and transparent privatization of the assets and liabilities of NPC

[28]Republic Act No 9136: The Electric Power Industry Reform Act.
[29] Philippine Sector Assets and Liabilities Management. Generation Assets Sold .Retrieved March 31, 2014 from http://www.psalm.gov.ph.

- Competitive operation of the electricity market and consumer protection
- Efficient use of energy and other modalities of demand side management

Beginning early 2004, PSALM has been conducting public bidding for the generation facilities; and as of the creating of this Prospectus, PSALM was able to privatize 4,320.33 MW of generating capacity of the Luzon-Visayas-Mindanao grids.[30]

As of the making of this Prospectus, there is an ongoing privatization initiative for the 153.1MW power plant in Colon, Naga City in the Province of Cebu. AboitizPower was informed by its wholly-owned subsidiary, TPVI that it submitted the highest bid for the privatization of the Naga Power Plant. Under the terms of its agreement with NPC and the PSALM, Salcon Power Corporation has the right to top the bid of TPVI. AboitizPower is still waiting for the formal announcement of PSALM regarding the winner for this bid.

In addition to the strengthening of the BOT Law, the Electric Power Crisis Act of 1993 gave the president the power to "enter into negotiated contracts for the construction, repair, rehabilitation, improvement or maintenance of power plants, projects and facilities and to reorganize NPC.[31] The IPPs, through BOT contracts, generate electricity under a purchase power agreement with the government-owned NPC. Itemized on the table below is the contracted capacities sold as of the date of this Prospectus:[32]

Contracted Capacities Sold[33]

Power Plant	Contracted Capacity (MW)	Location	Winning Bidder
Pagbilao Coal-Fired Power Plant	700	Quezon Province	Therma Luzon Inc.
Sual Coal-Fired Power Plant	1,000	Pangasinan	San Miguel Energy Corporation
San Roque Multipurpose Hydro	345	Pangasinan	Strategic Power Devt. Corp.
Bakun-Benguet hydro plants	100.75	Benguet, Ilocos Sur	Amlan Power Holdings Corporation
Ilijan Combined Cycle Power Plant	1,200	Batangas	San Miguel Corporation
Unified Leyte Geothermal Power Plant (Strips of Energy)	200.00	Leyte	Aboitiz Energy Solutions, Inc. (40 MW) FDC Utilities, Inc. (40 MW) Trans-Asia Oil and Energy Development Corporation (40 MW) Unified Leyte Geothermal Energy Inc.(40 MW) Good Friends Hydro Resources Corporation (20 MW) Vivant Energy Corporation (17 MW) Waterfront Mactan Casino

[30] Philippine Sector Assets and Liabilities Management. Generation Assets Sold .Retrieved March 31, 2014 from http://www.psalm.gov.ph/Privatization.asp.
[31] KPMG. Antonio, Henry D. The Energy Report, Philippines: A History of the Philippine Power Sector. Retrieved April 2, 2014 from www.kpmg.com/Global/en/.../Documents/energy-report-philippines.pdf?.
[32] Philippine Power Industry Restructuring and Privitization. Retrieved April 6, 2014 from http://pcij.org/blog/wpdocs/Philippine_Power_Fact_Sheet.pdf/30 Republic Act No 9136: The Electric Power Industry Reform Act.
[33] Philippine Sector Assets and Liabilities Management. Generation Assets Sold. Retrieved April 5, 2016 from http://www.psalm.gov.ph/Privatization.asp.

				Hotel Inc.
Mindanao I and II (Mt. Apo 1 and 2) Geothermal Power Plants	92.52	Kidapawan, Cotabato	North	FDC Misamis Power Corporation

The DOE sets policy directions for the energy industry, while the NEA provides financial and technical assistance to electric cooperatives. In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:[34]

- Prepare and update annually the Philippine Energy Plan and the Philippine Power Development Program, and thereafter, integrate the latter into the former;
- Ensure the reliability, quality and security of supply of electric power;
- Exercise supervision and control over all government activities pertaining to energy projects;
- Encourage private investments in the electricity sector and promote the development of indigenous and renewable energy sources for power generation;
- Facilitate reforms in the structure and operations of distribution utilities for greater efficiency and lower costs;
- Promote incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
- Educate the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and to establish the WESM in cooperation with electric power industry participants, and to formulate rules governing its operations.

Wholesale Electricity Spot Market

During the course of the government's pursuit in creating a transparent and competitive market, by virtue of section 30 of the EPIRA, the DOE formally created the PEMC on November 18, 2003. It was incorporated as a non-stock, non-profit corporation with membership comprising of an equitable representation of the electric power industry participants. The PEMC was tasked to undertake the preparatory work for the establishment of the WESM; and is to undertake the role of a market operator.

WESM is a real-time energy market where generators can sell power and compete for a share of a "gross-pooled" electricity in order to be scheduled and dispatched to meet the hourly electricity demand. It is a clearing house that has a mechanism of identifying and setting the price of actual variations from the quantities transacted under contracts between sellers and purchasers of electricity. Luzon's WESM Commercial operations began June 26, 2006, five years after EPIRA's effective date, and was integrated with Visayas WESM in December 26, 2010.

WESM operates as a single Luzon-Visayas market, which is made possible through the Leyte-Luzon High Voltage Direct Current (HVDC) link.

The IMEM, in which commercial operations began November 26, 2013, is a day-ahead market that will only cater to the supply deficiencies of the grid; hence, transactions in the IMEM will only be undertaken during supply shortfall.[24]It will eventually be integrated into the WESM market when the supply condition of Mindanao improves. Generators with uncontracted capacities as well as distribution utilities and large consumers with embedded generators may nominate/bid their available capacities in IMEM for dispatch at an approved bid price. It also draws out voluntary load customers who are willing to curtail their load through a price determination and cost recovery methodology approved by the ERC.[35]

The rules of the market were formulated by the DOE; Section 30, RA 9136 states that the rules shall provide procedures for the following:

[34] Republic Act No 9136: The Electric Power Industry Reform Act.
[35] SURNECO. The Interim Mindanao Electricity Market Primer. Retrieved April 9, 2014 from http://www.surneco.com.ph/pdf/IMEM_Primer.pdf.

- Establishing the merit order dispatch instructions for each time period
- Determining the market clearing price for each time period;
- Administering the market
- Prescribing guidelines for the market operation in system emergencies and
- Amending the rules.

In cases of national and international security emergencies or natural calamities, the ERC or the President himself is empowered to suspend the operation of the WESM and IMEM or declare a WESM or IMEM failure. The cost of administering and operating the WESM shall be covered by the market operator through a charge imposed to all market members.

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by unbundling the industry into four independent sectors: generation, transmission, supply and distribution. WESM is a mandatory market and thus all generating companies, distribution utilities, suppliers, bulk consumers/end users and other similar entities authorized by the ERC shall be eligible to become members.

Pursuant to Department Circular No. 2016-10-0014 of the DOE, the launch date of WESM Mindanao is set on June 26, 2017. All provisions of the WESM Rules, Market Manuals as amended, as well as the pricing methodology shall apply to the WESM in Mindanao. Further, all electric power industry participants in Mindanao shall be considered WESM members and are therefore enjoined to submit registration documents in the WESM.

ELECTRICITY MARKET SECTORS

Generation

Under the previous power industry structure, NPC, a state-owned corporation, generates its own electricity and buys electricity from IPPs. Generation, unlike the transmission and distribution is not a natural monopoly and hence can be undertaken by more than one entity; however, as per recent ERC resolution, no generation company is allowed to own more than 30% of the installed generating capacity of a grid and/or 25% of the total nationwide installed generating capacity as per EPIRA.[36]

Market Share Limits as per RA 9136[37]

Grid	Installed Generating Capacity (KW)	%Market Share Limitation as per RA 9136	Installed Generating Capacity Limit (Kw)
Luzon	13,057,758.00	30%	3,*917*,327.40
Visayas	2,363,690.00	30%	709,107.21
Mindanao	2,163,718.16	30%	649,115.44
TOTAL	17,585,166.86	25%	4,396,291.71

Energy Sector Performance[38]

Installed and Dependable Capacities

[36] ERC Resolution no. 3, Series of 2014: A resolution initially setting the installed generating capacity per grid, national grid and the market share limitations per grid and the National Grid for 2014. Released March 10, 2014.
[37] ERC Resolution no. 3, Series of 2014: A resolution initially setting the installed generating capacity per grid, national grid and the market share limitations per grid and the National Grid for 2014. Released March 10, 2014.
[38] Electronic copy sourced from the Department of Energy Planning Department. Committed Power Projects as of March 27, 2017.

Dependable capacity, as DOE defines it, refers to the maximum capacity a power plant can sustain over a specified period adjusted according to seasonal limitations less the capacity required for station use and auxiliaries. As of DOE's 2016 data, the Philippines has a total installed generating capacity of 21,423 MW, having a growth rate of 14.2 percent from 18,765 MW in 2015; and has a dependable capacity of 89 percent or 19,097 MW of the 21,423 MW installed.

Installed and Dependable Capacity by Energy Resource[39]

FUEL TYPE	Installed Capacity (MW)	Dependable Capacity (MW)
Coal	7,419	6,979
Oil Based	3,616	2,821
Natural Gas	3,431	3,291
Geothermal	1,916	1,689
Hydro	3,618	3,181
Wind, Biomass, and Solar	1,424	1,1350
TOTAL	**21,424**	**19,096**

Coal- fired plants, predominantly located in the Luzon grid, remain the largest contributor in terms of installed capacity comprising 35% of the mix or 7,419 MW; and a dependable capacity of 6,979 MW or 94% of the time. Hydroelectric power plants being the second largest supplier, and the primary source of electricity for the Mindanao grid, accounted for 3,618 MW or 17% of the total installed capacity. Oil-based plants came in third and and also comprises 17% or 3,616 MW, and natural gas fired power plants sits fourth at 16% amounting to 3431 MW of installed capacity. Geothermal and new renewable energy (wind, biomass, and solar) fills in the remaining 16% contributing 1,916 and 1,424 MW respectively.

Installed and Dependable Capacity by Major Island Group for the period of January to June 2016[40]

GRID	Capacity (MW)		Percent Share (%)	
	Installed	Dependable	Installed	Dependable
Luzon	14,348	13,109	71.54	73.13
Visayas	2,965	2,498	14.78	13.9396
Mindanao	2,742	2,318	13.67	12.93
TOTAL	**20,055**	**17,925**		

The Luzon grid makes up 72% of the total installed capacity with 14,348 MW, and a dependable capacity growth rate of 2.26% from 89.10% in to 91.36%.in . Luzon also grew its installed capacity by 5.7% from 2015. This growth is mostly attributable to newly operational power plants which added 662 MW to the total installed capacity. The Visayas stands at second, having 2,965 MW of installed capacity, having a 10.51% increase from 2015; a dependable capacity growth rate of 1.2%, from 83.04% in to 84.24% in 2016. Power supply in Mindanao grew from an installed capacity of 2,414 MW in to 2742 MW in 2016. The dependable capacity of Mindanao also grew by 0.65% from 83.88% in 2015 to 84.53% in 2016.

Gross Power Generation

Power Generation 20162012: Grid Total in GWh[41]	
Luzon	66,498

[39] Electronic copy sourced from the Department of Energy Planning Department. Committed Power Projects as of March 27, 2017.
[40] Electronic copy sourced from the Department of Energy Planning Department. Committed Power Projects as of March 27, 2017.
[41] Electronic copy sourced from the Department of Energy Planning Department. Committed Power Projects as of March 27, 2017.

Visayas	12,955
Mindanao	11,345
Total	**90,798**

Gross power generation increased from 82,413 MW in by 10% to 90,798 MW in 2016; the grid's power generation has been increasing at an average of 5.7% since 1992. Coal as the highest among the generation mix constituting 48%, or 43,303 GWh of the total. The Visayas grid had a 6% increase in grid generation while Luzon posted a 10% increase in generation, and Mindanao posted a 12% increase in generation.

Transmission[42]

NGCP is a private corporation, awarded with a concession contract January 15, 2009, to operate, manage and maintain the Philippine transmission system under Republic Act 9511.The term of the franchise shall be for 50 years however, the concession contract period will be only for twenty-five years and would be subject to review and renewal for a maximum period of another 25 years. NGCP is the sole transmission network service provider, system operator and wholesale metering services provider of the electricity market. The obligations of NGCP are as follows:

- System Operations (SO): managing the national power grid, dispatching generation and managing the system, including the arrangement for ancillary services;
    - From generator connection points to distribution network connection points and thedirect connection points of a number of large end-users; and
    - Between the three major regions of the Philippines, namely: Luzon, the Visayas and Mindanao, thereby improving reliability and providing adequate transmission capacity.

- Network Reliability: providing the appropriate levels of network reliability in accordance the reliability requirements set forth in the Philippine Grid Code, (the “Grid Code”);
- Connection service: NGCP’s obligations, primarily to customers and prospective customers (e.g. generators, distributors and large end users) to provide effective, timely and efficient connection services, including metering and relevant services;
- Safety: NGCP’s obligations, primarily to its stakeholders (e.g. staff, other electricity industry employees and the community) to deliver its services with appropriate priority given to human safety;
- Environmental: NGCP’s obligations, primarily to its stakeholders (e.g. the community and government) to deliver services in an environmentally responsible manner; and
- Wholesale Electricity Spot Market (WESM): NGCP’s obligations in relation to the operation and development of the electricity market, by way of the provision of efficient and effective transmission services.

The Grid[43]

The bulk of the generator sources in Luzon are located in its northern and southern parts, while the load center, accounts a little over half of the total Luzon demand, is located at Metro Manila. The backbone of the system is a network comprised of 500 KV Extra High Voltage, 230 KV and 115 KV lines. South Luzon's power contribution to the load center accounts for 60-70% of the total Luzon generation. Luzon is connected with the Visayas grid through the 21.29 km, 350-KV high voltage direct current submarine line.

The Visayas transmission system is divided into five different sub-system/sub-grids: Panay, Negros, Cebu, Bohol and Leyte, and Samar. It is a combination of 230 KV and 138 KV, approximately 895 km, transmission lines, and submarine cables capable of sharing excess generation between islands.

[42] NGCP. Transmission Development Plan 2014-2015. Retrieved April 6, 2017 from http://www.ngcp.ph/beta/cms/Attachment-Uploads/TDP_2014-2015_Vol_I%20-_Draft.pdf.
[43] NGCP. Transmission Development Plan 2014-2015. Retrieved April 6, 2017 from http://www.ngcp.ph/beta/cms/Attachment-Uploads/TDP_2014-2015_Vol_I%20-_Draft.pdf.

Mindanao transmission system is composed of six districts with the bulk of the generation found on the northern part and the load centers are on the southeast and southwest. Electricity is transmitted through 138 KV transmission lines and 69 KV lines. In the region, there is still a significant number of sub-transmission lines that are not yet divested to distribution utilities and are thus operated by NGCP.

With this, the transmission backbone must have the capability to disseminate bulk power from the generator sources to the load centers. The growing demand necessitates the expansion and building of new substations. The construction of power plants near the load centers would be ideal however improbable due to the congested areas in highly urbanized regions. Currently, NGCP faces a big challenge in addressing transmission congestion primarily due to acquiring right-of-way for the new overhead transmission lines and space constraints in existing substations. The provision of N-1 contingency is also gradually implemented.

NGCP is also responsible to enhance system reliability by preventing the occurrences of forced outages. This would require a close monitoring of the assets' economic life, and frequent tests to be performed, and procurement of spare parts. This would also require the grid to be resilient as the country is located in a calamity-prone area, hence the PIS targets set forth by ERC, the following activities have to be implemented:

- Substation Secondary Devices Upgrading
- Replacement of Defective High Voltage Equipment, Line Materials And Hardware
- Acquisition of Spares of High Voltage Equipment, Line Materials And Hardware
- Acquisition of Heavy Equipment, Vehicles ,Test Instruments, and Linemen Tools
- Slope Protection of Transmission Line Structure
- Construction of District Command Centers
- Implementation of Projects to Control and Mitigate the Effects of Fire and Flood
- Implementation of Various Environment Preservation and Protection Projects

NGCP also acts by default as the Metering Service Provider for the WESM. In line with this, NGCP has undertaken the following projects:

- Upgrading of the metering facilities of delivery points from the Luzon, Visayas, and Mindanao Grids to Distribution Utilities and other Load Customers to make these metering facilities “WESM-ready”.
- Putting up the “WESM-ready” revenue metering facilities for the injection points of NPC’s power plants into the Grids.
- Upgrading for WESM-readiness the metering facilities that measure the energy injected by the IPP’s into the Grids.
- Installation and operation of an Automated Meter Data Retrieval (AMR) System to satisfy the requirement of the WESM for daily delivery of Load Profile-type of meter data from all metering facilities that are required for the settlement of energy in the WESM.

Distribution

Distribution of electricity at its usable voltage to end-consumers is performed by investor-owned electric utilities, a few local government-owned utilities and more than 100 electric cooperatives which sell to households as well as commercial and industrial enterprises located within their franchise areas. These investor-owned electric utilities are notably the Meralco in the Greater Manila Area, VECO in Cebu and Davao Light in Davao.

Role of ERC[44]

Transmission and distribution sectors exhibit naturally monopolistic characteristics and are thus heavily regulated by the ERC. The ERC replaced the former ERB, and plays a critical role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants. Among the primary

[44] Republic Act No 9136: The Electric Power Industry Reform Act.

powers and functions of the ERC are:[45]

- To determine, fix and approve, after conducting public hearings, transmission and distribution wheeling charges, and retail rates, and to fix and regulate the rates and charges to be imposed by distribution utilities and their captive End-users, including self-generating entities;
- To grant, revoke, review or modify the COCs required of generation companies and the licenses required of suppliers of electricity in the Contestable Market;
- To enforce a Grid Code and a Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;
- To enforce the rules and regulations governing the operations of the WESM and the activities of the WESM operator to ensure a greater supply and rational pricing of electricity;
- To ensure that the electric power industry participants and NPC functionally and structurally unbundle their respective business activities and rates and to determine the levels of cross-subsidies in the existing retail rates until the same is removed in accordance with the different sectors;
- To set a lifeline rate for marginalized end-users;
- To promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;
- To determine the electricity end-users comprising the Contestable and Captive Markets;
- To fix user fees to be charged by Transco for ancillary services to all electric power industry participants or self-generating entities connected to the Grid;
- To monitor and adopt measures to discourage/penalize abuse of market power, cartelization and any anti-competitive or discriminatory behaviour by any electric power industry participant;
- To review and approve the terms and conditions of service of Transco or any distribution utility or any changes therein;
- Perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry;
- To have the original and exclusive jurisdiction over all cases contesting rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy sector relating to the foregoing powers, functions and responsibilities.

Supply Sector

Restructuring will allow for the separation of the distribution and supply business of the cooperatives. The distribution business will still be regulated while the supply will be deregulated and thus, will be competitive. With the introduction of open access in the distribution sector, the end consumer will have a choice as to where to source their electricity.[46]

The seventh anniversary of WESM, June 26, 2013, marked the beginning of the RCOA. Traditionally, distribution utilities source energy in behalf of its customers; but with RCOA, contestable customers, or those whose electric consumption exceeds one (1) MW and up for twelve (12) months have the choice to procure power through a RES or Local Retail Electricity Supplier (LRES). RES is an entity approved by ERC to sell, broker, market or aggregate electricity to contestable customers while LRES refers to the non-regulated business segment of the distribution utility authorized by ERC to supply electricity to contestable customers within its area.[47] If the custom*er* does not signify its intent to exercise either options it will be served by the Supplier of

[45] Republic Act No 9136: The Electric Power Industry Reform Act.

[46] KPMG. Urgello, Maria Pia A. The Energy Report, Philippines: Quick Guide: The Transitory Rules on RCOA. Retrieved April 2, 2014 from www.kpmg.com/Global/en/.../Documents/energy-report-philippines.pdf?.

[47] POC. Salvador, Dwayne. Retail Competition and Open Access (RCOA) officially underway. Retrieved April 1, 2014 from http://www.thepoc.net/news/local/18794-retail-competition-and-open-access-rcoa-officially-underway.

Last Resort (SOLR); the SOLR is the entity designated by the ERC in the event that a customer is unable or unwilling to secure supply from the power market.[48]

Industry Protocol in Managing Planned Shutdowns

National Grid Corporation Philippines (NGCP), as the grid operator, is mandated to ensure the availability of supply of energy. In light of the tight supply situation in all of the major grids in the country, it is imperative that all market players are properly coordinated. The owner and operator of the plant is partly responsible for its annual maintenance schedule. The power plant owner and operators prepare its respective provisional annual maintenance program by the second quarter of the preceding year. These are submitted to NGCP's Power Network and Planning Division. This is the office responsible for the overall maintenance schedule of all plants in the transmission system which is called the Grid Operating and Maintenance Program (GOMP). NGCP releases the GMOP at about October of the preceding year with the end-view of having a general maintenance schedule of all plants which will ensure an adequate level of capacity reserves throughout the year.

POWER OUTLOOK IN THE PHILIPPINES

Fitch raised the country's rating to BBB- in March 2014 followed by Standard and Poor's rating in May 2013, and Moody's Baa3 in October 2013.[49] In line with this, the government has concentrated its efforts on the completion of committed power projects as well as attract local and foreign investors to venture into indicative and potential power projects.[50] To ensure that the supply can keep up with the growing demand DOE and NGCP prepared an intensive development plan to put a platform in place for a long term reliable power system, improvement on transmission highways, distribution facilities, and attainment of nationwide electrification.[51]

Luzon

The private sector's response in putting up required supply to meet the increasing demand is not the same across all regions. In Luzon, the base load power plants which had a total installed capacity of at least 2,300 MW were commissioned 2002-2003 and were only followed in 2013 by the 652 MW GN Power.[52] Luzon's power demand had posted an average annual compounded growth rate of 3.29% and is expected to hit its critical level come 2016, which emphasizes the need for more investments.[53]

Luzon Committed Projects, , *in MW*[54]

PLANT TYPE	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL
COAL	-	652	1,372	2,720	2,720				652
NATURAL GAS	-	1,150	1,150	650	650				700
GEOTHERMAL	-	-	-	43	43				20
HYDRO	-	33.3	33.20	62.5	62.5				20

[48] KPMG. Urgello, Maria Pia A. The Energy Report, Philippines: Quick Guide: The Transitory Rules on RCOA. Retrieved April 2, 2014 from www.kpmg.com/Global/en/.../Documents/energy-report-philippines.pdf?.

[49] KPMG. Roberto Manabat. Introduction of The Energy Report: Philippines 2013-2014 Edition. Retrieved April 2, 2014 from www.kpmg.com/Global/en/.../Documents/energy-report-philippines.pdf?.

[50] Electronic copy sourced from the Department of Energy Planning Department. Committed Power Projects as of October 31, 2013.

[51] Electronic copy sourced from the Department of Energy Planning Department. Committed Power Projects as of October 31, 2013.

[52] NGCP. Transmission Development Plan 2014-2023. Retrieved April 8, 2014 from https://www.ngcp.ph/savefiles/news/BULLETINS/2013%20TDP%20Consultation%20Draft_VolI-Major%20Network%20Development.pdf.

[53] Asian Power.Country Report: Philippines, Philippine major power grids nearing critical levels. Retrived April 9, 2014 from http://asian-power.com/sites/default/files/asianpower/print/APApr_2013_lores%206.pdf.

[54] Electronic copy sourced from the Department of Energy Planning Department. Committed Power Projects as of March 27, 2017.

SOLAR	-	-	51.3	29.515	29.515				
WIND	-	253.5	67.5	0	0				254
BIOMASS	-	103.5	61.28	22.9	22.9				99
BATTERY	-	-	-	10	10				

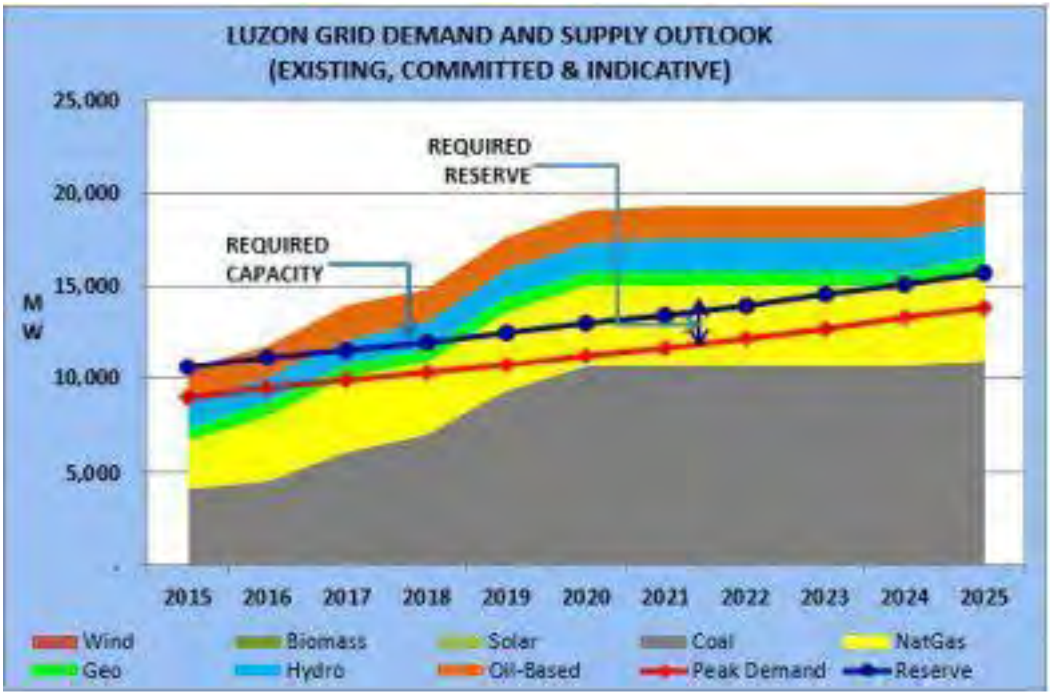
**Sourced from DOE, Please see appendix for Details*[55]
***2017 Values are as of February 2017*

Luzon Indicative Projects, , *in MW*[56]

PLANT TYPE	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL
COAL	-	4,560	6,900	6,570	8,280	1,620		300	4,560
NATURAL GAS	-	4,565	3,715	2,050	2,050	2,950			5,015
OIL-BASED	-	150	150	196	196				150
GEOTHERMAL	-	120	120	80	80	40	80		120
HYDRO	-	53.6	575.2	1070.65	1,591.65	9			54
SOLAR	-	90	54.1	1053.68	1178.68				50
WIND	-	228	249	997	1,267				228
BIOMASS	-	8.6	18	58.175	58.175				9
BATTERY	-	-	-	230	230				

**Sourced from DOE, Please see appendix for Details*

Luzon Power Outlook 2013-2020[57]



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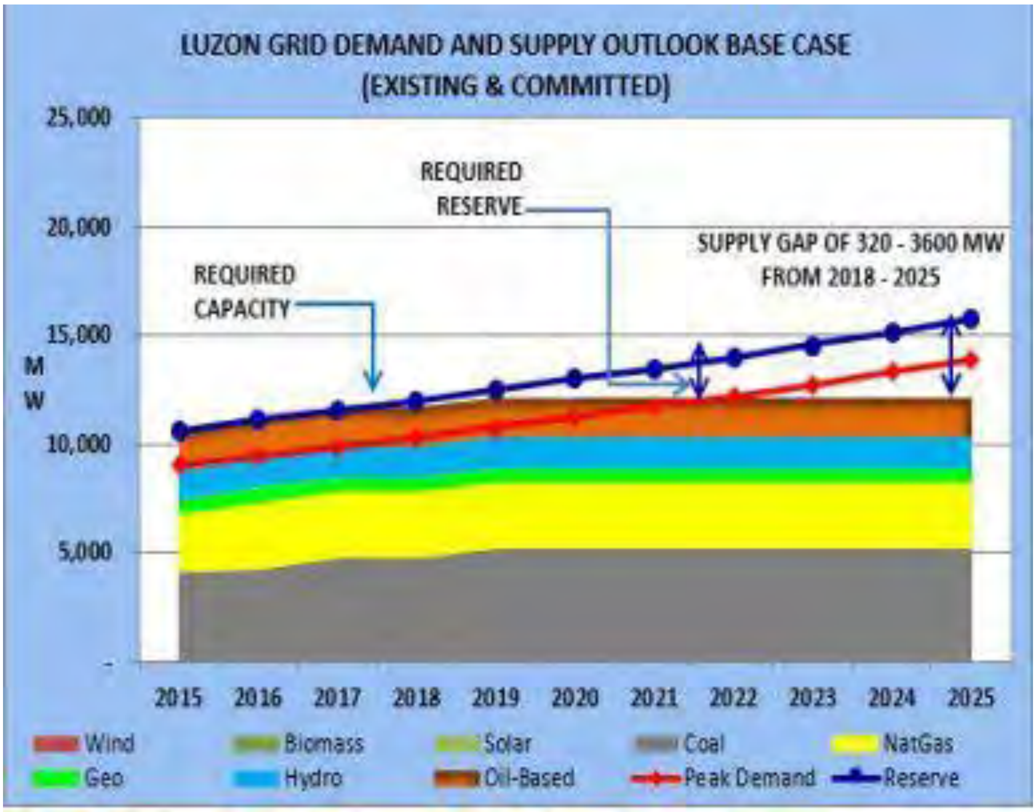
[55] National Economic Development Authority. The Philippine Development Plan 2011-2016. Retrieved March 25, 2014 from http://www.neda.gov.ph/wp-content/uploads/2013/10/pdprm2011-2016.pdf.
[56] Electronic copy sourced from the Department of Energy Planning Department. Committed Power Projects as of March 27, 2017.
[57] ADB. Performance Evaluation Report: Philippines: Electricity Market and Transmission Development Project. Retrieved 6 April 2017 from https://www.adb.org/sites/default/files/evaluation-document/167391/files/pper-phi-electricity-market.pdf.



In Luzon, the committed and proposed transmission projects are intended to address load growth and entry of additional power generation and at the same time, improve system reliability. Below are the ongoing projects for Luzon for 2017 onwards:

Ongoing NGCP Projects for Luzon (Projects for Completion in 2017 onwards)[58]

PROJECT NAME/DRIVER ***(AS FILED & APPROVED BY ERC)***	**PROJECT NAME** *(UNDER SEIL)*	**MVA**	**MVAR**	**CKT**	**Year**
Ambuklao-Binga 230kV T/L SR					
Binga-San Manuel 230 kV T/L Stage 1 & 2 SR					
New Antipolo 230 kV Substation LG					
San Jose-Angat 115 kV Line Upgrading SR					
San Jose-Quezon 230 kV Line 3 SR					
Tuguegarao-Lal-lo (Magapit) 230 kV T/L					
Calaca-Dasmariñas T/L (to be designed at 500 kV)					
Eastern Albay 69 kV Line Stage 2					
Hermosa-Floridablanca 69 kV T/L					
Western 500 kV					

[58] NGCP. Transmission Development Plan 2014-2023. Retrieved April 6, 2014 from http://www.ngcp.ph/beta/cms/Attachment-Uploads/TDP_2014-2015_Vol_I%20-_Draft.pdf.

Backbone (Stage 1)					
Luzon PCB Replacement					
Luzon S/S Reliability Project 1		250			2014
San Esteban - Laoag 230 kV T/L (Stage 2)		600		240	2014
San Jose-Angat 115 kV Line Upgrading				36	2015
Santiago - Tuguegarao 230 kV Line 2				118	2014
Generation Entry					
Mariveles CFPP Transmission Reinforcement Project (Network Asset) *BCCP S/S Expansion					2014
Ambuklao - Binga 230 kV T/L Upgrading				22	2015
RP Energy CFPP Associated T/L Project				114	2015
Load Growth					
Luzon S/S Expansion Project 2		1100			2014
Luzon S/S Expansion Project 3		800			2014
Luzon S/S Expansion Project 4		1375			2015
New Antipolo 230 kV S/S	Antipolo 230 kV S/S		200	40	2015

**Sourced from NGCP, please see appendix for details*

Visayas

In the Visayas, power demand is expected to grow at an annual rate of 5.5% for the period of 2016 to 2025. However, the Visayas grid is critically short of supply: during peak hours, the Luzon grid can transfer only up to 150MW of available power to the Visayas grid through high-voltage direct current interconnection. It is projected that for 2022 to 2025, a supply gap of 120MW to 570MW will persist.[59]

Visayas Committed Projects, *in MW*[60]

PLANT TYPE	2014	2015	2016	2017	2018	2019	2020	TOTAL
COAL	352	270	135	135				892
OIL			8	16				24
GEOTHERMAL	50		50	50				150
HYDRO	16	8	13.1	13.1				50.2
SOLAR	9		65.67	65.67				140.34
WIND	104	50						154
BIOMASS	55	24						79

**Sourced from DOE, Please see appendix for Details*

Visayas Indicative Projects, *in MW*[61]

PLANT TYPE	2014	2015	2016	2017	2018	2019	2020	TOTAL
COAL	470	470	900	900				2740
OIL	18.9	18.9	10	10				57.8
GEOTHERMAL	89	89	40	40				258
HYDRO	53.2	72.2	701.74	723.34				1550.48

[59] ADB. Performance Evaluation Report: Philippines: Electricity Market and Transmission Development Project. Retrieved 6 April 2017 from https://www.adb.org/sites/default/files/evaluation-document/167391/files/pper-phi-electricity-market.pdf.

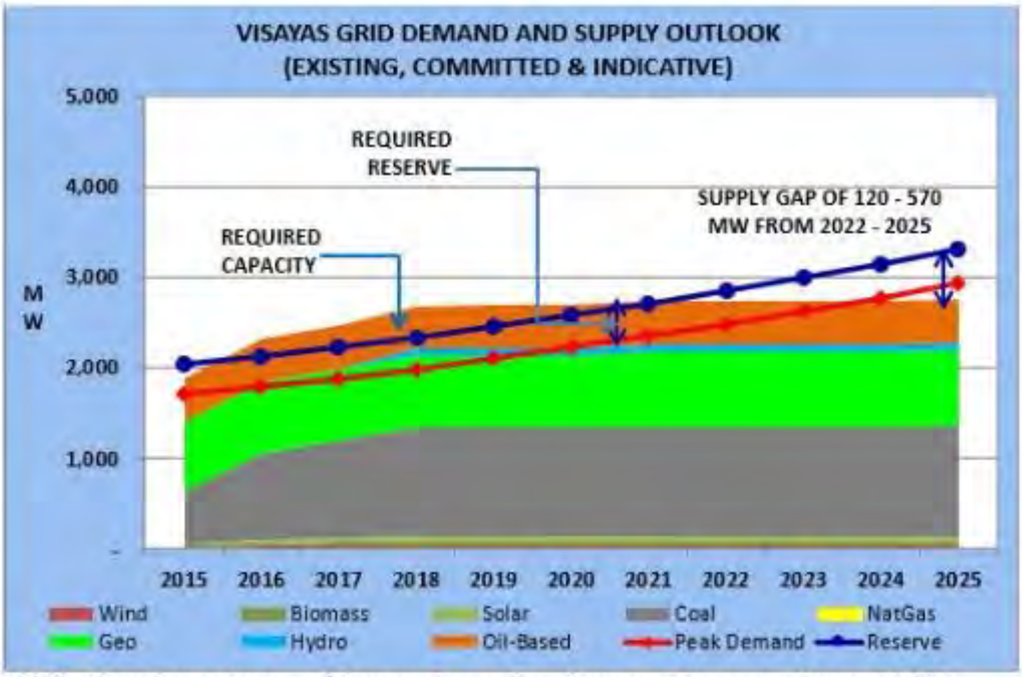
[60] Electronic copy sourced from the Department of Energy website. Committed power projects as of 28 February 2017; retrieved 5 April 2017.

[61] Electronic copy sourced from the Department of Energy website. Indicative power projects as of 28 February 2017; retrieved 5 April 2017.

SOLAR	160	165.67	464.63	464.63	1254.93
WIND	50	50	1148.6	1193	2441.6
BIOMASS	54.37	54.37	78	151.5	338.24
BATTERY	40	40	100	100	280

**Sourced from DOE, Please see appendix for Details*

Visayas Power Outlook 2015-2025[62]



Source: Philippines Department of Energy Power Development Program, August 2015.

In the Visayas, committed and proposed system reliability improvement projects will also accommodate entry of generation, address load growth including projects intended to comply with statutory requirements. These projects include 230 kV and 138 kV backbones, 138 kV and 69 kV transmission lines, reconfiguration of existing substation and installation additional step-down transformer to directly serve both load and generation customers.[63]

Ongoing NGCP Projects for Visayas (2017 onwards)[64]

PROJECT NAME	**PROJECT PURPOSE**	**EXPECTED COMPLETION**
Cebu-Lapu-lapu T/L **Cebu-Umapad 230 kV T/L** **Umapad-Mandaue CJ 138 kV T/L** **Lapu-lapu CJ-Lapu-lapu 138 kV T/L** **Lapu-lapu 138 kV S/S**	To increase transfer capacity of the existing corridor and maintain the N-1 contingency provision	**Sept. 2017**

[62] ADB. Performance Evaluation Report: Philippines: Electricity Market and Transmission Development Project. Retrieved 6 April 2017 from https://www.adb.org/sites/default/files/evaluation-document/167391/files/pper-phi-electricity-market.pdf.

[63]NGCP. Transmission Development Plan 2014-2023. Retrieved April 8, 2014 from https://www.ngcp.ph/savefiles/news/BULLETINS/2013%20TDP%20Consultation%20Draft_VolI-Major%20Network%20Development.pdf.

[64] NGCP. Transmission Development Plan 2014-2015, p. 43, 47-8. Retrieved 5 April 2017 from http://www.ngcp.ph/beta/cms/Attachment-Uploads/TDP_2014-2015_Vol_I%20-_Draft.pdf.

Umapad CTS		
Cebu-Negros-Panay 230 kV Backbone, Stage 1	To increase transfer capacity of the existing corridor and maintain the N-1 contingency provision. The Negros-Panay submarine cable component of this project was scheduled to have been completed by August 2016.	**March 2017**
Bacolod **S/S – E.B. Magalona CTS, 230 kV (initially energized at 138 kV) T/L**		
Barotac Viejo S/S – E.B. Magalona CTS, 230 kV (but will be initially energized at 138 kV) T/L		
Bacolod S/S Expansion		
E.B. Magalona CTS Expansion		
Barotac Viejo S/S Expansion		
Visayas Substation Reliability II	To add substation capacity to provide N-1 contingency	**Jan. 2017**
Ormoc **138 kV S/S Expansion**		
Babatngon 138 kV S/S Expansion		
Sta. Barbara 138 kV S/S Expansion		
Mandaue 138 kV S/S Expansion		
Lapu-lapu 138 kV S/S Expansion		

**Sourced from NGCP, please see appendix for details*

Mindanao

Similarly in Mindanao, most of the committed and proposed projects that will improve system reliability would also address load growth and accommodate entry of power generation. Such transmission projects include 230 kV and 138 kV lines, new 138 kV drawdown substation and existing substation reinforcements, upgrading/rehabilitation of existing switchyards including replacements of underrated Power Circuit Breakers (PCB). In the interim, the island will continue to experience a deficit in power especially during summer due to its high dependence on its hydro-electric power resources.[65] However, if all the committed and indicative plants are implemented, Mindanao is expected in the long term to have an oversupply of power.[66]

Mindanao Committed Projects, *in MW*[67]

PLANT TYPE	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**TOTAL**
COAL	1745	1855	1090	1090				5780
OIL	41.1	11.9	29.54	29.54				112.08
GEOTHERMAL								
HYDRO	64	64	134.2	134.2				396.4
SOLAR								
WIND								
BIOMASS	20.6	20.6	14.2	14.2				49

**Sourced from DOE, Please see appendix for Details*

Mindanao Indicative Projects, *in MW*[68]

PLANT TYPE	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**TOTAL**
COAL	1230	1120	1733	1243				5326

[65] NGCP. Transmission Development Plan 2014-2023. Retrieved April 8, 2014 from https://www.ngcp.ph/savefiles/news/BULLETINS/2013%20TDP%20Consultation%20Draft_VolI-Major%20Network%20Development.pdf.

[66] ADB. Performance Evaluation Report: Philippines: Electricity Market and Transmission Development Project. Retrieved 6 April 2017 from https://www.adb.org/sites/default/files/evaluation-document/167391/files/pper-phi-electricity-market.pdf.

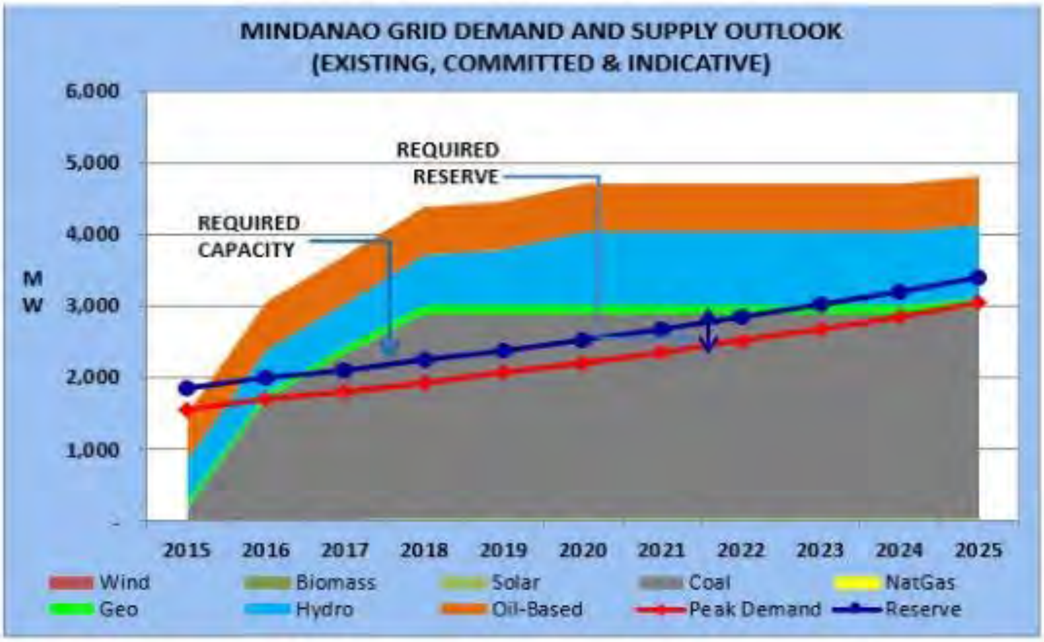
[67] Electronic copy sourced from the Department of Energy website. Committed power projects as of 28 February 2017; retrieved 5 April 2017.

[68] Electronic copy sourced from the Department of Energy website. Indicative power projects as of 28 February 2017; retrieved 5 April 2017.

OIL			36.783	45.216	81.999
GEOTHERMAL	50	50	40	40	180
HYDRO	148.2	161.25	673.44	673.44	396.4
SOLAR	28.75	28.75	238	338	633.5
WIND					
BIOMASS	9	52.4	85.2	85.2	231.8

**Sourced from DOE, Please see appendix for Details*[69]

Mindanao Power Outlook 2013-2020[70]



Source: Philippines Department of Energy Power Development Program, August 2015.

Ongoing NGCP Projects for Mindanao (2017 onwards)		
PROJECT NAME	**PROJECT PURPOSE**	**EXPECTED COMPLETION**
Aurora-Olanco 138 kV T/L	To serve growing power demand in Zamboanga del Norte area boanga del Norte area	**Dec. 2017**
Aurora-Polanco 138 kV T/L		
Polanco-Polanco (LES) 69 kV T/L		
Cut-in 69 kV T/L		
Polanco 138 kV S/S (new)		
Aurora 138 kV S/S Expansion		
Polanco LES		
Balo-i-Kauswagan Aurora 230 kV T/L (Phase 1)	To accommodate the proposed 4x600MW coal-fired power plant of GN Power in Kauswagan	**Aug. 2017**
Balo-I-Kauswagan 230 kV T/L		
Kauswagan 230 kV S/S		
Balo-I S/S Expansion		
Toril 138 kV S/S, Stage 2	To provide 138/69 kV transformer in order to serve load	**Dec. 2017**

[69] Electronic copy sourced from the Department of Energy website. Indicative power projects as of 28 February 2017; retrieved 5 April 2017.
[70] ADB. Performance Evaluation Report: Philippines: Electricity Market and Transmission Development Project. Retrieved 6 April 2017 from https://www.adb.org/sites/default/files/evaluation-document/167391/files/pper-phi-electricity-market.pdf.

Toril 138 kV S/S	customers such as DASURECO and DLPC	
Agus 2 Switchyard Upgrading Project	To address the deteriorating physical and operational condition of the switchyard	**Feb. 2018**
Agus 2 Switchyard		

The Renewable Energy Act

The DOE is pushing for a diverse power supply mix especially in the renewable energy sector. With the global trend towards a clean energy future, the Renewable Energy Act or Republic Act No. 9513 was passed in December 16, 2008 to fully harness the country's renewable energy potential such as geothermal, hydro, wind, solar, biomass and ocean. It was a landmark legislation and is said to be the most comprehensive renewable energy law in Southeast Asia. The RE Law's declared policy is to encourage and develop the use of renewable energy resources of the country to reduce the country's dependence on fossil fuels and reduce overall costs of energy, and reduce, if not prevent harmful emissions into the environment to promote health and sustainable environment. The key features of the RE Law are mechanisms created to carry out its mandates, such as a renewable portfolio standard (RPS), feed-in tariff system, renewable energy market (REM), and a marketable green energy option.

The National Renewable Energy Program (NREP) was launched on January 14, 2011 by President Aquino; and the DOE seeks to increase renewable energy to 15,304 MW by 2030. From 2008 to 2012, DOE awarded service contracts for projects that would sum up to more than 5,600 MW capacity:

AWARDED RE Projects (data as of 31 December 2016)[71]

RESOURCES	AWARDED PROJECTS		POTENTIAL CAPACITY MW		INSTALLED CAPACITY MW	
	Grid-Use	Own-Use	Grid-Use	Own-Use	Grid-Use	Own-Use
Hydro Power	385	-	10,792.37	-	821.83	-
Ocean	7	-	26	-	-	-
Geothermal	43	-	684	-	1906.19	-
Wind	59	1	1038.95	-	426.9	0.006
Solar	151	16	4077.22	4.286	900.18	3.218
Biomass	45	22	312.38	13.77	343.57	119.86
Sub-Total	690	39	16930.92	180.56	4398.67	123.084
TOTAL	**729**		**16,694.564**		**4,521.574**	

There were quite a few initiatives under this in 2012 as well, to name a few they were the commercial operation of the 19.8 MW Green Future, 1.2 MW Pangea, and the expansion of Crystal Sugar from 21 MW to 35.9 MW biomass plants in the Luzon and Mindanao grids; and the commercial operation of the 1.02 MW Libertad natural gas in Cebu.[72]

Pending RE Projects (data as of 31 December 2016)[73]

RESOURCES	PENDING PROJECTS		POTENTIAL CAPACITY MW		INSTALLED CAPACITY MW	
	Grid-Use	Own-Use	Grid-Use	Own-Use	Grid-Use	Own-Use
Hydro Power	88	-	1,484.02	-	-	-
Ocean Energy*	2	-	-	-	-	-
Geothermal	2	3	60	-	-	-

71 Electronic copy sourced from the Department of Energy website. Awarded projects as of 31 December 2016; retrieved 5 April 2017.
72 The Official Gazette. Retrieved April 7, 2014 from http://www.gov.ph/2014/04/03/infra-spending-kicks-off-2014-with-45-1-upsurge-year-on-year/, The official Gazette).
73 Electronic copy sourced from the Department of Energy website. Committed power projects as of 28 February 2017; retrieved 5 April 2017.

Wind*	26	-	291	-	-	-
Solar*	71	1	2130.8	0.39312	-	-
Biomass	6	2	43	9.9	-	-
Sub-Total	285	6	4008.82	10.29312	-	-
TOTAL	**291**		**4019.11312**		**0**	

* data as of 30 June 2016

The FIT regime is the government's methodology of encouraging renewable energy players. The FIT rate approved by ERC are as follows: Php9.68 per kilowatt-hour for solar; Php8.53 per kwh for wind, Php6.63 per kwh for biomass and Php5.90 per kwh for hydropower projects. This policy has been said to attract USD800M in direct investments and is said to create 3,500 jobs in rural areas.[74]

[74]The Philippine Star. Gonzales, Iris C. February 10, 2014. ERC approves rules on renewable energy Retrieved April 9, 2014 from http://www.philstar.com/business/2014/02/10/1288504/erc-approves-rules-renewable-energy.

APPENDIX I
COMMITTED PROJECTS

Name of the Project	Project Proponent	Location	Rated Capacity (MW)	Target Commissioning
COAL				
3x55 MW Balingasag Thermal Circulating Fluidized Bed Combustion (CFBC) Coal-Fired Power Plant	Minergy Coal Corp.	Brgy. Mandangoa, Balingasag, Misamis Oriental	165	Unit 1: March 2017 Unit 2: March 2017 Unit 3: May 2017
GNPower Kauswagan Clean Coal-Fired Power Plant	GN Power Kauswagan Ltd. Co.	Kauswagan, Lanao del Norte	540	Dec. 2017
GNPower Dinginin 2x660 MW Supercritical Coal-Fired Power Plant	GNPower Dinginin Coal Plant Ltd. Co.	Mariveles, Bataan	1200	Unit 1: Oct. 2018 Unit 2: Oct. 2019
Limay Power Plant Project Phase I	SMC Consolidated Power Corp.	Brgy. Lamao, Limay, Bataan	300	Unit 1: Nov. 2016 Unit 2: April 2017
Masinloc Expansion Project	AES Masinloc Power Partners Co., Inc.	Zambales	300	Unit 3: Sept. 2019
Pagbilao Coal-Fired Thermal Power Plant	Pagbilao Energy Corp.	Pagbilao Power Station, Brgy. Ibabang Polo, Pagbilao, Quezon	420	May to Nov. 2017
Palm Concepcion Coal-Fired Power Plant	Palm Concepcion Power Corp. (formerly DMCI Concepcion Power Corp.)	Brgy. Nipa, Concepcion, Iloilo	135	Unit II: March 2018
San Buenaventura Power Ltd. Co. (SBPL) Project	San Buenaventura Power Ltd. Co.	Barangay Cagsiay 1, Mauban, Quezon	500	Dec. 2018
SMC Davao Power Plant Project Unit 2	San Miguel Power Corp.	Brgy. Culaman, Malita, Davao Occidental	150	Feb. 2017
Southern Mindanao Coal Fired Power Station	Sarangani Energy Corp.	Brgy. Kamanga, Maasim, Sarangani	100	Phase II: Dec. 2018
OIL				
CENPRI Diesel Power Plant	Central Negros Power Reliability, Inc.	Brgy. Calumangan, Bago City, Negros Occidental	16	Unit 4: Feb. 2017 Unit 5: March 2017
Peakpower Bukidnon, Inc.	Peakpower Bukidnon, Inc.	Manolo Fortich, Bukidnon	10.4	May 2017
Peakpower San Francisco, Inc. Bunker Fired Power Plant (PSI Expansion Project)	Peakpower Soccsargen, Inc.	San Francisco, Agusan Del Sur	5.2	March 2017
Peakpower Soccsargen, Inc.	Peakpower Soccsargen, Inc.	General Santos City, South Cotabato	13.94	March 2017

Bunker Fired Power Plant (PSI Expansion Project)				
NATURAL GAS				
Pagbilao Combined Cycle Gas Fired Power Plant (Proposed 3x200 MW CGT Power Plant)	Energy World Corp.	Brgy. Ibabang Polo, Grande Island, Pagbilao, Quezon	650	Unit 1: Aug. 2017 Unit 2: Nov. 2017 Unit 3: Feb. 2018
GEOTHERMAL				
Bacman 3 (Tanawon) Geothermal Project	Energy Development Corp.	Guinlajon, Sorsogon	31	Dec. 2018
Biliran Geothermal Plant Project	Biliran Geothermal Inc.	Biliran, Biliran	50	Phase 1: March 2017 Phase 2: March 2017 Phase 3: July 2017 Phase 4: Nov. 2017
Maibarara 2 Geothermal Project	Maibarara 2 Geothermal Inc.	Batangas	12	Aug. 2017
HYDROPOWER				
Asiga	Asiga Green Energy Corp.	Santiago, Agusan del Norte	8	Aug. 2019
Cantakoy	Quadriver Energy Corp.	Danao, Bohol	8	June 2018
Igbulo (Bais) Hydroelectric Power Project	Century Peak Energy Corp.	Igbaras, Iloilo	5.1	June 2018
Kapangan	Cordillera Hydro Electric Power Corp.	Kapangan & Kibungan, Benguet	60	Feb. 2019
Lake Mainit	Agusan Power Corp.	Jabonga, Agusan del Norte	25	Dec. 2017
Manolo Fortich 1	Hedcor Bukidnon, Inc.	Santiago, Bukidnon	43.4	June 2017
Manolo Fortich 2	Hedcor Bukidnon, Inc.	Santiago, Bukidnon	25.4	June 2017
New Bataan	Euro Hydro Power (Asia) Holdings, Inc.	New Bataan, Compostela Valley	2.4	March 2017
Prismc	PNOC-Renewables Corp.	Rizal, Nueva Ecija	1	Sept. 2019
Puyo Hydroelectric Power Project	First Gen Mindanao Hydropower Corp.	Jabonga, Agusan del Norte	30	July 2018
Tubao	Tubao Mini-Hydro Electric Corp.	Tubao, La Union	1.5	March 2020
SOLAR				
Bataan Solar Power Project	Next Generation Power Technology Corp.	Brgy. Alas-asin, Mariveles, Bataan	18	March 2016
CW Home Depot Solar Power Project	CW Marketing & Development Corp.	CW Home Depot, Brgy. Pulong, Sta. Rosa City, Laguna	1.675	March 2017
Morong Solar Power Plant	SPARC Solar Power Agri-Rural Communities	Morong, Bataan	5.02	March 2017 (commercial operations)
San Rafael Solar Power Plant	SPARC Solar Power Agri-Rural	San Rafael, Bulacan	3.82	March 2017 (commercial

	Communities			operations)
Sarrat Solar Power Project	Bosung Solartec, Inc.	Brgy. 21, San Marcos, Sarrat, Ilocos Norte	1	March 2017
BIOMASS				
ACNPC WTE Biomass Power Plant Project	Asian Carbon Neutral Power Corp.	Tarlac	1.5	Phase 1: March 2017 Phase 2: TBD
AseaGas Biogas Power Plant Project	AseaGas Corp.	Batangas	6.1	March 2017
Bicol Biomass Energy Corp.	Bicol Biomass Energy Corp.	Camarines Sur	4.5	March 2017
GEEC Biomass Cogeneration System	Green Earth Enersource Corp.	Maguindanao	2.6	March 2017
LPC Rice Husk-Fired Biomass Power Plant Project	Lamsan Power Corp.	Sultan Kudarat, Maguindanao	10	March 2017
PTCI Rice Husk-Fired Biomass Cogeneration Facility	Philippine Trade Center, Inc.	Sultan Kudarat, Maguindanao	1.6	March 2017 (commercial operations)
SJCI Rice Husk-Fred Biomass Power Plant Project Phase 2	San Jose City I Power Corp.	Brgy. Tulat, San Jose, Nueva Ecija	10.8	June 2017
BATTERY				
AES Battery Storage – Masinloc Project	AES Philippine Power Partners Co., Ltd.	Masinloc, Zambales	10	March 2017
		Total	**5,019.955**	

Electronic copy sourced from the Department of Energy Planning Department. Committed Power Projects as of 28 February 2017.

APPENDIX II

INDICATIVE PROJECTS

*sourced from DOE

Name of the Project	**Project Proponent**	**Location**	**Rated Capacity (MW)**	**Target Commissioning**
		COAL		
AOE Coal-Fired Power Plant	Meralco PowerGen Corp. (Proj. Company: Atimonan One Energy)	Atimonan, Quezon	1200	Unit 1: June 2021 Unit 2: TBD
Balingasag Coal-Fired Power Plant	Minergy Coal Corp.	Brgy. Mandangoa, Balingasag, Misamis Oriental	110	TBD
Bislig 1 Oxyfuel-Gas Fired Power Plant Project	CENERTEC Philippines, Inc.	Brgy. Kahayag, Bislig City, Surigao del Sur	1	TBD
Bislig 2 Oxyfuel-Gas Fired Power Plant Project	CENERTEC Philippines, Inc.	Brgy. Kahayag, Bislig City, Surigao del Sur	4	TBD
Global Luzon Coal-Fired Power Plant	Global Luzon Energy Dev't. Corp.	Brgy. Carisquis and Nalvo Sur, Luna, La Union	670	TBD
H & WB PCB Supercritical Coal-Fired Power Plant	H & WB Asia Pacific (PTE LTD) Corp.	Jose Panganiban, Camarines Norte	700	Unit 1: 4th qtr 2021 Unit 2: 4th qtr 2025
JGS Coal Fired Thermal Power Plant	JG Summit Holdings, Inc.	Brgy. Pinamukan Ibaba, Batangas City	600	Unit 1: June 2018 Unit 2: Dec. 2018 Unit 3: June 2019 Unit 4: Dec. 2019
Limay Power Plant Project Phase II	SMC Consolidated Power Corp.	Brgy. Lamao, Limay, Bataan	300	Unit 1: Feb. 2017 Unit 2: 2017
Lucidum Coal Power Plant	Lucidum Energy, Inc.	Silanguin Bay, Zambales	300	June 2017
Ludo Coal-Fired Thermal Power Plant	Ludo Power Corp.	Cebu City	300	TBD
Masinloc Expansion Project	AES Masinloc Power Partners Co., Inc.	Zambales	300	Unit 4: June 2020
Ozamis Coal Fired Power Plant Phase 1 – 1 x 150 MW Phase 2 – 1 x 150 MW	Ozamiz Power Generation, Inc. (wholly owned subsidiary of Avesco Marketing Corp.)	Brgy. Pulot, Ozamis City, Misamis Occidental	300	Phase 1 (1 x 150MW): Dec. 2019 Phase 2 (1 x 150MW): June 2020
Quezon Coal Fired Thermal Plant Project	Orion Pacific Prime Energy, Inc.	Tagkawayan, Quezon	1050	TBD
RPEI Coal-Fired Power Plant	Redondo Peninsula Energy, Inc.	Sitio Naglatore, Cawag, Subic Bay Freeport Zone	600	Unit 1: Oct. 2018 Unit 2: Dec. 2018
Sibuguey Power Plant Project	Philippine National Oil Company (PNOC-EC)	Sibugay, Zamboanga	100	TBD
SMC Circulating Fluidized Bed Coal-Fired Power Plant	SMC Global Power	Brgy. Ibabang Polo, Pagbilao, Quezon	600	TBD
SMC Circulating Fluidized Bed Coal-Fired Power Plant	SMC Global Power Holdings Corp.	Sariaya, Quezon	600	TBD
SMC Davao Power Plant	San Miguel Consolidated	Brgy. Culaman,	300	Dec. 2018

Project Phase II	Power Corp.	Malita, Davao Occidental		
SMC Global Power (4 x 82 MW)	SMC Global Power	Brgy. Darong, Santa Cruz, Davao del Sur	328	TBD
SPC Expansion Coal Power Plant Project	SPC Power Corp.	Brgy. Colon, Naga City, Cebu	300	TBD
SRPG 2x350MW Coal-Fired Power Plant Project	St. Raphael Power Generation Corp.	Brgy. San Rafael, Calaca, Batangas	700	July 2019
Therma Visayas Energy Project	Therma Visayas, Inc.	Brgy. Bato, Toledo City, Cebu	300	June 2017
ZAM 100 MW Circulating Fluidized Bed (CFB) Coal-Fired Power Station	San Ramon Power, Inc.	Sitio San Ramon, Brgy. Talisayan, Zamboanga City	100	TBD
Zestpower Coal Thermal Plant	Zestpower Corp.	Mariveles, Bataan	660	TBD
		OIL		
Aero Derivative Combined Cycle Power Plant	Calamba Aero Power Corp.	Calamba, Laguna	150	TBD
Datem Energy Northern Samar Diesel Power Plant Project	Datem Energy Corp.	Northern Samar	10	TBD
MOPP 4 Diesel Power Plant	King Energy Generation, Inc.	Brgy. San Isidro, Jimenez, Misamis Oriental	8.433	TBD
Nickel Asia Diesel Power Project	Nickel Asia Corp.	Surigao City, Surigao del Norte	10.9	TBD
Panasia Malita Diesel Power Plant	Panasia Energy, Inc.	Malita, Davao	20	TBD
Power Barge (PB) 103	Phinma Energy Corp.	Lapu-lapu City, Cebu	32	TBD
SLGPC Gas Turbine Power Project Phase 1	Southwest Luzon Power Generation Corp. (SLGPC)	San Rafael, Calaca, Batangas	23	TBD
SLGPC Gas Turbine Power Project Phase 2	Southwest Luzon Power Generation Corp. (SLGPC)	San Rafael, Calaca, Batangas	23	TBD
TPI Diesel Power Plant	Total Power, Inc.	Mati, Davao Oriental	5.883	Dec. 2017
		NATURAL GAS		
1x450 Sta. Maria Power Plant (Phase II)	First Gen Ecopower Solutions, Inc.	Santa Rita, Batangas	450	Dec. 2019
Batangas CCGT Plant Unit 1	Therma Batangas Gas, Inc.	Brgy. Libo, Batangas	300	TBD
Batangas CCGT Plant Unit 2	Therma Batangas Gas, Inc.	Brgy. Libo, Batangas	400	TBD
Batangas CCGT Plant Unit 3	Therma Batangas Gas, Inc.	Brgy. Libo, Batangas	400	TBD
		GEOTHERMAL		
Bacman 4 Botong – Rangas Geothermal Project	Energy Development Corp.	Bacon District, Sorsogon, Sorsogon City	40	June 2021
Dauin Geothermal Project	Energy Development Corp.	Dauin, Negros Oriental	40	Dec. 2022
Kayabon Geothermal Project	Energy Development Corp.	Manito, Albay	40	June 2022
Mindanao 3	Energy Development	Kidapawan, North	40	June 2020

Geothermal Power Project	Corp.	Cotabato		
		HYDROPOWER		
10 MW Cabulig-2 Hydroelectric Power Plant Project	Mindanao Energy Systems, Inc.	Jasaan, Misamis Oriental	10	Dec. 2018
100 MW Alimit	SN Aboitiz Power-Ifugao	Lagawe, Ifugao	100	Jan. 2021
240 MW Alimit	SN Aboitiz Power-Ifugao	Lagawe, Ifugao	240	Jan. 2021
Abdao HEP	AV Garcia Power Systems Corp.	Tabaan Sur, Tuba, Benguet	1	Sept. 2019
Agus III	Maranao Energy Corp.	Pantar & Balo-I, Lanao del Sur & Lanao del Norte	225	July 2020
Aklan Pumped-Storage Hydropower	Strategic Power Dev't. Corp.	Malay, Aklan	300	TBD
Alilem	Philnew Hydro Power Corp.	Alilem, Ilocos Sur	16.2	Dec. 2019
Amlan (Plant A)	Natural Power Sources Integration, Inc.	Amlan, Negros Oriental	3.2	Sept. 2019
Amlan (Plant B)	Natural Power Sources Integration, Inc.	Amlan, Negros Oriental	1.5	July 2019
Amlan (Plant C)	Natural Power Sources Integration, Inc.	Amlan, Negros Oriental	0.8	Sept. 2019
Barit (Irrigation Discharge) Hydroelectric Power Project	Nascent Technologies	Buhi,, Camarines Sur	0.4	Sept. 2019
Bansud	PTC Energy, Inc.	Mauban, Quezon	1	Oct. 2020
Bansud	Sunwest Water & Electric Company, Inc.	Bansud & Gloria, Oriental Mindoro	1.5	Oct. 2020
Basak II	Meadowland Developers, Inc.	Badian, Cebu	0.5	April 2019
Bineng 1-2b Combination HEPP	Hedcor, Inc.	La Trinidad, Benguet	19	March 2019
Biyao	AV Garcia Power Systems Corp.	Balbalan, Kalinga	0.8	Aug. 2019
Bolusao Pumped Storage	San Lorenzo Samar and Water, Inc.	Lawaan, Eastern Samar	300	TBD
Bubunawan Hydroelectric Power Project	First Gen Mindanao Hydropower Corp.	Baungon and Libona, Bukidnon	23	2021
Caroan	Antique Electric Cooperative	Sebaste, Antique	0.84	Sept. 2020
Cabadbaran Hydroelectric Power Project	First Gen Mindanao Hydropower Corp.	Cabadbaran, Agusan del Norte	9.75	July 2018
Cawayan 2	Sunweat Water & Electric Co., Inc.	Sorsogon, Sorsogon	1	April 2020
Cervantes-Mankayan-Bakun HEPP	Hedcor, Inc.	Benguet	27	TBD
Chico Hydroelectric Power Project	San Lorenzo Ruiz Piat & Water	Tabuk, Kalinga	150	TBD
Clarin	Philnew Hydro Power Corp.	Clarin, Misamis Occidental	5	April 2019
Colasi	Colasi Mini Hydro Electric Power Plant Corp.	Mercedes, Camarines Norte	1	Feb. 2019

Culaman Hydroelectric Power Project	Oriental Energy and Power Generation Corp.	Manolo Fortich, Bukinon	10	June 2018
Danac	Philnewriver Power Corp.	Sugpon, Ilocos Sur	13.2	June 2020
Davao Hydroelectric Power Project	San Lorenzo Ruiz Olympia	Davao City	140	TBD
Davidavilan	PTC Energy, Inc.	Mauban, Quezon	1	Oct. 2020
Dibuluan	Greenpower Resources Corp.	San Agustin, Isabela	5	June 2020
Dipidio 1	AT Dinum Company	Kasibu, Nueva Vizcaya	2.1	March 2021
Dipidio 2	AT Dinum Company	Kasibu, Nueva Vizcaya	9.4	April 2021
Dupinga Hydroelectric Power Project	Constellation Energy Corp.	Gabaldon, Nueva Ecija	3	June 2018
Hilabangan (Lower Cascade)	Century Peak Energy Corp.	Kabankalan, Negros Occidental	3	Aug. 2018
Hilabangan (Upper Cascade)	Century Peak Energy Corp.	Kabankalan, Negros Occidental	4.8	Aug. 2018
Ibulao Hydroelectric Power Project	Hydrocore, Inc.	Lagawe, Ifugao	4.5	June 2018
Ibulao I Hydroelectric Power Project	Kiangan Mini-Hydro Corp.	Kiangan, Ifugao	6	TBD
Ilaguen	Isabela Power Corp.	San Mariano & San Guillermo	19	Feb. 2020
Ilaguen 2	Isabela Power Corp.	Dinapique, Isabela	14	May 2020
Ilaguen 3 Hydropower Project	Rio Norte Hydropower Corp.	Echague, Isabela	11	TBD
Ilaguen 4 Hydropower Project	Rio Norte Hydropower Corp.	Echague, Isabela	10	TBD
Ilaguen 4	Isabela Power Corp.	Echague, Isabela	10	Oct. 2020
Ilog Hydroelectric Power Plant	PHINMA Energy Corp.	Mabinay, Negros Occidental	21.6	TBD
Ipayo	Antique Electric Cooperative	Sebaste, Antique	11.6	Sept. 2020
Kabayan 1	Hedcor Benguet, Inc.	Kabayan, Benguet	20	March 2019
Kabayan 2 (Natalang HEP)	Hedcor Cordillera, Inc.	Kabayan, Benguet	52	March 2019
Kabayan 3	Hedcor Benguet, Inc.	Kabayan, Benguet	27	March 2019
Katipunan River Mini Hydro Power Project	Repower Energy Dev't.	Cabanglasan, Bukidnon	6.2	TBD
Kibungan Pumped-Storage HEPP	COHECO Badeo Corp.	Kibungan, Benguet	500	TBD
Kitaotao 1	Hedcor Bukidnon, Inc.	Bukidnon	70	March 2019
Lalawinan Mini-Hydro Power Project	Repower Energy Development	Real, Quezon	3	Dec. 2020
Laguio Malaki 1	Enerventage Suppliers Co., Inc.	Mauban, Quezon	1.6	Oct. 2020
Laguio Malaki 2	Enerventage Suppliers Co., Inc.	Mauban, Quezon	3.1	Oct. 2020
Lanon (Lam-alu)	Euro Hydro Power (Asia) Holdings, Inc.	Lake Sebu, South Cotabato	9.5	May 2020
Limbatangon Hydroelectric Power Project	Turbines Resource & Development Corp.	Cagayan de Oro City, Misamis Oriental	9	Jan. 2018
Loboc Hydroelectric Power Project	Sta. Clara Power Corp.	Loboc, Bohol	1.2	June 2018

Lower Himogaan	LGU Sagay	Sagay, Negros Occidental	4	Sept. 2020
Lower Maladugao River Mini-Hydropower Project	Bukidnon Maladugao Hydro Power Corp.	Kalilangan and Wao, Bukidnon	15.7	TBD
Maapon River Mini-Hydro Power Project (MHP)	Renesons Energy Corp.	Brgy. Piis, Lucban, Quezon	2.6	Dec. 2020
Main Aklan River Hydroelectric Power Project	Sunwest Water & Electric Company, Inc.	Libacao, Aklan	15	Sept. 2018
Majayjay	Majayjay Hydro Power Co., Inc.	Majayjay, Laguna	3	April 2019
Majayjay	Majayjay Hydro Power Co., Inc.	Majayjay, Laguna	2	Jan. 2021
Maladugao River (Lower Cascade)	UHPC Bukidnon Hydro Power I Corp.	Wao, Bukidnon	5.5	Jan. 2020
Maladugao River (Upper Cascade)	UHPC Bukidnon Hydro Power I Corp.	Kalilangan & Wao, Bukidnon	10	April 2020
Maladugao River (Upper Cascade)	UHPC Bukidnon Hydro Power I Corp.	Kalilangan, Bukidnon	8.4	TBD
Malitbog	Philnewriver Power Corp.	Malitbog, Bukidnon	17.85	Sept. 2020
Malugo	Vivant-Malogo Hydropower, Inc.	Silay City, Negros	6	Oct. 2019
Man-Asok	Benguet Electric Cooperative	Buguias, Benguet	3	Sept. 2020
Maninila (Lower Cascade)	Century Peak Energy Corp.	San Remigio Antique	4.5	Oct. 2018
Maninila (Upper Cascade)	Century Peak Energy Corp.	San Remigio Antique	3.1	Oct. 2018
Mangima Hydroelectric Power Project	Philnew Hydro Power Corp.	Manolo Fortich, Bukidnon	10	Sept. 2019
Manupali	Matic Hydropower Corp.	Valencia, Bukidnon	9	Sept. 2020
Maramag	Maramag Mini-Hydro Corp.	Maramag, Bukidnon	1.4	Sept. 2020
Mat-i-1	Philnew Hydro Power Corp.	Claveria, Cagayan de Oro	2	April 2019
Mat-i-2	Philnew Hydro Power Corp.	Cagayan de Oro, Misamis Oriental	1.6	Sept. 2019
Mat-i-3	Philnew Hydro Power Corp.	Cagayan de Oro, Misamis Oriental	3.25	Sept. 2019
Maris Main Canal 1 HEP	SN Aboitiz Power Generation	Ramon, Isabela	8.5	Jan. 2021
Maris Main Canal 1 HEP	SN Aboitiz Power Generation	Alfonso Lista, Ifugao	1.75	TBD
Matibuey	Sta. Clara Power Corp.	Matibuey, Ilocos Sur	16	April 2021
Matuno	Epower Technologies Corp.	Bambang, Nueva Ecija	8	June 2020
Matuno 1	Smith Bell Mini Hydro Corp.	Ambaguio, Nueva Vizcaya	7.4	Dec. 2020
Matuno 2	Smith Bell Mini Hydro Corp.	Bambang, Nueva Ecija	7.9	Dec. 2020
Olilicon HEPP	SN Aboitiz Power-Ifugao	Lagawe, Ifugao	10	Jan. 2021
Pasonaca	Philcarbon, Inc.	Zamboanga City	0.5	Jan. 2019

Pincanauan	Sunwest Water & Electric Co., Inc.	Peñablanca, Cagayan	6	Sept. 2018
Pulanai	Repower Energy Dev't.	Valencia, Bukidnon	10.6	Dec. 2020
Quirino	Philnewriver Power Corp.	Quirino, Ilocos Sur	11.5	Sept. 2020
Ranggas	Clean and Green Energy Solutions, Inc.	Goa & Tigaon, Camarines Sur	1.5	June 2019
Sawaga River Mini Hydro Power Project	Repower Energy Dev't.	Malaybalay, Bukidnon	4.5	TBD
Sibalom (Lower Cascade)	Century Peak Energy Corp.	San Remigio, Antique	4	Oct. 2018
Sibalom (Middle Cascade)	Century Peak Energy Corp.	San Remigio, Antique	4	Oct. 2018
Sibalom (Upper Cacade)	Century Peak Energy Corp.	San Remigio, Antique	4.2	Oct. 2018
Silo-o	Philnewriver Power Corp.	Malitbog, Bukidnon	3.29	June 2020
Tagoloan	First Gen Mindanao Hydropower Corp.	Impasugong & Sumilao, Bukidnon	39	June 2018
Talubin Hydropower Project	Mountain Province Electric Cooperative, Inc.	Bontoc, Mountain Province	5.4	TBD
Tignoan HEP	Aurorar All Asia Energy Corp.	Real, Quezon	20	July 2019
Timbaban Hydroelectric Power Project	Oriental Energy and Power Generation Corp.	Madalag, Aklan	18	Aug. 2017
Tinoc 1	Philnew Hydro Power Corp.	Tinoc, Ifugao	4.1	Aug. 2018
Tinoc 2	Philnew Hydro Power Corp.	Tinoc, Ifugao	11	Jan. 2019
Tinoc 3	Quadriver Energy Corp.	Tinoc, Ifugao	8	Jan. 2019
Tinoc 4	Philnew Hydro Power Corp.	Tinoc, Ifugao	5	Aug. 2018
Tinoc 5	Philnew Hydro Power Corp.	Tinoc, Ifugao	6.9	Dec. 2019
Tinoc 6	Philnew Hydro Power Corp.	Tinoc, Ifugao	8	Dec. 2019
Tumalaong Hydroelectric Power Project	First Gen Mindanao Hydropower Corp.	Baungon, Bukidnon	9	July 2018
Tumauini (Lower Cascade)	Quadriver Energy Corp.	Tumauini, Isabela	7.8	Oct. 2019
Tumauini (Upper Cascade)	Quadriver Energy Corp.	Tumauini, Isabela	14	Oct. 2019
Upper Manupali	Bukidnon II Electric Cooperative, Inc.	Valencia City, Bukidnon	4.4	Feb. 2021
Wawa Pumped Storage 2 Hydroelectric Power Project	Olympia Violago Water and Power, Inc.	Rodriguez, Rizal	100	TBD
Wawa Pumped Storage 3 Hydroelectric Power Project	Olympia Violago Water and Power, Inc.	Rodriguez, Rizal	50	TBD
		SOLAR		
60 MW General Santos City Solar Power Project	Astroenergy Gensan Inc.	General Santos City, South Cotabato	60	TBD
Biliran Solar Power Project	E & P Green Energy, Inc.	Biliran, Biliran	25	Dec. 2017

Bogo V Solar Power Project	Lohas and Soul Lighting, Inc.	Mabinay, Negros Oriental	90	TBD
Bogo 3 Solar Power Plant	Sun Premier Bogo Philippine Corp.	Bogo, Cebu	15	TBD
Bongabon Solar Power Plant	Greentech Solar Energy, Inc.	Bongabon, Nueva Ecija	18.75	TBD
Botolan Solar Power Project	Solar Power Utilities Generator Corp.	Brgy. San Juan, Botolan, Zambales	39.27	June 2017
Cabanatuan Solar Power Plant	Greentech Solar Energy, Inc.	Cabanatuan, Nueva Ecija	6.25	TBD
Calabanga Solar Power Project	Calabanga Renewable Energy, Inc.	Calabanga, Camarines Sur	50	TBD
Capas Solar PV Power Project	Greenergy Solutions, Inc.	Capas, Tarlac	50	TBD
Cavite Solar Power Project	Enfinity Philippines Renewable Resources, Inc.	Cavite Economic Zone, Rosario, Cavite	3	Dec. 2017
Concepcion Solar Power Project	Enfinity Philippines Renewable Resources, Inc.	Brgy. Sta. Rosa, Concepcion, Tarlac	50.55	Dec. 2017
Cordon Solar PV Power Project	Greenergy Solutions, Inc.	Cordon, Isabela	50	TBD
Earthenergy Solar Power Plant	Earthenergy Corp.	Balayan, Batangas	30	TBD
FPI Solar PV Power Project	Firmgreen Phils., Inc.	Tarlac City, Tarlac	50	TBD
GenSan Solar Power Project Phase I	Del Sol Energy CGS, Inc.	Brgy. Conel, General Santos City, South Cotabato	48	Dec. 2018
GenSan Solar Power Project Phase II	Del Sol Energy CGS, Inc.	Brgy. Tambler, General Santos City, South Cotabato	48	Dec. 2018
Grid Tied Solar Farm	E & P Green Energy, Inc.	Biliran, Biliran	25	March 2017
Jasaan Solar Power Project	Lohas and Soul Lighting, Inc.	Jasaan, Misamis Oriental	60	TBD
Ilagan II Solar PV Power Project	Greenergy Solutions, Inc.	Sta. Maria Isabela	125	TBD
Lal-lo Solar PV Power Plant	Natures Renewable Energy & Development (NAREDCO) Corp.	Maasim, Sarangani	100	TBD
Macabud Solar Photovoltaic Power Project	ATN Philippines Solar Energy Group, Inc.	Brgy. Macabud, Rodriguez, Rizal	30	June 2017
Magsingal Solar Power Plant	Neoenergy Corp.	Magsingal, Ilocos Sur	100	TBD
Montesol II Solar PV Power Project	Monte Solar Energy, Inc.	Brgy. Tamisu, Bais City, Negros Occidental	18	TBD
Nueva Ecija Solar Power Project	Firmgreen Phils., Inc.	Pantabangan, Nueva Ecija	100	TBD
RGEC Solar Power Project	Roxas Green Energy Corp.	Nasugbu and Tuy, Province of Batangas	30	TBD
San Francisco Solar Power Project	GPower Inc.	San Francisco, Agusan del Sur	10	March 2017
San Francisco Solar Power Project	Gpower Inc.	San Francisco, Agusan del Sur	10	March 2017
Sanpalo Solar Power	Sunpalo Solar Energy,	San Miguel, Leyte	100	TBD

Plant	Inc.			
Santa Solar Power Project	Satrap Power Corp.	Brgy. Nagpanaoan, Santa, Ilocos Sur	20	TBD
Silay Phase II Solar Power Project	Silay Solar Power Inc.	Silay City, Negros Occidental	10	TBD
SJC Solar Power Project	SJC Solar Power Corp.	San Jose City, Nueva Ecija	10	TBD
Solana Solar Power Plant	Solana Solar Alpha, Inc.	Hermosa, Bataan	20	TBD
Solana Solar Photovoltaic (PV) Plant Phase I	Solana Solar Alpha, Inc.	Hermosa, Bataan	24	TBD
Solana Solar Photovoltaic (PV) Plant Phase II	Solana Solar Alpha, Inc.	Hermosa, Bataan	14	TBD
Sta. Maria Solar Power Project	East Coast Fas Renewable Energy and Industrial Corp.	Sta. Maria, Isabela	30	TBD
Sta. Maria Solar PV Power Project	Greenergy Solutions, Inc.	Sta. Maria, Isabela	125	TBD
Sta. Rita Solar Power Project – Phase II	Jobin-Sqm Inc. (JOBIN)	Mt. Sta. Rita, Morong and Hermosa, Bataan	92.86	Dec. 2017
Sumilao Solar Power Project	Sunasia Energy, Inc.	San Vicente, Sumilao, Bukidnon	2	TBD
Talugtug Solar PV Power Project	Greenergy Solutions, Inc.	Talugtug, Nueva Ecija	125	TBD
Tigbauan Solar Power Project	Solexar Energy International, Inc.	Brgy. Cordova Norte and Bantud, Tigbauan, Iloilo	34.3	Dec. 2018
V-Mars Solar Power Project	V-Mars Solar Energy Corp.	San Jose/Lupao, Nueva Ecija	10	TBD
Victorias Solar Power Project	VictoriaSolar Energy Corp.	Brgy. XII, Victorias City, Negros Occidental	30.63	Dec. 2018
		WIND		
Balaoi Wind Power Project	Northern Luzon UPC Asia Corp.	Brgy. Balaoi, Pagudpud, Ilocos Norte	45	Oct. 2017
Burgos 2 Wind Power Project	Energy Dev't. Corp.	Burgos, Ilocos Norte	183	TBD
Bronzeoak Wind Power Project	Bronzeoak Philippines, Inc.	Calatrava, Salvador Benedicto, and San Carlos, Negros Occidental	100	TBD
Calatagan Wind Power Project	Currimao Solar Energy Corp.	Batangas	80	TBD
Iloilo 1 Wind Power Project	Energy Dev't. Corp.	Batad & San Dionisio, Iloilo	213	TBD
Iloilo 2 Wind Power Project	Energy Dev't. Corp.	Concepcion, Iloilo	500	TBD
Matnog 1 Wind Power Project	Energy Dev't. Corp.	Matnog, Sorsogon	153	TBD
Matnog 2 Wind Power Project	Energy Dev't. Corp.	Matnog, Sorsogon	206	TBD
Matnog 3 Wind Power Project	Energy Dev't. Corp.	Matnog, Sorsogon	206	TBD

Montesol Wind Power Project	Monte Solar Energy, Inc.	Bais City, Manjuyod and Mabinay, Negros Oriental	54	TBD
Nabas Wind Power Project Phase II	PetroWind Energy Corp.	Brgy. Pawa, Nabas, Aklan	14	Phase 2 (14MW): TBD
Negros Wind Power Project	Energy Dev't. Corp.	Manapla & Cadiz, Negros Occidental	262	TBD
Pagudpud Wind Power Project	EDC Pagudpud Wind Power Corp.	Brgy. Balaol and Caunayan, Pagupdpud, Ilocos Norte	84	Dec. 2018
Pulupandan Wind Power Project	First Maxpower International Corp.	Pulupandan, Negros Occidental	50	July 2018
Sembrano Wind Power Project (formerly Phase 2: Mabitac Wind Power Project)	Alternergy Sembrano Wind Corp.	Mt. Sembrano, Mabitac, Laguna	72	June 2018
Talim Wind Power Project	Currimao Solar Energy Corp.	Rizal	140	TBD
Talisay Wind Power Project	Currimao Solar Energy Corp.	Camarines Norte	50	TBD
		BIOMASS		
10MW Don Carlos Bio-Energy Corp. Multi-Feedstock Power Generating Facility	Don Carlos Bio-Energy Corp.	Bukidnon	9	Aug. 2016
10MW Kalilangan Bio-Energy Corp. Multi-Feedstock Power Generating Facility	Kalilangan Bio-Energy Corp.	Bukidnon	9	Aug. 2016
10MW Malay-balay Bio-Energy Corp. Multi Feedstock Generating Facility	Malaybalay Bio-Energy Corp.	Bukidnon	9	Dec. 2017
12 MW Biomass Power Plant Project	Misamis Oriental Bio-Energy Corp.	Misamis Oriental	10.8	Oct. 2017
12 MW Napier Grass-Fired Biomass Power Plant Project	Manolo Fortich Biomass Energy Corp.	Bukidnon	10.8	Jan. 2018
23.5 MW EPC Woody Biomass Power Plant Project	Eastern Petroleum Corp.	Agusan del Norte	21	Dec. 2017
Bagasse-Fired Co-generation Power Plant	Crystal Sugar, Inc.	Maramag, Bukidnon	14.9	TBD
Bais Biomass Cogeneration Plant	Central Azucarerera de Bais, Inc.	Calasagana, Bais City, Negros Occidental	26	TBD
Balintawak Oxyefuel-Gas Fired Power Plant Project	CENERTEC Philippines, Inc.	Old Samson Roa, Balintawak, Quezon City	4	TBD
BISCOM Biomass Cogeneration Plant	BISCOM, Inc.	Binalbagan, Negros Occidental	48.5	TBD
Boracay Oxyfuel-Gas Fired Power Plant Project	CENERTEC Philippines, Inc.	Brgy. Yapak, Malaya, Aklan	3	TBD
Central Azucarera Don	Biomass Cogeneration	Brgy. Lumbangan,	31.875	TBD

Pedro, Inc.	Plant	Nasugbu, Batangas		
LPC Biomass Power Plant Project	Lamsan Power Corp.	Maguindanao	5.5	Dec. 2018
MCEI Multi-Feedstock Biomass Power Plant Project	Megawatt Clean Energy, Inc.	Negros Occidental	12	May 2018
Napier Grass-Fired Biomass Power Plant	Grass Gold Renewable Energy Corp.	Nuerva Ecija	10.8	Jan. 2018
NAREDCO Biogas Power Plant	Natures Renewable Energy Dev't. Corp.	Lal-lo Cagayan	24	TBD
Pampanga Oxyfuel-Gas Fired Power Plant Project	CENERTEC Philippines, inc.	Brgy. Balubad, Porac, Pampanga	1.5	TBD
Santa Biomass Power Project	Satrap Power Corp.	Brgy. Nagpanaoan, Santa, Ilocos Sur	10	TBD
VMC Biomass Co-generation Plant	Victorias Milling Company, Inc. (Amendment)	Victoria, Negros Occidental	63	TBD
		BATTERY		
AES Battery Storage – Bantay Project	AES Philippines Power Partners Co., Ltd.	Laoag, Ilocos Norte	40	TBD
AES Battery Storage – Kabankalan Project	AES Philippines Power Partners Co., Ltd.	Kabankalan, Negros Occidental	40	June 2018
AES Battery Storage – Laoag Project	AES Philippines Power Partners Co., Ltd.	Bantay, Ilocos Norte	40	TBD
AES Battery Storage – Masinloc Project Unit 2	AES Philippines Power Partners Co., Ltd.	Masinloc, Zambales	10	TBD
AES Battery Storage – Masinloc Project Unit 3	AES Philippines Power Partners Co., Ltd.	Masinloc, Zambales	10	TBD
AES Battery Storage – Masinloc Project Unit 4	AES Philippines Power Partners Co., Ltd.	Masinloc, Zambales	10	TBD
Cadiz Energy Storage Project	EQ Energy Storage, Inc.	Cadiz City, Negros Occidental	15	TBD
Enerhiya Central Battery Energy Storage Project	SunAsia Energy, Inc.	Concepcion, Tarlac	40	TBD
Enerhiya Delas Islas I Battery Energy Storage Project	SunAsia Energy, Inc.	Amlan, Negros Oriental	15	TBD
Enerhiya Delas Islas II Battery Energy Storage Project	SunAsia Energy, Inc.	Ormoc, Leyte	15	TBD
Enerhiya Delas Islas III Battery Energy Storage Project	SunAsia Energy, Inc.	Compostela, Cebu	15	TBD
Enerhiya Sur I Battery Energy Storage Project	SunAsia Energy, Inc.	Lemery and Tuy, Calaca, Batangas	40	TBD
Enerhiya Sur II Battery Energy Storage Project	SunAsia Energy, Inc.	Lumban, Laguna	40	TBD
	TOTAL		**233,688.131**	

Electronic copy sourced from the Department of Energy Planning Department. Initiated Power Projects as of 28 February 2017.

APPENDIX III
GRID TRANSMISSION PROJECTS
Proposed Projects for the Grid (2016-2025)

PROJECT NAME/DRIVER	**Province**	**Estimated Time of Completion**
	System Reliability	
Alaminos 500 kV Switching Station	Laguna	Dec 2021
Babatngon-Sta. Rita 138 kV T/L Upgrading Project	Leyte, Samar	Dec 2024
Balayan 69 kV Switching Station	Laguna	Dec 2021
Baras 500 kV Switching Station	Rizal	Dec 2025
Calbayog-Allen 69 kV T/L Project	Samar, Northern Samar	Dec 2020
Cebu-Bohol Interconnection Project	Cebu, Bohol	Dec 2019
Dasmarinas-Las Pinas 230 kV Line	Metro Manila	Dec 2022
Kabankalan S/S Reliability Improvement Project	Negros Occidental	Jun 2024
La Trinidad-Calot 69 kV Line	Benguet	Jun 2019
Liberty-Cabanautan-San Rafael-Mexico 230 kV T/L Upgrading	Nueva Ecija, Pampanga	Dec 2024
Luzon Substation Rehabilitation (Tiwi, Pnt, Cal)	Nueva Ecija, Batangas, Albay	Dec 2019
Manila(Navotas)-Dona Imelda 230 kV Line	Metro Manila	Oct 2018
Mexico-Clark 69 kV T/L	Pampanga	Dec 2021
Minuyan 115 kV Switching Station	Bulacan	Dec 2023
Naga S/S Upgrading Project	Cebu	Dec 2018
Navotas-Pasay 230 kV T/L	Metro Manila	Jun 2019
Palo-Javier 138 kV T/L Project	Leyte	Jun 2025
Panitan-Nabas 138 kV Transmission Line 2 Project	Aklan, Capiz	Jun 2017
Pinili 115 kV S/S	Ilocos Norte	Dec 2019
San Manuel-Nagsaag 230 kV Line	Pangasinan	Dec 2020
Santiago-Dinadiawan-Baler 230 kV T/L	Isabela, Aurora	Dec 2023
Silang-Taguig 500 kV T/L	Cavite, Metro Manila	Dec 2021
Tagbilaran 69 kV S/S Project	Cebu, Leyte, Samar, Negros, Panay	Dec 2020
Taguig-Taytay 230 kV T/L	Metro Manila	Dec 2019
Upgrading of Ormoc/Tongonan-Isabel 138 kV T/L	Leyte	Nov 2016
Upgrading of Panitan-Nabas 138 kV T/L	Aklan, Capiz	Nov 2016
Western 500 kV Backbone – Stage 2	Pangasinan, Zambales	Jun 2024
	Power Quality	
Balo-i-Tagoloan-Opol 138 kV T/L	Lanao del Sur and Misamis Oriental	Dec 2025
Kabacan 138 kV S/S	Cotabato	Dec 2021
Luzon Voltage Improvement 3 – Stage 1 / Stage 2	Ilocos Norte, Ilocos Sur, Benguet, Pangasinan and Isabela	Jan 2018/Jun 2022
Luzon Voltage Improvement Project 4– Stage 1 / Stage 2	Rizal, Laguna, Cavite, Albay, Sorsogon and Camarines Sur	Dec 2019 / Jun 2022
Maasin-Javier 138 kV T/L Project	Leyte, Southern Leyte	Jun 2025
Mindanao Substation Rehabilitation	Mindanao Island	Dec 2022
Tacurong-Sultan Kudarat 138 kV T/L	Maguindanao, Sultan Kudarat	Dec 2025

Villanueva-Jasaan-Butuan 138 kV T/L	Misamis Oriental, Agusan del Norte	Dec 2021
Visayas Voltage Improvement Project – Stage 1/Stage 2	Northern Samar, Leyte, Southern Leyte	Dec 2019/Jun 2022
	Generation Entry	
Balo-i-Kauswagan-Aurora 230 kV T/L (Phase 2)	Lanao del Norte, Misamis Occidental, Zamboanga del Sur	Dec 2021
Bataan 230 kV Grid Reinforcement	Bataan, Pampanga	Jan 2019
Bolo 5th Bank	Pangasinan	Dec 2019
CNP 230 kV Backbone Project – Stage 2 (Cebu Substation 230 kV Upgrading)	Cebu	Dec 2018
CNP 230 kV Backbone Project – Stage 3 (Negros-Cebu Interconnection)	Negros Occidental, Cebu, Panay	Dec 2020
Hermosa-San Jose 500 kV Line	Bataan, Bulacan	Dec 2018
La Trinidad-Sagada 230 kV T/L	Isabela, Pangasinan	Dec 2024
Liberty-Nagsaag 230 KV T/L	Nueva Ecija, Pangasinan	Dec 2022
Magdugo 230 kV Substation Project	Cebu	Dec 2019
Mariveles-Hermosa 500 kV T/L	Bataan	June 2019
Mindanao 230 kV Transmission Backbone	Mindanao Island	Dec 2018
New Calaca 500/230 kV Substation	Batangas	Dec 2019
Northern Luzon 230 kV Loop	Ilocos Norte, Cagayan	Dec 2020
Pagbilao EHV Substation	Quezon	Nov 2017
Pagbilao-Tayabas 500 kV T/L	Quezon	Dec 2020
Panay-Guimaras 138 kV Interconnection Project	Panay	Dec 2019
Sta Maria / Ibaan 500 kV Substation	Batangas	Dec 2020
Sta. Barbara-Dingle 138 kV Line 3 Project	Iloilo	Dec 2023
	Load Growth	
Abuyog 230 kV Substation	Sorsogon	Dec 2021
Abuyog 230 kV Substation	Sorsogon	Dec 2022
Amlan-Dumaguete 138 kV T/L Project	Leyte	Dec 2020
Babatngon-Pano 138 kV T/L Project	Leyte	Dec 2020
Calamba 230 kV Substation	Laguna	Mar 2018
Clark-Mabiga 69 kV Line	Pampanga	Jul 2019
Colon Substation Expansion Project	Cebu	Jun 2017
Daraga-Ligao 69 kV Upgrading	Albay	Dec 2020
Laray 230 kV Substation Project	Cebu	Mar 2020
Liberty-Baler 230 kV T/L	Nueva Ecija, Auror	Jun 2022
Magalang 230 kV Substation	Pampanga	Dec 2024
Malvar 230 kV Substation	Batangas	Dec 2021
Manila (Navotas) 230 kV Substation	Metro Manila	Nov 2019
Marilao EHV Substation	Bulacan	Jun 2023
Mexico-San Simon 69 kV Line	Pampanga	Dec 2020
Mindanao Substation Upgrading	Mindanao Island	Dec 2022
Nabas-Caticlan-Boracay Transmission Project (Stage 1)	Aklan	Aug 2019
Nabas-Caticlan-Boracay Transmission Project (Stage 2)	Aklan	Mar 2022
Naga-Pili 69 kV T/L Upgrading	Camarines Sur	Dec 2020
North Luzon SS Upgrading Project – Stage 1 / Stage 2	Ilocos Norte, Ilocos Sur, Isabela, Nueva Vizcaya, Pangasinan, Bulacan	Dec 2019/Jun 2022
Pasay 230 kV Substation	Metro Manila	Jun 2019
Porac 230 kV Substation	Pampanga	Dec 2021

San Simon 230 kV Substation	Pampanga	Dec 2023
South Luzon SS Upgrading Project – Stage 1/Stage 2	Cavite, Metro Manila, Laguna, Quezon, Camarines Sur, Albay	Dec 2020/Jun 2022
Taguig EHV Substation	Metro Manila	Dec 2019
Tanauan 230 kV Substation	Batangas	Dec 2020
Umapad 230 kV Substation Project	Cebu	Jun 2023

REGULATORY FRAMEWORK

The information in this section has been derived from various government and private publications or obtained from communications with various government agencies unless otherwise indicated and has not been prepared or independently verified by the Company or the Issue Manager and Underwriter or any of their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the Philippines.

EPIRA

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Through the EPIRA, the Government began to institute major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

1. to ensure and accelerate the total electrification of the country;
2. to ensure the quality, reliability, security and affordability of the supply of electric power;
3. to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
4. to enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors;
5. to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
6. to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
7. to assure socially and environmentally compatible energy sources and infrastructure;
8. to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
9. to provide for an orderly and transparent privatization of the assets and liabilities of NPC;
10. to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and
11. to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the DOE, in consultation with the relevant government agencies, electric power industry participants, non-government organizations, and electricity consumers, promulgated the law's Implementing Rules and Regulations **("IRR")** outlining its policy on 27 February 2002.

The policy governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular governmental authorities involved in implementing the structural reforms in the industry, namely, the DOE, NPC, the NEA, ERC and PSALM.

Reorganization of the Electric Power Industry

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (1) the generation sector; (2) the transmission sector; (3) the distribution sector; and (4) the supply sector. The goal is for the generation and supply sectors to be fully competitive, while the transmission and distribution sectors will remain regulated. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

The Generation Sector

The EPIRA provides that power generation is not a public utility operation. Thus, generation companies are not required to secure legislative franchises. However, generation companies must obtain a COC from the ERC, as well as health, safety and environmental clearances from the appropriate government agencies under existing laws.

Generation companies are also subject to the ERC's rules and regulations on abuse of market power and anti-competitive behavior. Generation companies are required to submit financial statements to determine abuse of market power and anti-competitive behavior. The ERC may impose fines and penalties for violation of the EPIRA and the Implementing Rules and Regulations policy on market power abuse, cross-ownership and anti-competitive behavior.

The goal of the EPIRA is for the generation sector to be open and competitive, with the private sector expected to take the lead in introducing additional generation capacity. Generation companies will compete either for contracts with various suppliers, electric cooperatives and private distribution utilities, or through spot sale transactions in the WESM. Competition will be based largely on pricing, subject to availability of transmission lines to wheel electricity to the Grid and/or buyers. Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine the reasonableness of the cost and to ensure that the distribution utilities do not earn any revenue therefrom. While generation charges are intended to be passed through to customers by distribution utilities, the process is not automatic. Upon commencement of Retail Competition and Open Access, generation rates, except those intended for the Captive Markets, will cease to be regulated.

In line with the Government's policy to promote competition within the generation sector, and additionally, to lessen the debt of NPC, the EPIRA required the privatization of all generation assets of the NPC. The EPIRA created PSALM, which is charged with the privatization of the assets of NPC.

Currently, PSALM has already privatized twenty six (26) generation units with a total rated capacity of 4,601.43MW and IPPAs with total contracted capacity of 3,607.52MW.

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP contracts that have not been disposed of by PSALM.

The Transmission Sector

With the turn-over of the control, operation and management of the grid to the private concessionaire on 14 January 2009, the National Grid Corporation of the Philippines ("NGCP") together with Transco (which, under law, remains the owner of the transmission assets), comprise the transmission sector.

The transmission of electricity is subject to transmission wheeling charges. Inasmuch as the transmission of electric power is a regulated public utility business, Transmission wheeling charges, even under the concessionaire arrangement, are subject to regulation and approval by the ERC.

The Distribution Sector

The distribution of electric power to end-users may be undertaken by private distribution utilities, electric cooperatives, local government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from Congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the end of 2006. All distribution utilities are also required to obtain a Certificate of Public Convenience and Necessity from the ERC to operate as a public utility.

All distribution utilities are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Distribution Code (which provides the rules and regulations for the operation and maintenance of distribution systems), the DSOAR and the performance standards set out in the IRR of the EPIRA, which took effect on 22 March 2002.

The distribution sector is and will continue to be regulated by the ERC, with distribution wheeling charges, as well as connection fees from its consumers, subject to ERC approval. Likewise, the retail rate imposed by distribution utilities for the supply of electricity to its captive customers is subject to ERC approval. In addition, as a result of the Government's policy to promote free competition and Open Access, distribution utilities are required to provide universal and non-discriminatory access into their systems within their respective franchise areas following commencement of retail Open Access.

The Supply Sector

The supply of electricity refers to the sale of electricity directly to end-users or Contestable Customers. The supply of electricity to the Contestable Market is not considered a public utility operation and will not require a legislative franchise, although it is considered a business affected with public interest. As such, the EPIRA requires all suppliers of electricity to the Contestable Market to obtain a license from the ERC in accordance with the ERC's rules and regulations.

Retail Competition and Open Access ("RCOA") started on 26 June 2013. Since then, Contestable Customers (end-users with demand above the 1MW threshold) may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. By June 2017, the threshold was intended to be dropped to 750kW per hour to allow more establishments to benefit from competition among power producers. However, as discussed in further detail below, by virtue of a Temporary Restraining Order (TRO) issued by the lowering of the threshold to 750kW is suspended pending resolution of the case filed before the Supreme Court.

Role of the ERC

With a view towards the establishment of a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market, the ERC was created pursuant to the EPIRA as an independent quasi-judicial body charged with regulating the electric power industry. The ERC replaced the former ERB, and plays a critical role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

Among the primary powers and functions of the ERC are:

1. to determine, fix and approve, after conducting public hearings, transmission and distribution and wheeling charges, and retail rates, and to fix and regulate the rates and charges to be imposed by distribution utilities and their captive End-users, including self-generating entities;
2. to grant, revoke, review or modify the COCs required of generation companies and the licenses required of suppliers of electricity in the Contestable Market;
3. to enforce a Grid Code and a Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;
4. to enforce the rules and regulations governing the operations of the WESM and the activities of the WESM operator to ensure a greater supply and rational pricing of electricity;
5. to ensure that the electric power industry participants and NPC functionally and structurally unbundle their respective business activities and rates and to determine the levels of cross-subsidies in the existing retail rates until the same is removed in accordance with the different sectors;
6. to set a lifeline rate for marginalized end-users;
7. to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;
8. to determine the electricity end-users comprising the Contestable and Captive Markets;
9. to fix user fees to be charged by Transco for ancillary services to all electric power industry participants or self-generating entities connected to the Grid;
10. to monitor and adopt measures to discourage/penalize abuse of market power, cartelization and any anti-competitive or discriminatory behavior by any electric power industry participant;
11. to review and approve the terms and conditions of service of Transco or any distribution utility or any changes therein;
12. perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry;

13. have the original and exclusive jurisdiction over all cases contesting rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy sector relating to the foregoing powers, functions and responsibilities.

Role of the DOE

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

1. Prepare and update annually the Philippine Energy Plan and the Philippine Power Development Program , and thereafter, integrate the latter into the former;
2. ensure the reliability, quality and security of supply of electric power;
3. exercise supervision and control over all government activities pertaining to energy projects;
4. encourage private investments in the electricity sector and promote the development of indigenous and renewable energy sources for power generation;
5. facilitate reforms in the structure and operations of distribution utilities for greater efficiency and lower costs;
6. promote incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
7. educate the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
8. establish the WESM in cooperation with electric power industry participants, and to formulate rules governing its operations.

Role of the Joint Congressional Power Commission

The Joint Congressional Power Commission created pursuant to the EPIRA consists of fourteen (14) members selected from the members of the Philippine Senate and the House of Representatives. Its responsibilities and functions include, among others, the following:

1. Monitor and ensure the proper implementation of the EPIRA;
2. Endorse the PSALM initial privatization plan for approval by the President of the Philippines;
3. Ensure transparency in the public bidding procedures adopted for the privatization of NPC's generation and transmission assets;
4. Evaluate the adherence of industry participants to the objectives and timelines under the EPIRA; and
5. Recommend necessary remedial legislation or executive measures to correct the inherent weaknesses in the EPIRA.

Role of PEZA

The PEZA was created under Section 11 of Republic Act No. 7916, otherwise known as "The Special Economic Zone Act of 1995" (the "PEZA Act"). "Ecozones" or "Special Economic Zones" refer to selected areas with highly developed or which have the potential to be developed into agro-industrial, industrial, tourist, recreational, commercial, banking, investment and financial centers whose metes and bounds are fixed or delimited by Presidential Proclamations. An Ecozone may contain any or all of the following: industrial estates, export processing zones, free trade zones and tourist/recreational centers. PEZA has authority over "Ecozone Utilities Enterprises" which refers to business entities within an Ecozone that is duly registered with and/or franchised/licensed by PEZA to act as contractors/operators of light and power systems, water supply and distribution systems, communications and transportation systems within an Ecozone and other similar or ancillary activities as may be determined by PEZA's board of directors. Ecozone Utilities Enterprises are entitled to the following incentives: (a) exemption from national and local taxes and in lieu thereof payment of a special tax rate of 5.0% on gross income; (b) additional deductions for training expenses; (c) incentives provided under R.A. 6957 as amended by R.A. 7718, otherwise known as the Build Operate and Transfer Law, subject to such conditions as may be prescribed by PEZA's board; and (d) other incentives available under the Omnibus Investments Code of 1987.

Section 12 (c) of the PEZA Act grants PEZA's board the power to regulate and undertake the establishment, operation and maintenance of utilities in an Ecozone and to fix just, reasonable and competitive rates therefor. With the subsequent enactment of the EPIRA, the ERC was vested with the power to regulate the distribution of electricity and to oversee generation companies.

On 11 March 2004, the ERC and PEZA entered into a Memorandum of Agreement and agreed to cooperate and coordinate efforts to oversee the operations of power generation and distribution utilities within Ecozones. The agreement provides that PEZA must register all new generation utilities enterprises for power to be supplied exclusively to economic zone locator enterprises operating within Ecozones as well as self-generation facilities of economic zone locator enterprises, and endorse the same to the ERC for the issuance of the required COC. Existing power generation utilities, including entities with self-generation facilities, must apply for the issuance of a COC with the ERC. PEZA-registered power generation utilities enterprises and economic zone locator enterprises that own generation facilities are required to comply with the same technical, financial and environmental requirements and/or standards of the Philippine Grid Code and the Philippine Distribution Code.

In a memorandum by the Department of Justice to the Office of the President dated 5 February 2007, the Secretary of Justice opined that the repealing clause of the EPIRA did not repeal Section 12 (c) of the PEZA Act, which grants PEZA the power to regulate and undertake the establishment, operation and maintenance of utilities, other services and infrastructure in Ecozones and to fix rates therefor. However, it has been opined that the repealing clause clearly refers to Section 12 (c) considering that the provision repealed by the EPIRA does not have a paragraph (c). However, the EPIRA did expressly repeal Section 5(f) of Republic Act No. 7227, the Bases Conversion and Development Act of 1992, which provides that the Bases Conversion and Development Authority (whose operating and implementing arm is the SBMA) is vested with the power to construct, own, lease, operate and maintain public utilities as well as infrastructure facilities within former U.S. military bases in the Philippines which includes the SBFZ.

COMPETITIVE MARKET DEVICES

Wholesale Electricity Spot Market

A significant change introduced by the EPIRA is the organization and establishment of the WESM. The WESM shall provide a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. The WESM will also provide a venue for establishing merit order dispatch for generation companies whether or not they have bilateral contracts.

The EPIRA mandates the DOE to establish the WESM within one (1) year from its effectivity and directs the DOE and the electric power industry participants to formulate detailed rules therefor. In June 2002, the DOE, in cooperation with electric power industry participants, promulgated detailed rules for the WESM. These rules provide a mechanism to set electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

On 18 November 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising of an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM. The PEMC was tasked to undertake the preparatory work for the establishment of the WESM pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules.

WESM in Luzon, Visayas, and Mindanao

The WESM in Luzon started its commercial operations on 26 June 2006, while WESM in Visayas started on 26 December 2010. The WESM has been operating ever since with the following framework:

1. Bid-based

2. Gross pool
3. Net settlements
4. One-hour intervals
5. Locational marginal price
6. Mandatory market

Under DOE's draft Department Circular, "Declaring the Launch of the WESM in Mindanao and Providing for Transition Arrangements," the target launch of the WESM in Mindanao is 26 June 2017, subject to the fulfillment of the following criteria:

1. All systems and procedures including all interfaces with the participants and service providers necessary for the operation of the WESM in the Mindanao grid are in place and pursuant with the requirements set under the WESM Rules;
2. The Trial Operations Program (TOP) was implemented successfully commencing on 26 February 2017 with the System Operator and on 26 March 2017 with the Market Participants;
3. The forecasting, scheduling, dispatch, pricing, metering, and settlement processes of the WESM are fully operational in the Mindanao grid;
4. Training programs shall have been conducted for the WESM Mindanao Trading Participants;
5. The price determination methodology for the enhanced WESM design has been approved by the ERC and duly published; and
6. The Market Dispatch Optimization Model (MDOM) has been certified as compliant with the WESM Rules by an independent auditor.

The DOE is still holding consultations until March 2017 with WESM in Mindanao targeted for launch on 26 June 2017.

The WESM is guided by the WESM Rules and Manuals, where any change is duly approved by the DOE. The Price Determination Methodology, meanwhile, goes through the ERC approval process.

Interim Mindanao Electricity Market (IMEM)

The DOE issued Department Circular No. 2013-05-0008 "Promulgating the Interim Mindanao Electricity Market Implementing Rules". Correspondingly, DOE also issued DC No. 2013-09-0020 approving pertinent IMEM Manuals.

The IMEM has the following features:

1. Day-ahead pricing and scheduling;
2. Zonal pricing
3. IMEM is for available resource capacity after taking out bilateral contract quantities
4. In-Day Market is for imbalances or deviation from day-ahead schedules only
5. Deviations from day-ahead schedule will be subject to penalties and incentives

The IMEM started on 03 December 2013 and the first IMEM billing period ended on 25 December 2013. The first IMEM billing period has not been fully settled and succeeding billing periods were still not billed by PEMC.

The implementation of IMEM was suspended in early 2014.

Open Access and Retail Competition

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

1. Establishment of the WESM;
2. Approval of unbundled transmission and distribution wheeling charges;
3. Initial implementation of the cross subsidy removal scheme;

4. Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
5. Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP administrators.

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

Commencement of Open Access

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

The implementation of Open Access enabled Aboitiz Power to increase its contracted capacity through the delivery of power to affiliate and non-affiliate RES companies. Aboitiz Power has two wholly owned subsidiaries, Aboitiz Energy Solutions, Inc. and Advent Energy, Inc., that are licensed RES. Open Access allowed Aboitiz Energy Solutions, Inc. and AdventEnergy, Inc. to enter into contracts with eligible contestable customers. Moreover, Open Access facilitated Aboitiz Power to contract with other RES companies.

ERC Resolution No. 22 Series of 2013

ERC issued revised licensing regulation for RES companies operating in the Retail Supply Segment on 25 November 2013. Items amended include the following:

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

Since Resolution 22 Series of 2013 limits the retail suppliers and creates non-assurance of renewal of RES license for existing retailers, the Retail Electricity Suppliers Association (RESA) challenged its legality at the Pasig RTC. The Supreme Court, however, enjoined the hearing of the case and allowed the DOE and ERC to implement the Resolution.

The ERC subsequently mandated Contestable Customers to enter into a RES supply contract with a RES by 26 December 2016 or be meted a penalty of either disconnection or payment of a 10% premium on their contract price or the WESM price, whichever is higher. The deadline was later extended to 27 February 2017.

On 21 February 2017, or six (6) days before the extended deadline, the Supreme Court issued a temporary restraining order ("TRO") which in effect suspended the deadline for the mandatory migration. At present, the DOE is set to make a new issuance that will ease the rules for 750-kilowatt contestable customers who are mandated to contract their power supply with licensed RES by 26 June 2017.

Reserve Market

The DOE issued Department Circular No. DC2013-12-0027, "Declaring the Commercial Launch for the Trading of Ancillary Service in Luzon and Visayas under the Philippine Wholesale Electricity Spot Market" dated 2 December 2013. The said Department Circular sets the responsibility of the Philippine Electricity Market Corporation (PEMC), NGCP, NEA and all WESM Members with regard to the operation of the Reserve Market.

The trial operations started on 26 February 2014, and PEMC is still reviewing its results before certifying market readiness. The Pricing and Cost Recovery Mechanism of the Reserve Market is still under review by the ERC under ERC Case # 2007-004RC.

On 26 March 2014, the DOE declared the commercial launch date of the Reserve Market on 26 May 2014, subject to the approval by the ERC. It also directed the implementation of the Central Scheduling and Dispatch of Energy and Contracted Reserves which aims to provide better monitoring of all available generation capacity in both energy and reserve and provide more preparations to the participants for the eventual commercial operation of the Reserve Market. The launch was deferred pending regulatory approval.

On 2 December 2014, the DOE approved the adoption of the Protocol for the Central Scheduling and Dispatch of Energy and Contracted Reserves as well as the WESM Market Manual on the Protocol. The implementation of the Protocol shall immediately cease upon the commercial operation of the Reserve Market or upon declaration of its cessation by the DOE.

On 12 November 2015, the DOE declared the commercial operation of the Central Scheduling and Dispatch of Energy and Contracted Reserves in the WESM.

Unbundling of Rates and Removal of Subsidies

The EPIRA mandates that generation, distribution and wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross-subsidies shall be phased out within a period not exceeding three (3) years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one (1) year if it determines there will be material adverse effect upon the public interest or an immediate, irreparable, and adverse financial effect on a distribution utility.

These arrangements are now in place, in satisfaction of the conditions for open access and retail competition.

The EPIRA likewise provides for a socialized pricing mechanism called a lifeline rate to be set by the ERC for low-income, captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users will be exempt from the cross-subsidy removal for a period of ten years, unless extended by law.

Implementation of PBR

On 13 December 2006, the ERC issued the Rules for Setting Distribution Wheeling Rates for privately-owned distribution utilities entering PBR for the second and later entry points, setting out the manner in which this new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR replaces the RORB mechanism which has historically determined the distribution charges paid by customers. Under PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period is set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine the distribution utility's efficiency factor. For each year during the regulatory period, the distribution utility's distribution-related charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor as against changes in overall consumer prices in the Philippines.

The ERC has also implemented a PIS whereby annual rate adjustments under PBR will take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the: (i) average duration of power outages, (ii) average time of restoration to customers and (iii) average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

Cotabato Light's 2nd Regulatory Period ended on 31 March 2013. A reset process should have been initiated eighteen (18) months prior to the start of the 3rd Regulatory Period covering 1 April 2013 to 31 March 2017. The reset process, however, has been delayed due to the issuance of an Issues Paper on the Implementation of PBR for Distribution Utilities under the RDWR by the ERC in 2013. This paper aims to revisit various matters relating to the reset process. The ERC has solicited comments from industry participants and has been holding public consultations on the Issues Paper.

In March 2013, VECO and Davao Light filed their rate translation application for the fourth regulatory year from July 1, 2013 to June 30, 2014. The ERC set the distribution, supply and metering charges of Davao Light and VECO in its Decisions dated 24 June 2013. In the case of VECO, since its implementation of the rate translation in the third regulatory year was delayed by five months, recovery for the under-recovery was included in its MAP recalculation for the fourth regulatory year. A motion for reconsideration was filed by VECO on 26 July 2013 for the ERC to amend its rate design to fully achieve the correct Annual Revenue Requirement for the fourth regulatory year. The said motion was decided upon by the ERC in an Order dated 9 December 2013 (docketed January 16, 2014) modifying the approved rates in the previous Decision. The under-recoveries arising therefrom may be recovered in the next rate filing under the K-factor (correction factor) of the Maximum Average Price formula.

For SEZ's and SFELAPCO's second regulatory year covering 1 October 2012 to 30 September 2013, SEZ was able to implement the new rate schedule in January 2013 while SFELAPCO's implementation began in April 2013. Consequently, the resulting under-recoveries from the lag starting from 1 October 2012 were included by SFELAPCO and SEZC as under-recoveries in its rate filings in the third regulatory year. The said applications are under the ERC's review as of year-end 2013. SEZC and SFELAPCO entered its fourth regulatory year on 1 October 2014.

REDUCTION OF TAXES AND ROYALTIES ON INDIGENOUS ENERGY RESOURCES

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the implementing rules and regulations, President Arroyo enacted Executive Order No. 100 to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

GOVERNMENT APPROVAL PROCESS

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not being required to secure a franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a COC from the ERC to operate facilities used in the generation of electricity. A COC is valid for a period of five years from the date of issuance.

In addition to the COC requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued "Guidelines for the Financial Standards of Generation Companies," which sets the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. For COC applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements, a schedule of liabilities, and a five-year financial plan. For the duration of the COC, the guidelines also require a generation company to submit to the ERC audited financial statements and forecast financial statements for the next two fiscal years, among other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local government authorities, relating to, among others, site acquisition, construction, operation, including environmental licenses and permits. See the section entitled "*Environmental Law*s" below.

Retail rates charged by Retail Suppliers to Contestable Customers will not require ERC approval, only the retail rates charged by Distribution Utilities to their Captive Customers will be subject to the approval of ERC.

ENVIRONMENTAL LAWS

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an ECC prior to commencement. The Department of Environment and Natural Resources, through its regional offices or through the Environmental Management Bureau, determines whether a project is environmentally critical or located in an environmentally critical area. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an EIS to the Environmental Management Bureau while a project in an environmentally critical area are generally required to submit an Initial Environmental Examination to the proper Department of Environment and Natural Resources regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EISs and ECCs are mandatory.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the direct and indirect consequences to human welfare and ecological as well as environmental integrity. The Initial Environmental Examination refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an Initial Environmental Examination may vary from project to project, as a minimum, it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the EIS or, if an Initial Environmental Examination was required, that it shall comply with the mitigation measures provided therein.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the Department of Environment and Natural Resources to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not be later than the initial construction phase of the project. The Environmental Monitoring Fund shall be used to support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

RENEWABLE ENERGY ACT OF 2008

Republic Act No. 9513, otherwise known as the Renewable Energy Act of 2008 (the "RE Law") was approved in 2008. The RE Law provides for the acceleration and development of renewable resources. It aims to increase the utilization of renewable energy which will provide enhanced market and business opportunities for the renewable energy generation subsidiaries of Aboitiz Power. For a more extensive discussion of the RE Law, see the section entitled "The Renewable Energy Act of 2008" on page 130 of this Prospectus.

The RE Law became effective on 31 January 2009. The RE Law stipulates the acceleration and development of renewable resources. Its policy is to increase the utilization of renewable energy which will provide enhanced market and business opportunities for the renewable energy generation subsidiaries of AbotiizPower.

DOE Department Circular No. 2009-05-0008, or the Rules and Regulations Implementing Republic Act No. 9513, was issued on 25 May 2009. However, to fully implement the RE Law, the Renewable Portfolio Standards, the RE Market and the changes in the WESM Rules for intermittent generation should still be implemented.

FINANCIAL INFORMATION

1. Audited Financial Statements for the fiscal year ended 31 December 2016, **Annex A**
2. Audited Financial Statements for the fiscal year ended 31 December 2015, **Annex B**

AboitizPower

OFFER SUPPLEMENT

19 April 2017

Offer of up to PhP30,000,000 Fixed Rate Bonds to be Offered in One or Several Tranches within a period of three (3) years

First Tranche:
PhP3,000,000,000
[•] % p.a. Fixed Rate Bonds Due 2023
Offer Price: 100% of Face Value

Issue Manager and Underwriter for the First Tranche:

BPI Capital Corporation

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, BUT HAS NOT YET BECOME EFFECTIVE. THESE SECURITIES MAY NOT BE SOLD NOR OFFERS TO BUY THEM BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT IS RENDERED EFFECTIVE. THIS COMMUNICATION SHALL NOT CONSTITUTE AN OFFER TO SELL OR BE CONSIDERED A SOLICITATION TO BUY.

ABOITIZ POWER CORPORATION
By:

ANTONIO R. MORAZA
President & Chief Operating Officer

SUBSCRIBED AND SWORN to before me this __________________ affiant exhibiting to me ________________________ issued on _____________________ , by _______________________.

Doc. No. ________;
Page No. ________;
Book No. ________;
Series of 2017.

SUMMARY OF THE OFFERING

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

Issuer	:	Aboitiz Power Corporation
Issue Manager and Underwriter	:	BPI Capital Corporation
Trustee	:	BPI Asset Management and Trust Corporation
Registrar and Paying Agent	:	Philippine Depository & Trust Corporation
Issue / Issue Amount	:	SEC–registered fixed rate, Peso-denominated bonds constituting the direct, unconditional, unsecured and general obligations of the Issuer (the "Series A Bonds") in the aggregate amount of fixed rate bonds of up to Php3,000,000,000.00
Use of Proceeds	:	Proceeds of the Offer will be used by AboitizPower to finance equity infusions into GNPower Dinginin Ltd. Co., as more described in the section entitled *"Use of Proceeds"*
Issue Price	:	100% face value
Manner of Distribution	:	Public Offering
Offer Period	:	The Offer shall commence on [9 June 2017] and end on [16 June 2017].
Issue Date	:	[21 June 2017]
Maturity Date or Redemption Date	:	[Six (6)] years from Issue Date Except when an Early Redemption Option is exercised, the Series A Bonds will be redeemed at par (or 100%) on Maturity Date.
Interest Rate	:	[•] The interest rates are determined subject to the results of book building and final pricing upon release of the SEC pre-effective approval.
Interest Payment Date	:	The Interest shall be paid quarterly in arrears on [•], [•], [•], and [•], or the next Banking Day if such dates fall on a non-Banking Day, of each year commencing on [•], until and including the Maturity Date (each, a "Interest Payment Date"). Interest on the Series A Bonds shall be calculated on a 30/360-day basis.
Form and Denomination	:	The Series A Bonds shall be issued in scripless form in minimum denominations of Php50,000.00 each, and in multiples of Php10,000.00 thereafter.
Early Redemption	:	The Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), the outstanding Bonds on any Interest

		Payment Date, or the immediately succeeding Banking Day if such date is not a Banking Day, on and after [five (5)] years from the Issue Date (any such date, the "Optional Redemption Date"). The amount payable to the Bondholders upon the exercise of the Early Redemption Option by the Issuer shall be calculated based on the principal amount of the Series A Bonds being redeemed as the aggregate of the: (i) accrued interest computed up to the relevant Optional Redemption Date; and (ii) the product of the principal amount and 100.25%. The Issuer shall give not less than thirty (30) nor more than sixty (60) days prior written notice of its intention to redeem the Series A Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Series A Bonds on the Optional Redemption Date stated in such notice.
Redemption for Taxation Reasons	:	The Issuer may redeem the Series A Bonds in whole, but not in part, on any Interest Payment Date (having given not more than sixty (60) nor less than thirty (30) days' notice to the Trustee) at par plus accrued interest, subject to the requirements of Applicable Law, if payments under the Series A Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on Issue Date as a result of certain changes in Applicable Law, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer. For avoidance of doubt, the Issuer shall not be liable for the payment of the additional or increased taxes on the income of the Bondholders, which shall be for the account of the Bondholders.
Negative Pledge	:	The Series A Bonds shall have the benefit of a negative pledge on all existing and future assets of the Issuer, subject to certain permitted liens, as provided under Section 5.01 (a) of the Trust Agreement.
Purchase and Cancellation	:	The Issuer may at any time purchase any of the Series A Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase (and the Bondholders shall not be obliged to sell) Bonds pro-rata from all Bondholders. Upon listing of the Series A Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.
Status of the Series A Bonds	:	The Series A Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of the Issuer and shall rank *pari passu* and rateably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by the Issuer pursuant to Section 5.01 (a) of the Trust Agreement or as may be allowed by the Trust Agreement, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of Issue Date. The Series A Bonds shall effectively be subordinated in right of payment to, among others, all of AboitizPower's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines.

Rating	:	The Series A Bonds are rated [•] by PhilRatings.
Listing	:	The Issuer intends to list the Series A Bonds in the PDEx on Issue Date.
Non-Reliance		Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that it has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations hereunder, except for its gross negligence or wilful misconduct.
Own Risk		Bondholders understood and acknowledge that investment in the Series A Bonds is not covered by the Philippie Deposit Insurance Corporation ("PDIC") and that any loss or depreceiation in the value of the assets of the Bondholders, resulting from theinvestments or reinvestment in the Series A Bonds and the regular conduct of the Trustee's trust business shall be for the account of the Bondholder.

USE OF PROCEEDS

The Issue Price shall be at par, which is equal to the face value of the Series A Bonds. AboitizPower expects that the net proceeds of the Offer shall amount to approximately PhP2,970,865,625 for a PhP3,000,000,000 Issue Size, after fees, commissions and expenses.

Estimated proceeds from the sale of Bonds	**PhP 3,000,000,000**
Less: Estimated expenses	
Documentary Stamp Tax	**15,000,000**
SEC Registration Fee and Legal Research	**886,875**
Publication Fee	**100,000**
Underwriting and Other Professional Fees	**11,980,000**
Listing Application Fee	**2,500**
Printing Cost	**200,000**
Trustee Fees	**170,000**
Registry and Paying Agency Fees	**75,000**
Ratings Agency Fee	**720,000**
Estimated net proceeds the Issue	**PhP2,970,865,625**

The above expenses exclude Gross Receipts Tax and Value Added Tax, which are for the Company's account.

Aside from the foregoing one time costs, AboitizPower expects the following annual expenses related to the Series A Bonds:

1. Aside from the Listing Application Fee, the Issuer will be charged the first year annual maintenance fee in advance upon the approval of the Listing;

2. The Issuer will pay a yearly retainer fee to the Trustee amounting to PhP150,000 per annum;

3. After the Issue, a Paying Agency fee amounting to PhP100,000 is payable every Interest Payment Date. The Registrar will charge a monthly maintenance fee based on the face value of the Series A Bonds and the number of Bondholders; and

4. The Issuer will pay an annual monitoring fee to Philratings amounting to PhP560,000 (VAT inclusive). However, Philratings charges the annual monitoring fee to the Company in relation to all of its bonds outstanding.

The net proceeds from the Offer is estimated to be PhP2,970,865,625 after deducting expenses related to the Offer and will be used by the Company to finance equity infusions into GNPD.

Aboitiz Power, through its subsidiary TPI, acquired GNPD on 27 December 2016, by purchasing 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.) This resulted to TPI's acquisition of 40% beneficial ownership interest in GNPD.

GNPower Dinginin is a limited partnership organized and established in 2014 with the primary purpose of: (a) developing, constructing, operating, and owning an approximately 2x668 MW (net) supercritical coal-fired power plant to be located at Mariveles, Province of Bataan; (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.

GNPD will be constructed in two phases. The first phase will be for one 668 MW (net) unit (Unit 1) and associated ancillary facilities supporting the full operations of Unit 1 (Dinginin Project). The second phase will be for an additional 668 MW (net) unit (Unit 2) and associated ancillary facilities required to support the full operations of Unit 2, (Dinginin Expansion Project).

GNPD is co-developed by: (i) Power Partners, (ii) AC Energy Holdings, Inc. (ACEHI), a wholly owned subsidiary of Ayala Corporation, and (iii) The Company, through its wholly-owned subsidiary, TPI.

GNPD successfully achieved its financial closing and started the construction of Unit 1 in September 2016 with target delivery in 2018. To date, GNPD has already signed Power Purchase and Sale Agreements with 27 highly-rated distribution utilities and it also intends to register with the ERC as a RES in order to enable GNPD to enter into forward contract with prospective Contestable Customers.

AbotizPower expects to disburse the bond proceeds via equity infusion to GNPDto be completed by Q1 of 2018.

The foregoing discussion represents an estimate of the Company's net proceeds from the Issue based on current plans and anticipated expenditures. Any or all of the foregoing purposes, without preference, will be financed by the proceeds from the Offer as well as the internally generated cash and/or any new or existing credit facilities of the Company. No part of the proceeds will be used to reimburse any officer, director, employee or shareholder for service rendered, assets previously transferred, money loaned or advanced, or otherwise. Actual allocation of net proceeds by the Company may vary from the foregoing discussion as management may find it necessary or advisable to reallocate the net proceeds within the categories described above. Other than the gross underwriting fees and professional fees, no part of the proceeds shall be used to pay or reimburse the Underwriter or its parent companies, subsidiaries, or affiliates.

PLAN OF DISTRIBUTION

THE OFFER

On 19 April 2017, AboitizPower filed a Registration Statement with the SEC, in connection with the offer and sale to the public of debt securities with an aggregate principal amount of Thirty Billion Pesos (Php30,000,000,000), under shelf registration, inclusive of the Offer. The SEC is expected to issue an order rendering the Registration Statement effective, and a corresponding permit to offer securities for sale covering the Offer.

SHELF REGISTRATION OF SECURITIES NOT COVERED BY THE OFFER

After the close of the Offer and within three years following the date of the effectivity of the Registration Statement, AboitizPower may, at its sole discretion, offer any or all of the remaining balance of the aggregate principal amount debt securities covered by such registration statement, in subsequent tranches under Rule 8.1.2 of the Securities Regulation Code's 2015 Implementing Rules and Regulations. Such a shelf registration provides AboitizPower with the ability to conduct such an offering within a comparatively short period of time. AboitizPower believes that such shelf registration provides the Company with the increased ability to take advantage of opportunities in a volatile debt capital market, as these occur. Any subsequent offering under such rule requires the submission by AboitizPower of the relevant updates and amendments to the registration statement and the issuance of the corresponding Permit to Sell by the SEC. As a listed company, AboitizPower regularly disseminates such updates and information in its disclosures to the SEC and PSE.

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

UNDERWRITING OBLIGATIONS OF THE UNDERWRITER

BPI Capital, pursuant to the Underwriting Agreement with AboitizPower, has agreed to act as the Underwriter for the Offer and as such, distribute and sell the Series A Bonds at the Issue Price, and have also committed to underwrite Three Billion Pesos (Php3,000,000,000) on a firm basis, for the first tranche of the Series A Bonds, subject to the satisfaction of certain conditions and in consideration for certain fees and expenses. The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to AboitizPower of the net proceeds of the Offer. In case the Underwriting Agreement is terminated, the Company shall notify SEC of the termination and its subsequent course of action.

BPI Capital is the sole Issue Manager for this transaction.

The Underwriter will receive a fee of thirty basis points (0.30%) (which shall be grossed-up for GRT of 7%) on the underwritten principal amount of the Series A Bonds issued. Such fee shall be inclusive of underwriting and participation commissions.

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

The Underwriter is a sister company of the Trustee, which are both wholly-owned subsidiaries of the Bank of the Philippine Islands.

The Underwriter has no contract or other arrangement with the Company by which it may return to the Company any unsold Series A Bonds.

BPI Capital is the wholly-owned investment banking subsidiary of the Bank of the Philippine Islands and is duly licensed by the SEC to engage in the underwriting and distribution of securities. BPI Capital offers investment banking services in the areas of financial advisory, mergers and acquisitions, debt and equity underwriting, private placement, project finance and loan syndication. It began operations as an investment house in December 1994. As of September 30, 2016, BPI Capital had total assets of PhP5.8 billion and total capital funds of PhP5.7 billion.

SALE AND DISTRIBUTION

The distribution and sale of the Series A Bonds shall be undertaken by the Underwriter who shall sell and distribute the Series A Bonds to third party buyers/investors. The Underwriter is authorized to organize a syndicate of sub-underwriters, soliciting dealers and/or selling agents for the purpose of the Offer; provided, however, that the Underwriter shall remain solely responsible to the Issuer in respect of its obligations under the Underwriting Agreement entered into by them with the Issuer and the Issuer shall not be bound by any of the terms and conditions of any agreement entered into by the Underwriter with such other parties. Nothing herein shall limit the rights of the Underwriter from purchasing the Series A Bonds for its respective accounts.

TERM OF APPOINTMENT

The engagement of the Underwriter shall subsist so long as the SEC Permit to Sell remains valid, unless otherwise terminated pursuant to the Underwriting Agreement.

MANNER OF DISTRIBUTION

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

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

OFFER PERIOD

The Offer Period shall commence on [9 June 2017] and end on [16 June 2017].

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

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

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

a. Proof of Tax Exemption

   i. For corporations enumerated under Section 30 of the Tax Code (except those under Section 30(H) which shall be governed by the second paragraph below, and those under Section 30(G) which shall be governed by the fourth paragraph below), and cooperatives duly registered with the Cooperative Development Authority – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue ("BIR") not more than three (3) years before the date of each Interest Payment Date;
   ii. For BIR-approved retirement benefit plan, and non-stock, non-profit educational institutions – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;
   iii. For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;
   iv. For Government-owned or -controlled corporations – copy of the valid and subsisting law creating them;
   v. For foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments – (i) Consularized certification issued by their Ministry of Finance, or its equivalent in their country of residence, stating that the Bondholder's income is exempt from income tax, and (ii) consularized copy of the law, charter or agreement creating them, which should be written in English or accompanied with English translation;

b. With respect to tax treaty relief:

   i. The original of the duly accomplished Certificate of Residence for Tax Treaty Relief ("CORTT") Form, both Parts I and II thereof, prescribed under Revenue Memorandum Order No. 8-2017, which should be consularized if executed outside the Philippines. If the Applicant prefers, Part II (A), (B), (C), and (D) of the CORTT Form may be excuted by the Applicant's authorized represetative in the Philippines; and
   ii. If the Applicant prefers, the duly consularized certificate of residence prescribed in their country of residence, together with Part I (A), (B), and (C) of the CORTT Form, and Part II (A), (B), (C), and (D) of the CORTT Form. If the Applicant prefers, Part II (A), (B), (C), and (D) of the CORTT Form may be excuted by the Applicant's authorized representative in the Philippines.

   In addition to the foregoing:

   i. At least 30 calendar days before the validity period of the certificate of residence submitted by the Applicant to the Underwriter expires, the Applicant, without the need for notice or demand from the Underwriter, shall submit a new certificate of residence to the Underwriter. The new certificate of residence, whether using Part I of the CORTT Form or the form prescribed in the Applicant's country of residence, shall be consularized if executed outside the Philippines; and
   ii. At least two (2) Banking Days before each Interest Payment Date, the Applicant shall submit to the Underwriter a duly accomplished Part II (A), (B), (C), and (D) of the CORTT Form, which may be executed by the Applicant's authorized representative in the Philippines.

c. A duly notarized declaration (in the prescribed form) warranting the Bondholder's tax-exempt status or entitlement to preferential treaty rates and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and

d. Such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

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

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

MINIMUM PURCHASE

A minimum purchase of Php50,000.00 shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of Php10,000.00.

ALLOTMENT OF THE BONDS

If the Series A Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice subject to AboitizPower's exercise of its right of rejection.

ACCEPTANCE OF APPLICATIONS

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

REFUNDS

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

SECONDARY MARKET

AboitizPower intends to list the Series A Bonds at the PDEx. AboitizPower may purchase the Series A Bonds at any time, in the open market or by tender or by contract at any price, without any obligation to make pro rata purchases of Bonds from all Bondholders.

REGISTRY OF BONDHOLDERS

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

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

DESCRIPTION OF THE OFFER

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

The shelf registration of the Bonds and the corresponding issue of Php3,000,000,000 aggregate principal amount of Series A Bonds at [•]% p.a. were authorized by a resolution of the Board of Directors of AboitizPower (the "Issuer") dated March 23, 2017.

The Series A Bonds shall be constituted by a Trust Agreement executed on [•] (the "Trust Agreement") entered into between the Issuer and BPI Asset Management and Trust Corporation (the "Trustee"), which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement. The description of the terms and conditions of the Series A Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement.

A registry and paying agency agreement executed on [•] (the "Registry and Paying Agency Agreement") in relation to the Series A Bonds among the Issuer, Philippine Depository & Trust Corporation as paying agent (the "Paying Agent") and as registrar (the "Registrar").

The Series A Bonds shall be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of Fifty Thousand Pesos (Php50,000.00) and in multiples of Ten Thousand Pesos (Php10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (Php10,000.00) in the secondary market.

The Series A Bonds shall mature on [•], unless earlier redeemed by the Issuer pursuant to the terms thereof and subject to the provisions on redemption and payment below.

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

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

FORM AND DENOMINATION

The Series A Bonds are in scripless form, and shall be issued in denominations of Fifty Thousand Pesos (Php50,000.00) each as a minimum and in multiples of Ten Thousand Pesos (Php10,000.00) thereafter and traded in denominations of Ten Thousand Pesos (Php10,000.00) in the secondary market.

TITLE

Legal title to the Series A Bonds shall be shown in the Registry Book maintained by the Registrar. A notice confirming the principal amount of the Series A Bonds purchased by each applicant in the Offering shall be issued by the Registrar to all Bondholders following the Issue Date. Upon any assignment, title to the Series A Bonds shall pass by recording of the transfer from the transferor to the transferee in the electronic Registry Book maintained by the Registrar. Settlement in respect of such transfer or change of title to the Series A Bonds, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

BOND RATING

The Series A Bonds have been rated PRS [•] by Philippine Rating Services Corporation ("Phil Ratings"). A rating of PRS [•].

[•]

The rating is subject to regular annual reviews, or more frequently as market developments may dictate, for as long as the Series A Bonds are outstanding. After Issue Date, the Trustee shall monitor the compliance of the Series A Bonds with the regular annual reviews.

TRANSFER OF BONDS

Registry Book

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

Transfers; Tax Status

The Series A Bonds may be transferred upon exchange of confirmation of sale and confirmation of purchase, or by book entry in recording platforms maintained by approved securities dealers. The Registrar shall ultimately and conclusively determine all matters regarding the evidence necessary to effect any such transfers. Settlement in respect of such transfers or change of title to the Series A Bonds, including the settlement of any documentary stamps taxes, if any, arising from subsequent transfers, shall be settled directly between the transferee and/or the transferor Bondholders. Subject to the provisions of the Registry and Paying Agency Agreement, Bondholders may transfer their Bonds at any time, regardless of tax status of the transferor vis-à-vis the transferee. Transfers across tax categories shall not be allowed except on Interest Payment Dates that fall on a business day. Restricted transfers include, but are not limited to, transfers between taxable and non-taxable entities, between taxable entities of different tax categories (where tax-withheld entities with different final withholding tax rates (e.g. 20%, 25%, 30%) are considered as belonging to different tax categories), or between parties who claim the benefit of a tax treaty; provided, however, that transfers from a tax-exempt category to a taxable tax category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name to ensure that the computation is based on the final withholding tax rate of the taxable party to the trade. For such transactions, the tax-exempt entity shall be treated as belonging to the same tax category as its taxable counterpart for the interest period within which such transfer occurred. A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under the Registry and Paying Agency Agreement within three days from the settlement date for such transfer and upon submission of the account opening documents to Registrar. Transfers taking place in the Register of Bondholders after the Series A Bonds are listed on PDEx shall be allowed between tax-exempt and non tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions, and guidelines of PDEx and PDTC.

Secondary Trading of the Series A Bonds

The Issuer intends to list the Series A Bonds at PDEx for secondary market trading or such other securities exchange as may be licensed as such by the SEC on which the trading of debt securities in significant volumes occurs. Secondary market trading in PDEx shall follow the applicable PDEx rules and conventions, among others, rules and conventions on trading and settlement. Upon listing of the Series A Bonds with PDEx, investors shall course their secondary market trades through PDEx Brokering Participants for execution in the PDEx Public Market Trading Platform in accordance with PDEx Trading Rules, Conventions and Guidelines, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The PDEx rules and conventions are available in the PDEx website (www.pds.com.ph). An Investor Frequently Asked Questions (FAQ) discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEx website.

RANKING

The Series A Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of the Issuer and shall rank *pari passu* and rateably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by the Issuer pursuant to Section 5.01 (a) of the Trust Agreement or as may be allowed by the Trust Agreement, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of Issue Date. The Series A Bonds shall effectively be subordinated in right of payment to, among others, all of AbotizPower's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines.

INTEREST

Interest Payment Dates

The Series A Bonds bear interest on its principal amount from and including Issue Date at the rate of [•]% p.a., payable quarterly starting on [•] for the first interest payment date, and [•], [•], [•], and [•] of each year for each subsequent Interest Payment Date at which the Series A Bonds are outstanding, or the subsequent Business Day, without adjustment, if such Interest Payment Date is not a Business Day. The last Interest Payment Date shall fall on the Maturity Date.

The cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due shall be the day two (2) Business Days prior to the relevant Interest Payment Date (the "Record Date"), which shall be the reckoning day in determining the Bondholders entitled to receive interest, principal or any other amount due under the Series A Bonds. No transfers of the Series A Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Date.

Interest Accrual

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

Determination of Interest Amount

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

REDEMPTION AND PURCHASE

Final Redemption

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

Optional Redemption

Prior to Maturity Date, the Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), the outstanding Bonds on the any Interest Payment Date, or the immediately succeeding Banking Day if such date is not a Banking Day, on and after [five (5)] years from the Issue Date (any such date, the "Optional Redemption Date").

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

The amount payable to the Bondholders in respect of the Optional Redemption exercise (the "Optional Redemption Price") shall be calculated based on the principal amount of the Series A Bonds being redeemed as the aggregate of the: (i) accrued interest computed up to the relevant Optional Redemption Date; and (ii) the product of the principal amount and [100.25%] (the 0.25% in excess of the par amount referred to as the "Prepayment Penalty").

Redemption for Taxation Reasons

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

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

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

Mandatory Redemption

If any one or more of the following events shall occur, in the reasonable opinion of the Bondholders holding at least two-thirds (2/3) of the principal amount of the Bonds then outstanding for the events contemplated in (1), (2) or (3) below or the Majority Bondholders for the events contemplated in (4) below (and with written notice to the Trustee), and be continuing for a period of fifteen (15) Banking Days with respect to the events contemplated in (1) or (3) below:

1. Any law, government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Series A Bonds which shall be modified in a manner which, in the reasonable opinion of the Trustee, while not constituting an Event of Default, will materially and adversely affect the ability of the Issuer to comply with such obligations, or shall be withdrawn or withheld;

2. Any provision of the Trust Agreement or any of the related documents is or becomes, by reason of any final judgment or order by a court of competent authority, or any final and effective law, rule, or regulation, invalid, illegal, or unenforceable to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part, or any law is introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Agreement or any other related documents;

3. Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, canceled, or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, by reason of any final judgment or order by a court of competent authority, or any final and effective act of any Government Authority, or ay final and effective law, rule, or regulation, in such a manner as to materially and adversely affect the financial condition or operations of the Issuer; and

4. Any Government Authority or any competent authority condemns, seizes, or expropriates all or substantially all of the assets or properties of the Issuer, unless such act is contested in good faith by the Issuer or unless such act is suspended or restrained by an order of a court of competent jurisdiction;

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

Purchase

The Issuer may at any time purchase any of the Series A Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase Series A Bonds pro-rata from all Bondholders.

Payments

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

Payment of Additional Amounts - Taxation

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

1. The applicable final withholding tax applicable on interest earned on the Series A Bonds prescribed under the Tax Code, as amended and its implementing rules and regulations as maybe in effect from time to time. An investor who is exempt from the aforesaid withholding tax, or is subject to a

preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:

a. Proof of Tax Exemption

   i. For corporations enumerated under Section 30 of the Tax Code (except those under Section 30(H) which shall be governed by the second paragraph below, and those under Section 30(G) which shall be governed by the fourth paragraph below), and cooperatives duly registered with the Cooperative Development Authority – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue ("BIR") not more than three (3) years before the date of each of Interest Payment Date;
   ii. For BIR-approved retirement benefit plan, and non-stock, non-profit educational institutions – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;
   iii. For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;
   iv. For Government-owned or -controlled corporations – copy of the valid and subsisting law creating them;
   v. For foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments – (i) Consularized certification issued by their Ministry of Finance, or its equivalent in their country of residence, stating that the Bondholder's income is exempt from income tax, and (ii) consularized copy of the law, charter or agreement creating them, which should be written in English or accompanied with English translation;

b. With respect to tax treaty relief:

   i. The original of the duly accomplished Certificate of Residence for Tax Treaty Relief ("CORTT") Form, both Parts I and II thereof, prescribed under Revenue Memorandum Order No. 8-2017, which should be consularized if executed outside the Philippines. If the Applicant prefers, Part II (A), (B), (C), and (D) of the CORTT Form may be excuted by the Applicant's authorized represetative in the Philippines; and
   ii. If the Applicant prefers, the duly consularized certificate of residence prescribed in their country of residence, together with Part I (A), (B), and (C) of the CORTT Form, and Part II (A), (B), (C), and (D) of the CORTT Form. If the Applicant prefers, Part II (A), (B), (C), and (D) of the the CORTT Form may be excuted by the Applicant's authorized representative in the Philippines.

   In addition to the foregoing:

   i. At least 30 calendar days before the validity period of the certificate of residence submitted by the Applicant to the Underwriter expires, the Applicant, without the need for notice or demand from the Underwriter, shall submit a new certificate of residence to the Underwriter. The new certificate of residence, whether using Part I of the CORTT Form or the form prescribed in the Applicant's country of residence, shall be consularized if executed outside the Philippines; and
   ii. At least two (2) Banking Days before each Interest Payment Date, the Applicant shall submit to the Underwriter a duly accomplished Part II (A), (B), (C), and (D) of the CORTT Form, which may be executed by the Applicant's authorized representative in the Philippines.

c. A duly notarized declaration (in the prescribed form) warranting the Bondholder's tax-exempt status or entitlement to preferential treaty rates and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and

d. Such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

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

2. Any applicable taxes on other income due to any Bondholder arising from the Series A Bonds, including but not limited to the Prepaymetn Penalty, if and when applicable;

3. Gross Receipts Tax under the Tax Code;

4. Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and

5. Value Added Tax ("VAT") under the Tax Code, as amended. Documentary stamp tax for the primary issue of the Series A Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

FINANCIAL RATIOS

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

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

For the schedule of the Issuer's relevant financial ratios as of December 2016, December 2015, and December 2014, please refer to the section entitled "*Financial Ratios.*"

EVENTS OF DEFAULT

Each of the following events constitutes an Event of Default.

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

   The Issuer fails to pay when due and payable any other amount payable by the Issuer in respect of the Series A Bonds and under the Trust Agreement in the manner, at the place, and in the currency in which it is expressed to be payable, and such non-payment continues for thirty (30) days from the date such payment is due. These other amounts include: (i) Penalty Interest, insofar as the payment of such interest is concerned; and, (ii) any gross up payments, if any when there is a Redemption for Taxation Reasons.

2. **Representation Default.** Except for clerical or typographical error, any representation or warranty made by the Issuer in the Trust Agreement or in any document issued pursuant thereto or otherwise in connection therewith shall prove to have been untrue, incorrect, or misleading in any material respect as at the time it was made or deemed to have been made or is violated or not complied with,

and the circumstances which cause such representation or warranty to be incorrect or misleading continue for not less than thirty (30) days (or such longer period as the Majority Bondholders shall approve) after receipt of written notice from the Trustee to that effect.

3. **Other Provisions Default.** The Issuer fails to perform or comply with any other [material] term, obligation, or covenant contained in the Trust Agreement or in any other document or instruments related or otherwise in connection therewith and any such failure, violation, non-compliance is not remediable or if remediable, continues unremedied for a period of ninety (90) days for financial covenants and sixty (60) days for all other covenants from the date after written notice thereof shall have been given by the Trustee; Provided, however, that for the avoidance of doubt, no additional grace period shall apply to the Events of Default.

4. **Cross-Default.** The Issuer violates any other material obligation by the Issuer with any bank, financial institution or other person, corporation or entity for the payment of borrowed money which constitutes an event of default under said contract, or in general, violation of any, law or regulation which violation, if remediable, is not remedied by the Issuer within thirty (30) Banking Days from receipt of notice by the Trustee to the Issuer, or which violation is otherwise not contested by the Issuer, and the effect of such violation results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; and which violation will, further, in the reasonable opinion of the Trustee, adversely and materially affect the performance by the Issuer of its obligations under this Agreement and the Series A Bonds. Provided, however, that no event of default will occur under this paragraph unless the aggregate amount of indebtedness in respect of which one or more of the events above mentioned has/have occurred equals or is in excess of [five percent (5%)] of the Fair Market Value of Assets (as defined).

5. **Insolvency Default.** The Issuer becomes insolvent or is unable to pay its debts when due or commits or permits any act of bankruptcy, which act shall include: (i) the filing of a petition in any bankruptcy, reorganization, winding up or liquidation of the Issuer, or any other proceeding analogous in purpose and effect: Provided, however, that in case the foregoing petition is filed by any other party, other than the Issuer, such event shall be considered a declared Event of Default only upon the issuance of a final order by the court of competent authority; (ii) the making of an assignment by the Issuer of substantially all or all of its assets, or in fraud of creditors; (iii) the admission in writing by the Issuer of its inability to pay its debts; (iv) the entry of any final order or judgment of any court, tribunal, or administrative agency or body confirming the bankruptcy or insolvency of the Issuer or approving any reorganization, winding up or liquidation of the Issuer; or (v) the appointment of a receiver, liquidator, assignee, trustee, or sequestrator of the Issuer, or a substantial part of its property or assets or a substantial part of its capital stock or to assume custody or control of the Issuer, or the ordering of its dissolution, winding-up or liquidation of its affairs.

6. **Closure Default.** The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days, except that if the closure is: (i) due to strikes or lockouts; or (ii) necessary to prevent business losses; or (iii) due to fortuitous events or force majeure, then such closure shall not be deemed a Closure Default.

7. **Judgment Default.** Any final judgment, decree or arbitral award for the sum of money, damages or for a fine or penalty in excess of 20% of the Issuer's Fair Market Value of Assets or its equivalent in any other currency is entered against the Issuer and any relevant period specified for payment in such judgment, decree, order, or agreement, shall have expired without being satisfied, discharged, or stayed; and

8. **Writ and Similar Process Default.** Any writ, warrant of attachment or execution, or similar process shall be issued or levied against all or substantially all of the Issuer's assets, and such writ, warrant, or similar process shall not be released, vacated, or fully bonded within sixty (60) days after its issue or levy (or such longer period as the Issuer satisfies the Majority Bondholders as appropriate under the circumstances).

CONSEQUENCES OF DEFAULT

Declaration

1. If any one or more of the Events of Default shall occur and be continuing, the Trustee, upon the written direction of the Bondholders holding at least two-thirds (2/3) of the outstanding amount of the Series A Bonds, by notice in writing delivered to the Issuer, may declare the principal of the Series A Bonds then outstanding, including all interest accrued and unpaid thereon and all amounts due thereunder, to be due and payable immediately, anything contained in this Agreement or in the Series A Bonds to the contrary notwithstanding.

2. The provision above, however, is subject to the condition that the Majority Bondholders, by written notice to the Issuer and to the Trustee, may rescind and annul such declaration made by the Trustee pursuant to a consequence of default and its consequences, upon such terms, conditions and agreements, if any, as they may determine, including, in connection with a Cross Default, the fact that the non-payment of the obligation is contested in good faith by the Issuer; provided, that, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereto. Any such waiver shall be conclusive and binding upon all the Bondholders and upon all future holders and owners of such Series A Bonds, or of any Series A Bond issued in lieu thereof or in exchange therefor, irrespective of whether or not notation of such waiver is made upon the Series A Bonds.

3. At any time after an Event of Default shall have occurred, the Trustee may:

    a. by notice in writing to the Issuer, the Registrar, and the Paying Agent, require the Registrar and Paying Agent to:

        i. act thereafter as agents of the Bondholders represented by the Trustee on the terms provided in the Registry and Paying Agency Agreement (with consequential amendments as necessary and save that the Trustee's liability under the provisions thereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Paying Agent and the Registrar shall be limited to amounts for the time being held by the Trustee on the trusts of this Agreement in relation to the Series A Bonds and available to the Trustee for such purpose) and thereafter to hold all sums, documents and records held by them in respect of the Series A Bonds on behalf of the Trustee; and/or

        ii. deliver all evidence of the Series A Bonds and all sums, documents and records held by them in respect of the Series A Bonds to the Trustee or as the Trustee shall direct in such notice; provided, that, such notice shall be deemed not to apply to any document or record which the Paying Agent or Registrar is not obliged to release by any Applicable Law; and

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

Notice of Default

The Trustee shall, within ten (10) days after the occurrence of an Event of Default give to the Bondholders written notice of any such Event of Default known to it unless the same shall have been cured before the giving of such notice; provided, that, in the case of a Payment Default, the Trustee shall, upon written notice from the Paying Agent of the Issuer's failure to pay any amount of principal or interest which the Issuer is obligated to pay the Bondholders under the Trust Agreement and the Series A Bonds, immediately notify the Bondholders upon the occurrence of such Payment Default; provided further, that such written notice from the Paying Agent shall not be required if the Issuer's failure to pay was caused by a technical error or by reasons beyond the control of the Issuer. The existence of a written notice required to be given to the Bondholders under this Section shall be published in two (2) newspapers of general circulation in Metro

Manila, Philippines for two (2) consecutive days, indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Series A Bonds at the principal office of the Trustee as indicated in this Agreement upon presentation of sufficient and acceptable identification to the Trustee.

Penalty Interest

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

Payments in the Event of Default

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

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

Application of Payments

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

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

Second: To the payment of Penalty Interest.

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

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

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

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

Remedies

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

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

Ability to File Suit

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

Waiver of Default by Bondholders

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

MEETINGS OF BONDHOLDERS

Meetings

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

Notice of Meetings

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

Failure of Trustee to Call a Meeting

In case at any time the Issuer, pursuant to a resolution of its board of directors, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Series A Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, the notice of such meeting within twenty (20) days after receipt of such request, then the Issuer or the holders of Bonds in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof, and the costs thereof shall be chargeable to the Trustee.

Quorum

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

Procedure for Meetings

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

Any meeting of the Bondholders duly called pursuant to the provisions of this Section may be adjourned from time to time for a period or periods not to exceed in the aggregate one (1) year from the date for which the meeting shall originally have been called, and the meeting so adjourned may be held on another date without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Series A Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of the Series A Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of such meeting. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representative of the Issuer and its legal counsel.

Voting Requirement

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

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

Role of the Trustee in Meetings of Bondholders

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

Evidence Supporting Bondholders' Action

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

Duties and Responsibilities of the Trustee

The Trustee shall act as trustee for and in behalf of the Bondholders and as such shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the Issuer’s observance of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters to be taken up with the Issuer.

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

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

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

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

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

The Trustee shall inform the Bondholders of any event which has a Material Adverse Effect on the ability of the Issuer to comply with its obligations to the Bondholders, breach of representations and warranties, and Events of Default within a reasonable period from the time that the Trustee learns of such events.

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

Supplemental Agreements

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

1. Without the consent of each Bondholder affected thereby:

   a. extend the fixed maturity of the Series A Bonds, or
   b. reduce the principal amount of the Series A Bonds, or
   c. reduce the rate or extend the time of payment of interest and principal thereon;

2. Affect the rights of some of the Bondholders without similarly affecting the rights of all the Bondholders; or

3. Reduce the percentage required to be obtained of the Bondholders to consent to or approve any supplemental agreement or any waiver provided for in this Agreement without the consent of all the Bondholders.

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

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

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

MISCELLANEOUS PROVISIONS

Notice

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

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

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

Binding and Conclusive Nature

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

Dispute Settlement

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

No Right to Set-Off

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

Governing Law

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

CAPITALIZATION

The following presents a summary of the short-term debts, long-term debts, and capitalization of the Group as of December 31, 2016, and as adjusted to reflect the issue of the Series A Bonds:

	As of December 31, 2016	As adjusted for Php3 bn issue
	(in Php mns)	
Short-term debt		
Short-term loans	4,156	4,156
Current portions of:		
Long-term debt	7,458	7,458
Finance lease obligation	2,968	781
Total short-term debts	14,582	14,582
Long-term debts – net of current portion		
Non-current portions of:		
Long-term debt	150,263	150,263
Finance lease obligation	49,372	49,372
The issue of Bonds	–	3,000
Total long-term debts	199,635	202,635
Equity		
Equity attributable to equity holders of the parent	105,114	105,114
Non-controlling interests	6,515	6,515
Total Equity	111,629	111,629
Total Capitalization	325,846	328,846

ANNEXES TO THE PRELIMINARY PROSPECTUS

1. Audited Financial Statements for the fiscal year ended 31 December 2016, **Annex A**
2. Audited Financial Statements for the fiscal year ended 31 December 2015, **Annex B**

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)
628	May/16	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.

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 consolidated financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015 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 7th day of March 2017

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 26635742	September 24, 2013, Manila February 13, 2017, Cebu City
ERRAMON I. ABOITIZ	EB7151577 26533114	January 14, 2013; Cebu City January 24, 2017, Cebu City
LIZA LUV T. MONTELIBANO	EC1111684 25044302	May 16, 2014, NCR South January 26, 2017, Makati City

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 07 2017.

Doc. No. 101;

Page No. 22;

Book No. IV;

Series of 2017

ATTY. NEILSTER JON S. ASINAS
ROLL NO. 55253
NOTARY PUBLIC
TAGUIG CITY, PHILS.

Atty. Neilster Jon S. Asinas
Notary Public for Taguig City
Notarial Commission No. 25
Until December 31, 2017
NAC Tower, 32nd Street, Bonifacio Global City, Taguig City
PTR No. A-3162296; Taguig City; January 05, 2017
IBP Lifetime Membership No. 09307
Roll No. 55253
MCLE No. V-0015211

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

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, 2016 and 2015, 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, 2016, 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 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 Combinations: Acquisition of GNPower Mariveles Coal Plant Ltd. Co. (GMCP) and GNPower Dinginin Ltd. Co. (GNPD)

As disclosed in Note 9 to the consolidated financial statements, on October 4, 2016, the Group, through Therma Power, Inc. (TPI), entered into a Purchase and Sale Agreement to acquire partnership interests in GMCP and GNPD held by affiliated investment funds of The Blackstone Group L.P. for US$1.2 billion. We consider the accounting for this acquisition to be a key audit matter due to the transaction's financial significance to the Group and significant management's judgment involved in determining the acquisition date and the existence of control.

Philippine Financial Reporting Standards (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. As of December 31, 2016, the accounting for this business combination was provisionally determined.

Audit Response
We obtained an understanding of the transaction through discussions with management and our review of the Purchase and Sale Agreement. We also reviewed management's accounting for the business acquisition, including the provisional purchase price allocation and goodwill, and the assessment of control in accordance with PFRS 3, *Business Combinations*, and PFRS 10, *Consolidated Financial Statements*. We evaluated management's assessment of the acquisition date and performed procedures to check the results of operations commencing from the acquisition date. We also evaluated the presentation and the disclosure of the transaction in the consolidated financial statements.

Accounting for Business Combinations: Increased ownership in East Asia Utilities Corporation (EAUC)

As disclosed in Note 9 to the consolidated financial statements, on June 14, 2016, APC, through TPI, acquired the remaining 50% ownership interest in EAUC from El Paso Philippines Energy Company, Inc. for ₱513.2 million, and consolidated EAUC as of the acquisition date. As of December 31, 2016, EAUC is a wholly owned subsidiary of Aboitiz Power Corporation. Based on the quantitative materiality of the acquisition and the significant degree of management judgment that the remeasurement of previously-held interest and purchase price allocation requires, we have determined this to be a key audit matter.

Consolidation Process

As disclosed in Note 2 to the consolidated financial statements, AP 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, 2016, 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, 2016 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leovina Mae V. Chu.

SYCIP GORRES VELAYO & CO.

Leovina Mae V. Chu

Leovina Mae V. Chu
Partner
CPA Certificate No. 99910
SEC Accreditation No. 1199-AR-1 (Group A),
June 22, 2015, valid until June 21, 2018
Tax Identification No. 209-316-911
BIR Accreditation No. 08-001998-96-2015,
January 5, 2015, valid until January 4, 2018
PTR No. 5908776, January 3, 2017, Makati City

March 7, 2017

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	₱47,094,741	₱51,098,269
Trade and other receivables (Note 6)	15,465,121	13,692,393
Derivative assets (Note 34)	188,417	185,283
Inventories (Note 7)	4,452,812	2,040,603
Other current assets (Note 8)	6,448,096	3,392,473
Total Current Assets	73,649,187	70,409,021
Noncurrent Assets		
Property, plant and equipment (Note 12)	192,633,546	134,810,627
Investments and advances (Note 10)	30,595,989	22,551,845
Intangible assets (Note 13)	43,642,533	7,592,720
Investment properties	3,300	3,300
Derivative assets - net of current portion (Note 34)	977,770	378,083
Available-for-sale (AFS) investments - net of allowance for impairment of ₱5,254	100,309	3,620
Net pension assets (Note 27)	45,667	34,777
Deferred income tax assets (Note 29)	2,115,951	584,879
Other noncurrent assets (Note 14)	11,011,983	6,120,374
Total Noncurrent Assets	281,127,048	172,080,225
TOTAL ASSETS	₱354,776,235	₱242,489,246
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans (Note 16)	₱4,155,600	₱2,568,000
Current portions of:		
Long-term debts (Note 17)	7,458,363	2,368,161
Finance lease obligation (Note 35)	2,968,491	2,583,754
Long-term obligation on power distribution system (Note 13)	40,000	40,000
Derivative liabilities (Note 34)	127,442	–
Trade and other payables (Note 15)	17,398,218	14,140,576
Income tax payable (Note 29)	654,392	852,709
Total Current Liabilities	32,802,506	22,553,200

(Forward)

	December 31	
	2016	2015
Noncurrent Liabilities		
Noncurrent portions of:		
Long-term debts (Note 17)	₱150,263,301	₱56,006,863
Finance lease obligation (Note 35)	49,371,713	51,085,100
Long-term obligation on power distribution system (Note 13)	197,248	207,184
Customers' deposits (Note 18)	6,831,242	6,383,278
Derivative liabilities - net of current portion (Note 34)	233,435	–
Asset retirement obligation (Note 19)	1,821,577	3,016,528
Net pension liabilities (Note 27)	247,387	492,848
Deferred income tax liabilities (Note 29)	1,043,996	1,130,678
Other noncurrent liabilities (Notes 11 and 36)	334,398	–
Total Noncurrent Liabilities	210,344,297	118,322,479
Total Liabilities	243,146,803	140,875,679
Equity Attributable to Equity Holders of the Parent		
Paid-in capital (Note 20a)	19,947,498	19,947,498
Other equity reserves:		
Excess of cost over net assets of investments (Note 9)	(526,883)	(421,260)
Acquisition of non-controlling interests	(259,147)	(259,147)
Accumulated other comprehensive income:		
Net unrealized loss on AFS investments	(3,311)	–
Share in net unrealized valuation gains on AFS investments of an associate (Note 10)	114,920	114,920
Cumulative translation adjustments (Note 34)	(78,232)	185,431
Share in cumulative translation adjustments of associates and joint ventures (Note 10)	(128,203)	(256,376)
Actuarial losses on defined benefit plans (Note 27)	(607,913)	(609,066)
Share in actuarial losses on defined benefit plans of associates and joint ventures (Note 10)	(1,878)	(3,748)
Retained earnings (Note 20b)		
Appropriated	34,060,000	20,900,000
Unappropriated (Notes 10 and 20c)	52,597,568	57,970,269
	105,114,419	97,568,521
Non-controlling Interests	6,515,013	4,045,046
Total Equity (Note 20c)	111,629,432	101,613,567
TOTAL LIABILITIES AND EQUITY	₱354,776,235	₱242,489,246

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31		
	2016	2015	2014
OPERATING REVENUES			
Sale of power (Notes 21 and 32):			
Distribution	₱44,585,832	₱41,379,270	₱39,975,961
Generation	35,692,441	33,368,797	36,877,070
Retail electricity supply	8,478,789	10,227,771	9,702,714
Technical, management and other fees (Note 32)	406,207	198,114	203,641
	89,163,269	85,173,952	86,759,386
OPERATING EXPENSES			
Cost of purchased power (Notes 22 and 32)	28,909,987	27,902,180	29,834,149
Cost of generated power (Note 23)	17,316,272	18,524,059	21,037,658
General and administrative (Note 24)	6,613,876	5,818,090	5,500,130
Depreciation and amortization (Notes 12 and 13)	6,043,527	4,322,000	4,643,302
Operations and maintenance (Note 25)	3,969,307	3,921,046	3,393,388
	62,852,969	60,487,375	64,408,627
FINANCIAL INCOME (EXPENSES)			
Interest income (Notes 5 and 32)	1,083,535	846,293	471,915
Interest expense and other financing costs (Notes 16, 17 and 33)	(7,704,011)	(6,633,858)	(5,994,097)
	(6,620,476)	(5,787,565)	(5,522,182)
OTHER INCOME (EXPENSES)			
Share in net earnings of associates and joint ventures (Note 10)	3,641,210	3,979,947	4,009,488
Other income (expenses) - net (Note 28)	1,669,212	(336,639)	591,925
	5,310,422	3,643,308	4,601,413
INCOME BEFORE INCOME TAX	25,000,246	22,542,320	21,429,990
PROVISION FOR INCOME TAX (Note 29)	3,496,140	3,589,669	3,424,089
NET INCOME	₱21,504,106	₱18,952,651	₱18,005,901
ATTRIBUTABLE TO:			
Equity holders of the parent	₱20,002,582	₱17,603,797	₱16,705,184
Non-controlling interests	1,501,524	1,348,854	1,300,717
	₱21,504,106	₱18,952,651	₱18,005,901
EARNINGS PER COMMON SHARE (Note 30)			
Basic and diluted, for income for the year attributable to ordinary equity holders of the parent	₱2.72	₱2.39	₱2.27

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2016	2015	2014
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the parent	₱20,002,582	₱17,603,797	₱16,705,184
Non-controlling interests	1,501,524	1,348,854	1,300,717
	21,504,106	18,952,651	18,005,901
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)	–	(4,167)	30,900
Movement in unrealized loss on AFS investments	(3,311)	–	–
Movement in cumulative translation adjustments, net of tax	(55,357)	147,340	62,602
Share in movement in cumulative translation adjustment of associates and joint ventures (Note 10)	128,173	119,113	13,068
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	69,505	262,286	106,570
Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:			
Actuarial gains (losses) on defined benefit plans, net of tax (Note 27)	1,221	(81,205)	170,244
Share in actuarial gains (losses) on defined benefit plans of associates and joint ventures, net of tax (Note 10)	496	44,841	(16,774)
Net other comprehensive gain (loss) not to be reclassified to profit or loss in subsequent periods	1,717	(36,364)	153,470
Total other comprehensive income for the year, net of tax	71,222	225,922	260,040
TOTAL COMPREHENSIVE INCOME	₱21,575,328	₱19,178,573	₱18,265,941
ATTRIBUTABLE TO:			
Equity holders of the parent	₱20,124,770	₱17,821,712	₱16,969,872
Non-controlling interests	1,450,558	1,356,861	1,296,069
	₱21,575,328	₱19,178,573	₱18,265,941

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in Thousands, Except Dividends Per Share)

	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)	Appropriated (Note 20b)	Unappropriated (Note 20b)	Non-controlling Interests	Total
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 (Note 9)	–	–	–	(257,966)	–	(1,374)	1,374	–	(105,623)	–	–	2,584,442	2,220,853
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	₱6,515,013	₱111,629,432

	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 cos 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

	Attributable to Equity Holders of the Parent												
	Paid-in Capital (Note 20a)	Net Unrealized Loss on AFS Investments	Share in Net Unrealized Valuation Gains on AFS Investments of an Associate (Note 10)	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 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	Total
Balances at January 1, 2014	₱19,947,498	₱–	₱88,187	(₱24,511)	(₱388,557)	(₱694,746)	(₱31,815)	(₱259,147)	₱–	₱–	₱68,991,854	₱3,621,994	₱91,250,757
Net income for the year	–	–	–	–	–	–	–	–	–	–	16,705,184	1,300,717	18,005,901
Other comprehensive income													
Share in net unrealized valuation gains on AFS investments of an associate	–	–	30,900	–	–	–	–	–	–	–	–	–	30,900
Movement in cumulative translation adjustments	–	–	–	62,602	–	–	–	–	–	–	–	–	62,602
Share in movement in cumulative translation adjustment of associates and joint ventures	–	–	–	–	13,068	–	–	–	–	–	–	–	13,068
Actuarial gains (losses) on defined benefit plans, net of tax	–	–	–	–	–	174,892	–	–	–	–	–	(4,648)	170,244
Share in actuarial losses on defined benefit plans of associates and joint ventures	–	–	–	–	–	–	(16,774)	–	–	–	–	–	(16,774)
Total comprehensive income (loss) for the year	–	–	30,900	62,602	13,068	174,892	(16,774)	–	–	–	16,705,184	1,296,069	18,265,941
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	(421,260)	–	–	–	(421,260)
Appropriation during the year	–	–	–	–	–	–	–	–	–	20,900,000	(20,900,000)	–	–
Cash dividends - ₱1.66 a share (Note 20b)	–	–	–	–	–	–	–	–	–	–	(12,215,283)	–	(12,215,283)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(1,141,673)	(1,141,673)
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	341,958	341,958
Balances at December 31, 2014	₱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

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱25,000,246	₱22,542,320	₱21,429,990
Adjustments for:			
Interest expense and other financing costs (Note 33)	7,704,011	6,633,858	5,994,097
Depreciation and amortization (Notes 12 and 13)	6,043,527	4,322,000	4,643,302
Net unrealized foreign exchange losses	1,505,671	1,390,459	188,018
Write-off of project costs and other assets (Note 13)	249,176	69,137	26,000
Impairment loss on goodwill (Note 13)	169,469	–	–
Unrealized fair valuation losses (gains) on derivatives (Note 34)	3,316	(317,645)	897
Impairment losses on AFS and investment in an associate (Note 10)	–	–	2,834
Fair valuation gain on investment property (Note 28)	–	–	(15,000)
Gain on redemption of shares (Note 28)	(16,051)	–	(4,904)
Gain on disposal of property, plant and equipment (Note 28)	(70,252)	(5,656)	(13,195)
Gain on remeasurement in step acquisition (Notes 9 and 28)	(350,939)	–	–
Interest income (Notes 5 and 32)	(1,083,535)	(846,293)	(471,915)
Share in net earnings of associates and joint ventures (Note 10)	(3,641,210)	(3,979,947)	(4,009,488)
Operating income before working capital changes	35,513,429	29,808,233	27,770,636
Decrease (increase) in:			
Trade and other receivables	401,465	(249,822)	200,799
Inventories	(996,007)	128,229	477,019
Other current assets	(1,831,918)	(1,453,104)	(202,403)
Increase (decrease) in:			
Trade and other payables	464,167	(421,548)	(2,834,127)
Long-term obligation on power distribution system	(40,000)	(40,000)	(40,000)
Customers' deposits	447,964	696,788	548,335
Net cash generated from operations	33,959,100	28,468,776	25,920,259
Income and final taxes paid	(4,071,120)	(3,269,179)	(2,482,280)
Net cash flows from operating activities	29,887,980	25,199,597	23,437,979
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash dividends received (Note 10)	7,847,263	4,071,041	4,618,730
Interest received	1,132,366	837,978	390,638
Proceeds from sale of property, plant and equipment	162,190	35,714	17,406
Proceeds from redemption of shares (Note 10)	57,076	2,677,204	31,599
Net collection of advances (Note 10)	–	285,520	101,835

(Forward)

	Years Ended December 31		
	2016	2015	2014
Proceeds from sale of AFS	₱–	₱–	₱200
Increase in other noncurrent assets	(6,055,228)	(636,988)	(1,915,107)
Additions to:			
Intangible assets - service concession rights (Note 13)	(45,875)	(20,046)	(36,286)
AFS investments	(100,000)	–	–
Equity investments (Note 10)	(11,821,307)	(451,655)	(2,500)
Property, plant and equipment (Note 12)	(28,203,291)	(15,701,414)	(15,003,744)
Acquisitions through business combinations, net of cash acquired (Note 9)	(44,353,542)	–	(1,182,366)
Net cash flows used in investing activities	(81,380,348)	(8,902,646)	(12,979,595)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of long-term debt - net of transaction costs (Note 17)	73,474,514	16,350,925	20,634,755
Net availments of short-term loans (Note 16)	1,587,600	2,465,000	103,000
Changes in non-controlling interests	(1,614,684)	(1,430,153)	(949,131)
Payments of:			
Long-term debt (Note 17)	(3,085,581)	(908,611)	(854,220)
Finance lease obligation (Note 35)	(7,517,917)	(7,482,447)	(6,970,625)
Interest paid	(3,145,421)	(2,228,186)	(1,367,428)
Cash dividends paid (Note 20b)	(12,215,283)	(12,215,283)	(12,215,283)
Net cash flows from (used in) financing activities	47,483,228	(5,448,755)	(1,618,932)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,009,140)	10,848,196	8,839,452
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	5,612	18,198	8,924
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	51,098,269	40,231,875	31,383,499
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	₱47,094,741	₱51,098,269	₱40,231,875

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Corporate Information

Aboitiz Power Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1998. The Company is a publicly-listed holding company of the entities engaged in power generation and power distribution in the Aboitiz Group. As of December 31, 2016, Aboitiz Equity Ventures, Inc. (AEV, also incorporated in the Philippines) owns 76.88% of the Company. The ultimate parent of the Company is Aboitiz & Company, Inc. (ACO).

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

The consolidated financial statements of the Group were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) of the Company on March 7, 2017.

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					
		2016		2015		2014	
		Direct	Indirect	Direct	Indirect	Direct	Indirect
Aboitiz Renewables, Inc. (ARI) and Subsidiaries	Power generation	100.00	–	100.00	–	100.00	–
AP Renewables, Inc. (APRI)	Power generation	–	100.00	–	100.00	–	100.00
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)*	Power generation	–	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
Kookaburra Equity Ventures, Inc.*	Holding company	–	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					
		2016		2015		2014	
		Direct	Indirect	Direct	Indirect	Direct	Indirect
Therma Power, Inc. (TPI) and Subsidiaries	Power generation	100.00	–	100.00	–	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
La Filipina Elektrika, Inc. (LFEI), formerly Therma Southern Mindanao, Inc.)[1]	Power generation	–	–	–	–	–	100.00
Therma Subic, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Therma Mariveles Holdings L.P. (a)	Holding company	–	100.00	–	–	–	–
Therma Mariveles, LLC (a)	Holding company	–	100.00	–	–	–	–
Therma Mariveles Consulting Services, LLC (a)	Holding company	–	100.00	–	–	–	–
Therma Mariveles Holding Cooperatief U.A. (a)	Holding company	–	100.00	–	–	–	–
Therma Mariveles B.V. (a)	Holding company	–	100.00	–	–	–	–
Therma Mariveles Holdings, Inc. (a)	Holding company	–	100.00	–	–	–	–
GNPower Mariveles Coal Plant Ltd. Co. (GMCP) (a)	Power generation	–	82.82	–	–	–	–
Therma Dinginin L.P. (a)	Holding company	–	100.00	–	–	–	–
Therma Dinginin, LLC (a)	Holding company	–	100.00	–	–	–	–
Therma Dinginin Offshore Services Inc. (a)	Holding company	–	100.00	–	–	–	–
Therma Dinginin Holding Cooperatief U.A. (a)	Holding company	–	100.00	–	–	–	–
Therma Dinginin B.V. (a)	Holding company	–	100.00	–	–	–	–
Therma Dinginin Holdings, Inc. (a)	Holding company	–	100.00	–	–	–	–
Therma Visayas, Inc. (TVI)[2]	Power generation	–	80.00	–	80.00	–	80.00
Abovant Holdings, Inc.	Holding company	–	60.00	–	60.00	–	60.00
AboitizPower International Pte. Ltd.	Holding company	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	–
East Asia Utilities Corporation (EAUC)	Power generation	50.00	50.00	50.00	–	50.00	–
Cotabato Light and Power Company (CLP)	Power distribution	99.94	–	99.94	–	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	–
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] In 2015, TPI entered into an agreement which reduced its ownership in LFEI to 40%. As a result, LFEI ceased to be classified as a subsidiary (see Note 10)
[2] In 2014, TPI entered into an agreement with Vivant Integrated Generation Corporation for the development, construction and operation of a coal-fired power generation facility, effectively reducing its ownership in TVI to 80%

(a) Acquired as part of GNPower acquisition (see Note 9)
** No commercial operations as of December 31, 2016*

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

Subsidiary	Country of incorporation
AboitizPower International Pte. Ltd.	Singapore
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 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:

	2016 GMCP	2016 VECO	2015 VECO
Summarized balance sheet information			
Current assets	₱8,396,681	₱2,838,786	₱2,748,992
Noncurrent assets	35,855,820	10,808,537	10,404,487
Current liabilities	5,897,234	3,980,760	3,131,752
Noncurrent liabilities	23,018,248	4,750,203	4,760,983
Non-controlling interests	2,640,459	2,062,253	2,127,066
Summarized comprehensive income information			
Profit for the year	₱326,063	₱1,971,240	₱1,805,390
Total comprehensive income	326,063	1,966,169	1,798,738
Summarized other financial information			
Profit attributable to non-controlling interests	₱56,018	₱854,192	₱779,983
Dividends paid to non-controlling interests	–	916,725	807,120
Summarized cash flow information			
Operating	₱–	₱2,877,837	₱2,182,373
Investing	–	(784,580)	(897,109)
Financing	–	(1,886,207)	(1,634,431)
Net increase (decrease) in cash and cash equivalents	–	207,050	(349,167)

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.

<u>Changes in Accounting Policies and Disclosures</u>
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, 2016. These new and revised standards and interpretations did not have any significant impact on the Group's financial statements:

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures, Investment Entities: Applying the Consolidation Exception*

  The amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

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

- Amendments to PFRS 11, *Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations*

  The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

  These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

- PFRS 14, *Regulatory Deferral Accounts*

  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Since the Group is an existing PFRS preparer, this standard would not apply.

- Amendments to PAS 1, *Presentation of Financial Statements, Disclosure Initiative*

  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:

  a. That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  b. That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
  c. That entities have flexibility as to the order in which they present the notes to the financial statements
  d. That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

  These amendments do not have any impact to the Group.

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*

  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

  These amendments are applied prospectively and do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate or amortize its property, plant and equipment and intangible assets.

- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*

  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

The amendments are applied retrospectively and do not have any impact on the Group as the Group does not have any bearer plants.

- Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*

  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

  These amendments do not have any impact on the Group's consolidated financial statements.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and do not have any material impact to the Group. They include:

- Amendment to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*

  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*

  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*

  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

New Standards and Interpretation Issued and Effective after December 31, 2016

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 financial statements.

Effective January 1, 2017

- Amendment to PFRS 12, *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.

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

  The amendments to PAS 7 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). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

- Amendments to 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.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

  These amendments are not expected to have any impact on the Group.

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 forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

These amendments will not have any significant impact on the Group's consolidated financial statements.

- PFRS 15, *Revenue from Contracts with Customers*

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

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Group will adopt PFRS 15 on January 1, 2018. The Group started its assessment of the impact of PFRS 15 in the 4th quarter of 2016 by attending briefings conducted for the Group and analyzing the different revenue streams of the various businesses in the Group. It will continue with the assessment during the 2nd quarter of 2017 by performing in-depth review of representative contracts with customers and considering further interpretations and industry practices on certain provisions of PFRS 15.

- 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 adoption of PFRS 9 will have an effect on the classification and measurement of and impairment methodology for the Group's financial assets, and on its application of hedge accounting and on the amount of its credit losses. However, it will have no impact on the classification and measurement of the Group's financial liabilities.

  The Group is currently assessing the impact of adopting this standard and expects that the adoption will not materially affect its consolidated financial statements.

- 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.

  These amendments will not have any significant impact on the Group's consolidated financial statements.

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

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

These amendments will not have any significant impact on the Group's consolidated financial statements.

Effective January 1, 2019

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their lessees as either operating or finance leases in accordance with PAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt IFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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

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 postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed 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.

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 and property, plant and equipment. 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 and property, plant and equipment 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.

<u>Investments in Associates and Joint Ventures</u>
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 the following subsidiaries: Therma Mariveles L.P. and subsidiaries, Therma Dinginin L.P. and subsidiaries and LHC; and the following associates: Western Mindanao Power Corporation (WMPC), Southern Philippines Power Corporation (SPPC) and STEAG State Power, Inc. (STEAG) 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 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 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. Loans and receivables are included in current assets if maturity is within twelve months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

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, 2016 and 2015.

(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. These financial assets are classified as noncurrent assets unless the investment matures or management intends to dispose it within twelve months after the end of the reporting period.

The Group's AFS investments as of December 31, 2016 and 2015 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, 2016 and 2015, 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 2016 and 2015, 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.

<u>Redeemable Preferred Shares (RPS)</u>
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.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Software and licenses

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

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

Service concession right

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

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

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

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

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

The intangible assets - customer contracts are amortized using the straight-line method over the remaining life of the contract, and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The remaining contract life is 6 years. 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. Prior to 2014, the Group carried the investment property at cost, as allowed by PAS 40. The change in accounting policy in 2014 resulted to fair value gain of ₱15.0 million and deferred tax liability of ₱4.5 million. 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 Nonfinancial Assets

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

The Group assesses at each reporting 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 subsidiaries 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 L.P. and subsidiaries, Therma Dinginin L.P. and subsidiaries, LHC and STEAG in 2016 and LHC, STEAG, SPPC and WMPC in 2015, 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 models. 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 ₱6.83 billion and ₱6.38 billion as of December 31, 2016 and 2015, 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, 2016 and 2015, the carrying value of the power plant amounted to ₱36.86 billion and ₱37.95 billion, respectively (see Notes 12 and 35). The carrying value of finance lease obligation amounted to ₱52.34 billion and ₱53.67 billion as of December 31, 2016 and 2015, respectively (see Note 35).

Nonconsolidation of Manila-Oslo Renewable Enterprise, Inc. (MORE) and its investees, and Maaraw Holdings San Carlos, Inc. (MHSCI) and investee

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 has 60% interest in MHSCI which has a 25% ownership interest in San Carlos Sun Power, Inc. (SACASUN).

The Group does not consolidate MORE and MHSCI since it does not have the ability to direct the relevant activities which most significantly affect the returns of MORE and MHSCI, and their respective investees. This is a result of the shareholders' agreements which, among others, stipulate the management and operation of MORE and MHSCI. Management of MORE and MHSCI are 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 (see Note 10).

Determining a joint operation

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

Classification of financial instruments

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

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

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

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

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

Estimating allowance for impairment losses on investments and advances
Investments and advances are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There were no impairment indicators in 2016 and 2015 based on management's assessment. The carrying amounts of the investments and advances amounted to ₱30.60 billion and ₱22.55 billion as of December 31, 2016 and 2015, 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, 2016 and 2015 amounted to ₱37.19 billion and ₱1.09 billion, respectively. Goodwill impairment recognized in 2016 amounted to ₱169.5 million (see Note 13). No impairment of goodwill was recognized in 2015 and 2014.

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, 2016 and 2015, the net book values of property, plant and equipment, excluding land, amounted to ₱191.20 billion and ₱133.47 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, 2016 and 2015, the aggregate net book values of property, plant and equipment, excluding land, amounted to ₱191.20 billion and ₱133.47 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, 2016 and 2015, the carrying value of the franchise amounted to ₱2.80 billion and ₱2.88 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, 2016 and 2015, the net book values of intangible assets - customer contracts amounted to ₱31.5 million and ₱42.9 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, 2016 and 2015, the aggregate net book values of intangible asset - service concession rights amounted to ₱3.22 billion and ₱3.23 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 asset - service concession rights, 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 nonfinancial 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 asset - service concession rights, 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, 2016 and 2015, the aggregate net book values of these assets amounted to ₱211.56 billion and ₱150.82 billion, respectively (see Notes 8, 12, 13 and 14). No impairment losses were recognized in 2016, 2015 and 2014.

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, 2016 and 2015, allowance for impairment of trade and other receivables amounted to ₱1.76 billion and ₱1.84 billion, respectively. Trade and other receivables, net of allowance for impairment, amounted to ₱15.47 billion and ₱13.69 billion as of December 31, 2016 and 2015, 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, 2016 and 2015, allowance for inventory obsolescence amounted to ₱35.7 million and ₱54.4 million, respectively. The carrying amount of the inventories amounted to ₱4.45 billion and ₱2.04 billion as of December 31, 2016 and 2015, 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 flows 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 ₱1.82 billion and ₱3.02 billion as of December 31, 2016 and 2015, 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 recognizes 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 ₱2.12 billion and ₱584.9 million as of December 31, 2016 and 2015, respectively. The Company did not recognize deferred income tax assets on minimum corporate income tax (MCIT) amounting to ₱43.8 million and ₱26.3 million as of December 31, 2016 and 2015, respectively, and NOLCO amounting to ₱228.1 million and ₱436.9 million as of December 31, 2016 and 2015, 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 ₱199.4 million in 2016, ₱193.7 million in 2015 and ₱212.4 million in 2014. The net pension assets as of December 31, 2016 and 2015 amounted to ₱45.7 million and ₱34.8 million, respectively. Net pension liabilities as of December 31, 2016 and 2015 amounted to ₱247.4 million and ₱492.8 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, 2016, 2015 and 2014.

5. Cash and Cash Equivalents

	2016	2015
Cash on hand and in banks	**₱11,133,591**	₱5,898,064
Short-term deposits	**35,961,150**	45,200,205
	₱47,094,741	₱51,098,269

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 ₱1.08 billion in 2016, ₱845.2 million in 2015 and ₱471.9 million in 2014.

6. Trade and Other Receivables

	2016	2015
Trade receivables - net of allowance for impairment losses of ₱1.76 billion in 2016 and ₱1.84 billion in 2015 (see Note 33)	**₱12,155,048**	₱9,968,771
Others		
Dividends receivable (see Note 10)	**748,000**	1,320,000
Advances to contractors	**773,545**	1,084,377
Accrued revenue	**548,852**	499,999
Non-trade receivable	**256,447**	270,167
Interest receivable	**256,998**	194,933
Others	**726,231**	354,146
	₱15,465,121	₱13,692,393

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.

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

	2016	2015
January 1	**₱1,841,625**	₱1,559,014
Provision (see Note 24)	**145,786**	418,029
Write-off	**(225,775)**	(135,418)
December 31	**₱1,761,636**	₱1,841,625

Allowance for impairment losses as of December 31, 2016 and 2015 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

	2016	2015
Fuel and lube oil	₱2,845,119	₱1,045,021
Plant spare parts and supplies	893,729	416,312
Transmission and distribution supplies	509,440	435,245
Parts and supplies in transit	–	127,950
Other parts and supplies	204,524	16,075
	₱4,452,812	₱2,040,603

Inventories are carried at cost as of December 31, 2016 and 2015.

The cost of inventories recognized as part of cost of generated power in the consolidated statements of income amounted to ₱12.21 billion in 2016, ₱13.60 billion in 2015 and ₱15.15 billion in 2014 (see Note 23). The cost of inventories recognized as part of operations and maintenance in the consolidated statements of income amounted to ₱310.9 million in 2016, ₱910.5 million in 2015 and ₱840.8 million in 2014 (see Note 25).

8. Other Current Assets

	2016	2015
Restricted cash	₱2,100,611	₱–
Input VAT	1,906,810	2,115,613
Prepaid tax	1,126,628	879,832
Prepaid expenses	935,926	328,140
Current portion of notes receivable (see Notes 14 and 32)	142,824	–
Prepaid rent (see Note 35)	49,845	48,313
Others	185,452	20,575
	₱6,448,096	₱3,392,473

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

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 indirectly owns the majority and minority interests in GMCP and GNPower Dinginin Ltd. Co. (GNPD), respectively, amounting to US$1.22 billion, subject to purchase price adjustments.

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 PCC and 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 following are the provisional fair values of the identifiable assets and liabilities assumed on acquisition date:

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	33,661,994
Derivative assets	752,335
Deferred income tax assets	1,054,677
Other assets	144,747
	45,335,022
Liabilities:	
Trade and other payables	₱2,057,368
Long-term debt	26,473,367
Derivative liabilities	351,210
Asset retirement obligation	318,136
Other liabilities	32,925
	29,233,006
Total identifiable net assets	₱16,102,016
Total consideration	₱49,787,176
Fair value of noncontrolling interest	2,584,442
	52,371,618
Goodwill	₱36,269,602
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 is still finalizing the fair valuation of the nonfinancial assets acquired.

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).

The purchase price amounted to US$224.9 million (₱11.20 billion). As of December 31, 2016, it is impracticable to determine the fair values of the assets and liabilities of GNPD as TPI is still compiling all the required information.

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 accounting for this business combination was determined provisionally as AP is still finalizing the fair valuation of the nonfinancial assets acquired. This will be finalized within one year from acquisition date as allowed by PFRS.

The provisional fair values of the identifiable net assets included in the consolidated amounts follow:

Assets:	
Cash and cash equivalents	₱199,185
Trade and other receivables	133,769
Materials and supplies	94,542
Other current assets	17,551
Property, plant and equipment	779,976
Other assets	33,824
	1,258,847
Liabilities:	
Trade and other payables	80,773
Other liabilities	57,503
Deferred income tax liabilities	25,673
	163,949
Total identifiable net assets at fair value	₱1,094,898

(Forward)

Total consideration	₱513,205
Fair value of previously-held interest in EAUC	547,449
Bargain purchase gain	₱34,244

Cash flow on acquisition:	
Net cash acquired with the subsidiary	₱199,185
Cash paid	(513,205)
Net cash outflow	(₱314,020)

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

Carrying value of the previously held-interest	₱230,754
Fair value of previously-held interest	547,449
Gain on the remeasurement of previously-held interest	₱316,695

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.

Aseagas

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 is 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 following assets and liabilities of Aseagas were consolidated at their carrying values on acquisition date:

	Carrying value on acquisition
Assets:	
Cash and cash equivalents	₱785,590
Receivables	1,056
Other current assets	685,391
Property, plant and equipment	1,775,654
Other assets	181,613
	3,429,304

(Forward)

	Carrying value on acquisition
Liabilities:	
Trade and other payables	₱430,440
Current portion of long-term debt	39,474
Long-term debt	2,449,273
Pension liability	10,740
	2,929,927
Total identifiable net assets at carrying value	₱499,377

Total consideration satisfied by cash	₱605,000
Share in net assets of Aseagas	(499,377)
Excess of cost over net assets	₱105,623

Cash flow on acquisition:	
Net cash acquired with the subsidiary	₱785,590
Cash paid	(605,000)
Net cash inflow	₱180,590

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

	2016	2015
Acquisition cost:		
Balance at beginning of the year	₱15,892,748	₱18,118,354
Additions during the year	11,821,307	451,598
Step acquisition to subsidiary (Note 9)	(144,691)	–
Redemptions during the year	(41,025)	(2,677,204)
Balance at end of year	27,528,339	15,892,748
Accumulated equity in net earnings:		
Balance at beginning of the year	7,340,367	7,253,461
Share in net earnings	3,641,210	3,979,947
Step acquisition to subsidiary (Note 9)	(87,437)	–
Dividends received or receivable	(7,275,263)	(3,893,041)
Balance at end of year	3,618,877	7,340,367
Share in net unrealized valuation gains on AFS investment of an associate	114,920	114,920
Share in actuarial losses on defined benefit plans of associates and joint ventures	(1,878)	(3,748)
Share in cumulative translation adjustments of associates and joint ventures	(128,203)	(256,376)
	31,132,055	23,087,911
Less allowance for impairment losses (see Note 28)	568,125	568,125
Investments at equity	30,563,930	22,519,786
Advances	32,059	32,059
	₱30,595,989	₱22,551,845

As of December 31, 2016 and 2015, the undistributed earnings of the associates and joint ventures included in the Group's retained earnings amounting to ₱3.62 billion and ₱7.34 billion, respectively, are not available for distribution to the stockholders unless declared by the investees (see Note 20).

2016

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.

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

In April 2016, the Group, through TPI, subscribed and paid for additional shares of Redondo Peninsula Energy, Inc. (RPEI) amounting to ₱169.6 million.

In July 2016, AEV Aviation, Inc. (AAI) redeemed 5,100 RPS held by the Company for ₱5.1 million.

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).

2015

In April 2015, the Group acquired, through ARI, shares of SACASUN amounting to ₱0.1 million, equivalent to 35% ownership in SACASUN. In various dates in 2015, the Group also infused additional capital to SACASUN by way of deposits for stock subscriptions amounting to ₱316.0 million. These were subsequently converted into shares of stock.

In various dates in 2015, the Company infused capital to MHSCI by way of deposits for stock subscriptions amounting to ₱135.4 million. These were subsequently converted into shares of stock.

In April 2015, Cebu Energy Development Corporation (CEDC) returned shareholder's deposits to the Group amounting to ₱289.6 million.

In June 2015, AAI redeemed 28,000 RPS held by the Company for ₱28.0 million.

In September 2015, MORE redeemed 338.9 million RPS held by the Group for ₱2.65 billion.
The Group's associates and joint ventures and the corresponding equity ownership are as follows:

		Percentage of Ownership		
	Nature of Business	2016	2015	2014
MORE[2]	Holding company	**83.33**	83.33	83.33
MHSCI[1]	Holding company	**60.00**	60.00	–
GNPD (see Note 9)*	Power generation	**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	–
SACASUN[2]	Power generation	**35.00**	35.00	–

(Forward)

	Nature of Business	Percentage of Ownership 2016	2015	2014
STEAG	Power generation	34.00	34.00	34.00
AAI	Service	26.69	26.69	49.25
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
EAUC (see Note 9)	Power generation	–	50.00	50.00

[1] *Joint ventures.*
* *No commercial operations as of December 31, 2016.*

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 and MHSCI since it does not have the ability to direct the relevant activities which most significantly affect the returns of MORE and MHSCI, and their respective investees. This is a result of the shareholders' agreements which, among others, stipulate the management and operation of MORE and MHSCI. Management of MORE and MHSCI 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:

	2016	2015
GNPD	₱11,200,790	₱–
MORE	9,764,599	13,123,420
STEAG	3,761,763	4,150,972
CEDC	3,070,016	2,694,465
SACASUN	525,391	314,706
RPEI	481,759	322,565
PEVI	458,677	423,740
SFELAPCO	376,011	345,202
MHSCI	223,633	134,199
Hijos	201,337	122,846
SPPC	137,437	137,777
WMPC	128,034	262,303
EAUC	–	249,511
Others	234,483	238,080
	₱30,563,930	₱22,519,786

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

	2016	2015	2014
MORE:			
Total current assets	₱149,022	₱133,894	₱1,024,283
Total noncurrent assets	11,688,969	15,705,943	18,420,732
Total current liabilities	(92,106)	(91,473)	(999,803)
Total noncurrent liabilities	(5,190)	(260)	(22,714)
Equity	₱11,740,695	₱15,748,104	₱18,422,498
Gross revenue	₱170,236	₱166,636	₱166,636
Operating profit	2,601,566	2,557,392	3,098,681
Net income	2,573,164	2,552,419	3,087,584
Other comprehensive income	145,426	113,073	49,978
Group's share in net income	2,164,217	2,127,016	2,552,580
Additional information:			
Cash and cash equivalents	₱39,817	₱26,500	₱11,905
WMPC:			
Total current assets	₱555,637	₱1,256,744	₱982,321
Total noncurrent assets	305,394	414,139	391,953
Total current liabilities	(222,299)	(266,259)	(357,644)
Total noncurrent liabilities	(71,782)	(93,109)	(46,701)
Equity	₱566,950	₱1,311,515	₱969,929
Gross revenue	₱1,636,339	₱1,430,260	₱1,441,632
Operating profit	130,244	926,475	758,494
Net income	91,646	776,764	617,781
Other comprehensive income (loss)	(9,634)	2,270	1,490
Group's share in net income	18,329	155,353	123,555
SPPC:			
Total current assets	₱361,706	₱529,902	₱432,433
Total noncurrent assets	351,903	351,948	305,304
Total current liabilities	(42,285)	(123,326)	(174,915)
Total noncurrent liabilities	(66,430)	(69,638)	(106,344)
Equity	₱604,894	₱688,886	₱456,478
Gross revenue	₱632,504	₱709,403	₱742,717
Operating profit	204,593	430,392	312,739
Net income	272,756	365,152	456,478
Other comprehensive income (loss)	28,550	(360)	300
Group's share in net income	41,034	73,030	50,256
SFELAPCO*:			
Total current assets	₱1,406,869	₱1,302,248	₱1,317,304
Total noncurrent assets	1,996,643	2,015,544	2,145,415
Total current liabilities	(710,301)	(742,792)	(814,231)
Total noncurrent liabilities	(618,579)	(565,278)	(618,794)
Equity	₱2,074,632	₱2,009,722	₱2,029,694
Gross revenue	₱4,255,286	₱4,208,990	₱4,140,738
Operating profit	310,511	170,695	191,652
Net income	272,756	165,094	249,413
Other comprehensive income	8,671	–	310,688
Group's share in net income	73,415	146,977	132,570

(Forward)

	2016	2015	2014
STEAG:			
Total current assets	₱2,608,136	₱3,286,363	₱3,005,932
Total noncurrent assets	10,721,862	10,265,755	9,921,145
Total current liabilities	(2,018,724)	(1,747,652)	(1,737,831)
Total noncurrent liabilities	(3,651,920)	(3,900,707)	(3,899,890)
Equity	₱7,659,354	₱7,903,759	₱7,289,356
Gross revenue	₱4,626,910	₱4,864,480	₱4,351,273
Operating profit	1,205,122	2,060,028	658,167
Net income	928,891	1,414,229	495,672
Other comprehensive income	10,321	50,338	3,095
Group's share in net income	162,426	324,455	9,520
CEDC:			
Total current assets	₱5,666,952	₱5,083,812	₱5,602,608
Total noncurrent assets	14,901,921	15,418,308	16,023,078
Total current liabilities	(3,840,126)	(5,250,521)	(4,755,207)
Total noncurrent liabilities	(9,751,438)	(9,127,815)	(10,152,587)
Equity	₱6,977,309	₱6,123,784	₱6,717,892
Gross revenue	₱7,965,518	₱8,108,516	₱8,037,147
Operating profit	3,433,767	3,196,976	3,439,164
Net income	2,546,339	2,366,296	2,325,609
Other comprehensive income (loss)	7,188	39,595	(24,431)
Group's share in net income	1,120,389	1,041,170	1,023,268
SACASUN:			
Total current assets	₱838,410	₱984,914	₱–
Total noncurrent assets	3,642,924	2,515,145	–
Total current liabilities	(280,809)	(956,524)	–
Total noncurrent liabilities	(2,710,096)	(1,645,852)	–
Equity	₱1,490,429	₱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	2,701,096	1,645,852	–
GNPD			
Total current assets	₱533,725	₱–	₱–
Total noncurrent assets	6,593,952	–	–
Total current liabilities	(131,137)	–	–
Total noncurrent liabilities	(4,537,895)	–	–
Equity	₱2,458,645	₱–	₱–
Gross revenue	₱–	₱–	₱–
Operating loss	(185,945)	–	–
Net loss	(5,907)	–	–
Other comprehensive income (loss)	–	–	–
Group's share in net loss	(2,953)	–	–

(Forward)

	2016	2015	2014
Others**:			
Total current assets	₱580,170	₱297,940	₱398,334
Total noncurrent assets	3,395,270	2,600,411	2,368,857
Total current liabilities	(214,678)	(20,047)	(11,124)
Total noncurrent liabilities	(87,745)	(36,664)	(36,855)
Gross revenue	133,454	124,029	127,791
Net loss	(103,315)	(54,196)	(24,080)

**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 ₱361.8 million, ₱335.7 million and ₱301.1 million in 2016, 2015, and 2014, respectively, for SFELAPCO.*

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

11. Joint Operation

		Percentage of Ownership		
Name of Joint Operation	Nature of Business	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, 2016.*

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, 2016

	Land	Buildings, warehouses and improvements	Power plant equipment and steam field assets (Note 19)	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 19)	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)	–	5,441,126	33,194,252	104,542	329,429	306,438	23,805	25,687	–	80,081	1,853,971	41,359,331
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	137,228,130	16,005,968	1,359,708	826,632	2,735,378	3,516,283	1,345,439	1,152,427	42,900,110	229,867,652
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	76,161	–	5,716,623
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	11,872	–	709,220
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	₱110,840,115	₱11,819,544	₱612,714	₱285,858	₱2,385,804	₱1,882,954	₱1,431,800	₱613,985	₱42,900,110	₱192,633,546

December 31, 2015

	Land	Buildings, warehouses and improvements	Power plant equipment and steam field assets (Note 19)	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	₱1,301,343	₱3,280,262	₱87,239,294	₱12,715,286	₱944,230	₱274,486	₱647,403	₱2,459,261	₱1,169,042	₱590,776	₱32,568,672	₱143,190,055
Additions (see Notes 15 and 20)	34,489	163,748	832,326	813,284	60,164	65,038	1,054	39,366	119,461	78,511	16,957,464	19,164,905
Disposals	–	(55,489)	(131,758)	–	(45,204)	1,135	(19,065)	(5,526)	–	(35)	–	(255,942)
Reclassifications and others	4,450	10,701,906	11,718,240	1,155,032	42,742	164,614	2,067,470	686,085	258,142	95,656	(26,948,093)	(53,756)
Balances at end 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
Accumulated depreciation and amortization:												
Balances at beginning of year	–	1,355,394	15,092,946	4,239,131	547,689	239,713	160,518	1,115,322	434,622	358,080	–	23,543,415
Depreciation and amortization	–	265,954	3,184,895	110,693	62,010	59,873	59,814	110,853	15,387	12,672	–	3,882,151
Disposals	–	(53,571)	(62,646)	–	(37,738)	(1,184)	(11,407)	(5,485)	–	(33)	–	(172,064)
Reclassifications and others	–	194,004	(405,446)	(10,799)	(1,748)	1,941	1,353	170,150	7,610	24,068	–	(18,867)
Balances at end 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
Net book values	₱1,340,282	₱12,328,646	₱81,848,353	₱10,344,577	₱431,719	₱204,930	₱2,486,584	₱1,788,346	₱1,089,026	₱370,121	₱22,578,043	₱134,810,627

In 2016, an adjustment was made reducing power plant equipment and steam field assets by ₱1.63 billion due to the change in accounting estimate for asset retirement obligation. In 2015, additions to power plant equipment and steam field assets include asset retirement obligation amounting to ₱560.8 million (see Note 19).

In 2016 and 2015, additions to "Construction in progress" include capitalized borrowing costs amounting to ₱1.76 billion and ₱1.52 billion, respectively (see Note 15).

Property, plant and equipment with carrying amounts of ₱116.98 billion and ₱43.47 billion as of December 31, 2016 and 2015, respectively, are used to secure the Group's long-term debts (see Note 18).

Fully-depreciated property, plant and equipment with gross carrying amount of ₱4.64 billion and ₱4.97 billion as of December 31, 2016 and 2015, 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, 2016 and 2015, as shown below:

Project Company	Estimated Cost to Complete (in millions)		% of Completion	
	2016	2015	2016	2015
TVI	₱17,813	₱32,023	54%	17%
Hedcor Bukidnon	6,229	9,964	45%	12%
TSI	–	1,918	100%	94%
PEC (see Note 11)	8,614	14,798	61%	33%

13. Intangible Assets

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)	36,269,602	–	–	–	–	45,786	36,315,388
Impairment	(169,469)	–	–	(80,380)	–	–	(249,849)
Transfers	–	–	–	(9,477)	–	–	(9,477)
Exchange differences	–	141,715	–	–	–	–	141,715
Balances at end of year	37,194,820	5,199,074	3,078,431	273,725	60,068	234,710	46,040,828
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	₱37,194,820	₱3,222,123	₱2,802,654	₱273,725	₱31,464	₱117,747	₱43,642,533

December 31, 2015

	Goodwill	Service concession rights	Franchise	Project development costs	Customer contracts	Software and licenses	Total
Cost:							
Balances at beginning of year	₱1,094,687	₱4,847,271	₱3,078,431	₱246,595	₱60,068	₱77,460	₱9,404,512
Additions during the year	–	20,046	–	116,903	–	54,759	191,708
Transfers	–	–	–	(93,609)	–	–	(93,609)
Exchange differences	–	144,167	–	–	–	–	144,167
Balances at end of year	1,094,687	5,011,484	3,078,431	269,889	60,068	132,219	9,646,778
Accumulated amortization:							
Balances at beginning of year	–	1,446,917	121,855	–	5,721	39,716	1,614,209
Amortization	–	338,031	76,961	–	11,441	13,416	439,849
Balances at end of year	–	1,784,948	198,816	–	17,162	53,132	2,054,058
Net book values	₱1,094,687	₱3,226,536	₱2,879,615	₱269,889	₱42,906	₱79,087	₱7,592,720

Impairment Testing of Goodwill

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

The carrying amount of goodwill follows:

	2016	2015
GMCP (see Note 9)	₱36,269,602	₱–
LEZ	467,586	467,586
BEZ	237,404	237,404
HI	220,228	220,228
MEZ	–	169,469
	₱37,194,820	₱1,094,687

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, 2016 and 2015
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 11.80% to 13.46% in 2016 and 11.36% to 12.90% in 2015, 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 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.

In 2015, revenue growth of 6% in year 1, and 4% for the next four years was applied for LEZ; 8% in year 1 and 4% for the next four years was applied to MEZ; 1% for year 1, 4% for the next three years and 5% in year 5 was applied to BEZ; and 11% in year 1, 1% in year 2, -18% in year 3, 16% in year 4 and 3% in year 5 was applied for HI.

Materials price inflation
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 3.5% in 2021. The starting point of 2017 is consistent with external information sources.

Based on the assumptions used in impairment testing, 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 and 2014.

With regard to the assessment of value-in-use, management believes that no reasonable 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 ₱2.39 billion and ₱2.38 billion as of December 31, 2016 and 2015, 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 ₱727.0 million and ₱747.9 million as of December 31, 2016 and 2015, 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 ₱109.1 million and ₱102.4 million as of December 31, 2016 and 2015, respectively.

Customer Contracts

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

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

14. Other Noncurrent Assets

	2016	2015
Input VAT and tax credit receivable	**₱6,740,958**	₱4,579,445
Notes receivable (see Note 32)	**2,739,632**	–
Receivable from National Grid Corporation of the Philippines (NGCP)	**146,714**	102,350
Refundable deposits	**241,597**	308,854
Prepaid rent - net of current portion (see Note 35)	**523,224**	430,348
Advances to contractors and projects	**447,676**	555,507
Others	**172,182**	143,870
	₱11,011,983	₱6,120,374

Receivable from NGCP pertains to cost of installation and construction of substation and transmission facilities to be reimbursed by NGCP as part of the agreement on the advance implementation of network assets.

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 (see Note 32).

15. Trade and Other Payables

	2016	2015
Trade payables (see Notes 23 and 33)	₱7,591,617	₱5,749,973
Output VAT	2,517,704	2,172,527
Amounts due to contractors and other third parties	694,359	1,771,363
Accrued expenses:		
Energy fees and fuel purchase	155,243	69,243
Taxes and fees	770,646	697,620
Materials and supplies cost	842,854	521,410
Interest	1,060,386	399,912
Claims conversion costs	187,490	36,450
Insurance	1,914	6,888
Unearned revenues	33,829	34,705
Dividends payable	143,608	112,895
Customers' deposit	68,197	24,380
Provision for over-recovery (see Note 39)	170,518	170,518
Nontrade	2,452,368	1,937,870
Others	707,485	434,822
	₱17,398,218	₱14,140,576

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	2016	2015
Peso loans - financial institutions - unsecured	2.50% in 2016 2.50% to 2.75% in 2015	₱1,596,100	₱2,568,000
Temporary advances (see Note 32)	2.50% in 2016	2,559,500	–
		₱4,155,600	₱2,568,000

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 ₱66.5 million in 2016, ₱87.6 million in 2015 and ₱61.9 million in 2014 (see Note 33).

17. Long-term Debts

	Annual Interest Rate	2016	2015
Company:			
Bonds due 2021	5.21%	₱6,600,000	₱6,600,000
Bonds due 2026	6.10%	3,400,000	3,400,000
Subsidiaries:			
TPI			
Financial institutions - unsecured	LIBOR + 1.10%	31,000,420	–
TVI			
Financial institutions - secured	6.02% - 6.23% in 2016 6.02% - 6.23% in 2015	27,570,000	8,673,999
GMCP			
Financial institutions - secured	LIBOR + 2.5% - 7.65%	27,116,752	–
TSI			
Financial institutions - secured	4.50% - 5.14% in 2016 4.50% - 5.14% in 2015	23,970,380	25,083,407
APRI			
Financial institutions - secured	4.53% - 6.00%	11,874,880	–
Hedcor Bukidnon			
Financial institutions - secured	5.28% - 6.00%	5,684,476	3,215,247
Hedcor Sibulan			
Fixed rate corporate notes	4.11% - 5.32%	4,100,000	–
Aseagas			
Financial institutions - secured	4.66% - 5.06%	2,434,209	–
VECO			
Financial institution - unsecured	3.50% - 4.81%	1,379,000	1,584,000
LHC			
Financial institutions - secured	2.00% - 2.75%	1,374,759	1,560,039
DLP			
Financial institution - unsecured	3.50% - 4.81%	1,034,250	1,188,000
HI			
Financial institution - secured	5.25%	630,000	720,000
SEZ			
Financial institution - unsecured	5.61% - 6.06%	282,500	339,000
CLP			
Financial institution - unsecured	3.50% - 4.81%	206,850	237,600
Joint operation (see Note 11)			
Financial institutions - secured	4.70% - 6.68%	12,234,910	6,973,502
		160,893,386	59,574,794
Less deferred financing costs		3,171,722	1,199,770
		157,721,664	58,375,024
Less current portion - net of deferred financing costs		7,458,363	2,368,161
		₱150,263,301	₱56,006,863

** London Interbank Offered Rate (LIBOR)*

Interest expense and other financing costs on long-term debt amounted to ₱2.81 billion in 2016, ₱1.12 billion in 2015, and ₱478.0 million in 2014 (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.

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 (see Note 9). The loan is unsecured and 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, 2016, ₱27.57 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 ₱29.00 billion as of December 31, 2016, 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.

GMCP also entered into a facility agreement with BDO to finance GMCP's working capital requirements.

As of December 31, 2016, GMCP's assets with carrying amount of ₱45.33 billion are pledged as collateral.

GMCP's loans consist of the following dollar denominated loans as of December 31, 2016:

	Amount	Interest Rate Per Annum	Payment Schedule
Offshore Loan	$385,880,000	7.65%	24 semi-annual payments from the 1st business day following the Loan Conversion Date
Onshore Loans - Tranche A	34,416,563	(i) 7.10% until the 5th anniversary of the closing date; (ii) LIBOR* plus applicable margin of 2.5% or 3% from the 5th anniversary of the closing date until the maturity date	17 semi-annual payments from the 1st business day following the Loan Conversion Date
Onshore Loans - Tranche B	105,093,437	From July 8, 2010 until the Onshore Maturity Date, interest rate is LIBOR* plus 3%	17 semi-annual payments from the 1st business day following the Loan Conversion Date
Working Capital	20,000,000	LIBOR plus 2.5% applicable margin	Payable within three months
Total borrowings	545,390,000		
Less unamortized portion of deferred financing costs	(24,188,090)		
Add unamortized portion of derivative asset	10,285,846		
	531,487,756		
Less current portion	80,274,335		
Loans payable - net of current portion	$451,213,421		

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. As of December 31, 2015, ₱1.20 billion has been drawn from the loan facility.

The loan is secured by a mortgage of all its assets with carrying amount of ₱38.03 billion as of December 31, 2016, and a pledge of TSI's shares of stock held by the Company and TPI.

Annual interest rate ranging from 4.50% - 5.14% 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 for a multi-tranche facility (Climate Bonds) with BPI, Asian Development Bank (ADB) and Credit Guarantee and Investment Facility (CGIF). The Climate Bonds had 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 ₱26.22 billion as of December 31, 2016, 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, 2016, ₱5.68 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 Notes Facility Agreement (NFA) with various institutions with Metrobank - Trust Banking Group (MBTC) 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 and B)	Six (6) years from issue date	₱388.4 million
7 (Series A and 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 and 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.

<u>Aseagas</u>
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 is secured with assigned receivables which Aseagas is obliged to deliver to the bank within six months from the start of its commercial operations or on agreed dates.

<u>VECO</u>
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 BDO 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% in 2016 and 2.38% to 2.56% in 2015.

Intangible asset arising from service concession arrangement with carrying value of ₱2.39 billion as of December 31, 2016, 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 MBTC. Interest on the notes is subject to quarterly payment at annual fixed interest rates ranging from 5.61% - 6.06%. Principal is payable annually over 10 years at an equal amortization of ₱56.5 million.

CLP

On December 20, 2013, CLP availed of a ₱300.0 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; ₱29M on maturity date
I	December 20, 2022	₱0.15M each on first 8 years; ₱28.8M on maturity date
J	December 20, 2023	₱0.175M 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 is subject to a semi-annual interest payment with annual fixed interest ranging from 4.70% - 6.68%.

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 all its assets with carrying amount of ₱26.70 billion as of December 31, 2016, 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, 2016 and 2015.

18. Customers' Deposits

	2016	2015
Transformers	**₱2,915,591**	₱2,500,344
Lines and poles	**1,777,064**	1,607,907
Bill and load	**2,138,587**	2,275,027
	₱6,831,242	₱6,383,278

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 ₱2.5 million in 2016, ₱4.2 million in 2015, and ₱8.5 million in 2014 (see Note 33).

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

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).

	2016	2015
Balances at beginning of year	₱3,016,528	₱2,353,250
Business combinations (see Note 9)	334,812	–
Change in accounting estimate	(1,627,192)	560,754
Accretion of decommissioning liability (see Note 33)	97,429	102,524
Balances at end of year	₱1,821,577	₱3,016,528

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)

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
Additional Paid-in Capital	12,588,894
	₱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, 2016, 2015 and 2014, the Company has 628, 608 and 606 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, 2016 and 2015.

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

** Full commercial operations by 1st quarter of 2016*

On March 11, 2014, the BOD approved the declaration of regular cash dividends of ₱1.26 a share (₱9.27 billion) and special cash dividends of ₱0.40 a share (₱2.94 billion) to all stockholders of record as of March 25, 2014. These dividends were paid on April 22, 2014.

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.

To comply with the requirements of Section 43 of the Corporation Code, 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. The cash dividends are payable on April 10, 2017.

c. The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint arrangements amounting to ₱28.91 billion and ₱35.58 billion as at December 31, 2016 and 2015, 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 ₱44.59 billion, ₱41.38 billion and ₱39.98 billion in 2016, 2015 and 2014, 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 ₱2.88 billion, ₱4.59 billion and ₱5.77 billion in 2016, 2015 and 2014, 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 ₱32.81 billion in 2016, ₱28.78 billion in 2015, and ₱31.11 billion in 2014.

c. Retail Electricity Supply Agreements (see Note 39i)

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 ₱8.48 billion, ₱10.23 billion and ₱9.70 billion in 2016, 2015 and 2014, 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; 1-year extension	944,384
VECO	Ended in December 2014	898,632
CLP	Ended in December 2015	131,292
MEZ	Ten years; ended in September 2015	114,680

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 ₱7.52 billion in 2016, ₱9.49 billion in 2015, and ₱13.19 billion in 2014. 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 ₱694.2 million and ₱760.3 million as of December 31, 2016 and 2015, 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 ₱1.42 billion in 2016, ₱1.21 billion in 2015, and 1.83 billion in 2014.

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 ₱1.90 billion and ₱1.86 billion in 2016 and 2015, respectively.

23. Cost of Generated Power

	2016	2015	2014
Fuel costs (see Note 7)	₱12,211,477	₱13,598,737	₱15,146,281
Steam supply costs (see Note 36)	4,108,576	3,956,979	4,935,022
Energy fees	627,751	684,279	688,059
Ancillary charges	340,869	262,536	240,502
Wheeling expenses	27,599	21,528	27,794
	₱17,316,272	₱18,524,059	₱21,037,658

24. General and Administrative

	2016	2015	2014
Personnel costs (see Note 26)	₱2,289,959	₱1,928,040	₱1,805,862
Taxes and licenses	1,078,810	726,398	531,609
Outside services (see Note 32)	795,305	777,323	650,088
Insurance	384,516	248,071	251,934
Repairs and maintenance	308,133	290,159	271,638
Professional fees (see Note 32)	249,802	116,484	119,703
Transportation and travel (see Note 32)	191,348	166,799	165,076
Provision for impairment of trade receivables (see Note 6)	145,786	418,029	563,278
Corporate social responsibility (CSR) (see Note 39k)	144,728	106,522	84,249
Rent (see Notes 32 and 35)	96,634	97,232	98,403
Information technology and communication	86,520	75,112	74,001
Training	70,734	44,125	29,694
Advertisements	31,564	24,370	28,714
Entertainment, amusement and recreation	29,833	24,699	17,005
Market service and administrative fees	28,324	164,311	140,930
Guard services	6,443	5,746	6,963
Supervision and regulatory fees	1,308	1,264	1,578
Gasoline and oil	1,109	1,180	2,772
Freight and handling	679	2,994	2,672
Others	672,341	599,232	643,963
	₱6,613,876	₱5,818,090	₱5,500,132

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

25. Operations and Maintenance

	2016	2015	2014
Personnel costs (see Note 26)	₱1,032,249	₱978,106	₱755,681
Repairs and maintenance	596,379	407,260	479,356
Outside services	506,741	437,881	325,616
Insurance	446,525	471,397	455,520
Taxes and licenses	363,556	348,175	271,380
Fuel and lube oil (see Note 7)	310,935	426,649	253,576
Plant spare parts and supplies (see Note 7)	261,536	483,880	587,191
Rent (see Note 35)	83,071	52,556	47,096
Transportation and travel	57,471	37,259	40,942
Others	310,844	277,883	177,030
	₱3,969,307	₱3,921,046	₱3,393,388

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

26. Personnel Costs

	2016	2015	2014
Salaries and wages	₱2,341,096	₱2,027,096	₱1,883,006
Employee benefits (see Note 27)	981,112	879,050	678,537
	₱3,322,208	₱2,906,146	₱2,561,543

27. Pension Benefit Plans

Under the existing regulatory framework, Republic Act 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):

	2016	2015	2014
Current service cost	**₱171,879**	₱185,701	₱164,024
Interest cost	**23,880**	7,534	7,411
Past service cost	**3,665**	422	40,992
	₱199,424	₱193,657	₱212,427

Remeasurement effects to be recognized in other comprehensive income:

	2016	2015	2014
Actuarial gains (losses) due to:			
Changes in financial assumptions	**₱12,799**	₱220,857	₱61
Changes in demographic assumptions	**(170)**	67,874	–
Return on assets excluding amount included in net interest cost	**23,935**	(59,439)	31,427
Experience adjustments	**(32,107)**	(361,869)	208,644
	₱4,457	(₱132,577)	₱240,132

Net pension assets

	2016	2015
Fair value of plan assets	**₱213,018**	₱161,845
Present value of the defined benefit obligation	**(167,351)**	(127,068)
	₱45,667	₱34,777

Net pension liabilities

	2016	2015
Present value of the defined benefit obligation	**₱1,895,830**	₱1,657,526
Fair value of plan assets	**(1,648,443)**	(1,164,678)
	₱247,387	₱492,848

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

	2016	2015
At January 1	₱1,784,596	₱1,606,742
Net benefit expense:		
Current service cost	171,879	185,701
Net interest cost	91,075	68,245
Past service cost	3,665	422
	266,619	254,368
Benefits paid	(119,562)	(109,969)
Transfers and others	10,120	(39,683)
Remeasurements in other comprehensive income:		
Actuarial losses (gains) due to:		
Experience adjustments	32,107	361,869
Changes in demographic assumptions	170	(67,874)
Changes in financial assumptions	(12,798)	(220,857)
	19,479	73,138
Increase from business combinations (see Note 9)	101,930	–
At December 31	₱2,063,182	₱1,784,596

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

	2016	2015
At January 1	₱1,326,525	₱1,279,888
Contribution by employer	477,876	170,187
Interest income included in net interest cost	67,195	60,711
Fund transfer from affiliates	10,120	(59,439)
Return on assets excluding amount included in net interest cost	23,935	(30,077)
Benefits paid	(118,602)	(94,745)
Increase from business combinations (see Note 9)	74,412	–
At December 31	₱1,861,461	₱1,326,525

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

	2016	2015
At January 1	₱458,071	₱326,854
Retirement expense during the year	199,424	193,657
Increase from business combinations (see Note 9)	27,518	(9,606)
Transferred obligation	–	(15,224)
Benefits paid from Group operating funds	(960)	132,577
Actuarial loss recognized during the year	(4,456)	–
Contribution to retirement fund	(477,876)	(170,187)
At December 31	₱201,721	₱458,071

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

	2016	2015
Cash and fixed-income investments	₱1,385,645	₱1,043,975
Equity instruments:		
Holding	185,439	104,217
Financial institution	67,105	22,936
Power	42	107,832
Others	223,230	47,565
	475,816	282,550
Fair value of plan assets	₱1,861,461	₱1,326,525

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, 2016, 2015 and 2014 in determining pension benefit obligations for the Group's plans are shown below:

	2016	2015	2014
Discount rates	4.91%-5.64%	4.91%-5.26%	4.21%-7.02%
Salary increase rates	5.00%-6.00%	6.00%	7.00%

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, 2016, assuming if all other assumptions were held constant:

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rates	100	(₱117,278)
	(100)	221,081
Future salary increases	100	220,745
	(100)	(120,482)

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

The Group expects to contribute ₱193.1 million to the defined benefit plans in 2017. The average durations of the defined benefit obligation as of December 31, 2016 and 2015 are 11.0 to 28.76 years and 11.84 to 23.00 years, respectively.

28. Other Income (Expense) - Net

	2016	2015	2014
Surcharges	₱403,730	₱342,871	₱348,666
Gain on remeasurement in step acquisition (see Note 9)	350,939	–	–
Non-utility operating income	94,916	114,108	179,478
Gain on disposal of property, plant and equipment	70,252	5,656	13,195
Rental income	39,415	24,586	32,631
Gain on redemption of shares	16,051	–	4,904
Fair valuation gain on investment property	–	–	15,000
Impairment loss on goodwill (see Note 13)	(169,469)	–	–
Net foreign exchange losses (see Note 34)	(197,226)	(948,761)	(173,587)
Write off of project costs and other assets	(249,176)	(69,137)	(26,000)
Others	1,309,780	194,038	197,638
	₱1,669,212	(₱336,639)	₱591,925

Surcharges represent late payment chargesof a certain percentage on previous unpaid bills of customers of distribution utilities.

Included in "Net foreign exchange 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 in the completion of TSI's power plant amounting to ₱785.4 million.

29. Income Tax

The provision for income tax account consists of:

	2016	2015	2014
Current:			
Corporate income tax	₱3,841,051	₱3,848,706	₱2,957,769
Final tax	201,545	160,608	84,680
	4,042,596	4,009,314	3,042,449
Deferred	(546,456)	(419,645)	381,640
	₱3,496,140	₱3,589,669	₱3,424,089

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

	2016	2015	2014
Statutory income tax rate	30.00%	30.00%	30.00%
Tax effects of:			
Nondeductible interest expense	7.14	8.11	8.58
Nondeductible depreciation expense	1.31	1.46	1.53
Deductible lease payments	(10.33)	(10.82)	(9.76)
Income under income tax holiday (ITH)	(6.69)	(7.77)	(8.74)
Nontaxable share in net earnings of associates and joint ventures	(4.37)	(5.30)	(5.61)
Interest income subjected to final tax at lower rates - net	(1.28)	(1.10)	(0.61)
Others	(1.80)	1.34	0.59
	13.98%	15.92%	15.98%

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:

	2016	2015
Net deferred income tax assets:		
Allowances for impairment and probable losses	₱237,604	₱236,408
Difference between the carrying amount of nonmonetary assets and related tax base	434,044	70,577
Unrealized foreign exchange loss	1,233,475	63,603
Pension asset :		
Unamortized contributions for past service	107,122	52,095
Recognized in other comprehensive income	22,704	76,424
Recognized in statements of income	553	19,015
Unamortized streetlight donations capitalized	–	(1,233)
Unamortized customs duties and taxes capitalized	(460)	(27,466)
Others	80,909	95,456
Net deferred income tax assets	₱2,115,951	₱584,879

	2016	2015
Net deferred income tax liabilities:		
Unamortized franchise	₱840,796	₱863,884
Fair valuation adjustments to property, plant and equipment	156,870	136,503
Unrealized foreign exchange gains	62,060	104,666
Capitalized interest	9,014	41,324
Unamortized customs duties and taxes capitalized	61,849	6,608
Pension asset (liability):		
Recognized in other comprehensive income	(4,548)	(166,368)
Recognized in statements of income	(31,349)	110,463
Unamortized past service cost	(9,849)	(7,669)
Allowances for impairment and probable losses	(55,564)	(43,522)
Others	14,717	84,789
Net deferred income tax liabilities	₱1,043,996	₱1,130,678

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 39j).

No deferred income tax assets were recognized on the Company's NOLCO and MCIT amounting to ₱228.1 million and ₱43.8 million, respectively, as of December 31, 2016 and ₱436.9 million and ₱26.3 million, respectively, as of December 31, 2015, 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:

	2016	2015	2014
a. Net income attributable to equity holders of the parent	**₱20,002,582**	₱17,603,797	₱16,705,184
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)	**₱2.72**	₱2.39	₱2.27

There are no dilutive potential common shares for the years ended December 31, 2016, 2015 and 2014.

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 39i) 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 36%, 38% and 36% of the power generation revenues of the Group in 2016, 2015 and 2014, respectively.

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

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	₱270,260,258	₱24,741,202	₱118,496,136	(₱58,721,361)	₱354,776,235
Segment Liabilities	₱212,007,307	₱18,772,584	₱12,867,100	(₱500,188)	₱243,146,803
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)	₱22,519,786
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)	₱242,489,246
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

2014

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱36,877,070	₱39,975,961	₱9,906,355	₱–	₱86,759,386
Inter-segment	10,912,569	–	703,972	(11,616,541)	–
Total Revenue	₱47,789,639	₱39,975,961	₱10,610,327	(₱11,616,541)	₱86,759,386
Segment Results	₱17,460,060	₱4,495,412	₱395,287	₱–	₱22,350,759
Unallocated corporate income - net	(95,975)	670,934	16,966	–	591,925
INCOME FROM OPERATIONS	17,364,085	5,166,346	412,253	–	22,942,684
Interest expense	(5,566,441)	(242,525)	(185,131)	–	(5,994,097)
Interest income	196,330	31,523	244,062	–	471,915
Share in net earnings of associates and joint ventures	3,875,761	132,570	16,536,149	(16,534,992)	4,009,488
Provision for income tax	(1,915,896)	(1,379,703)	(128,490)	–	(3,424,089)
NET INCOME	₱13,953,839	₱3,708,211	₱16,878,843	(₱16,534,992)	₱18,005,901
OTHER INFORMATION					
Investments	₱23,320,487	₱829,747	₱92,185,215	(₱91,836,750)	₱24,498,699
Capital Expenditures	₱12,821,960	₱2,186,654	₱31,416	₱–	₱15,040,030
Segment Assets	₱173,999,700	₱20,342,183	₱116,756,308	(₱94,337,170)	₱216,761,021
Segment Liabilities	₱93,667,237	₱14,334,634	₱25,582,137	(₱12,903,427)	₱120,680,581
Depreciation and Amortization	₱3,470,689	₱1,048,726	₱20,151	₱103,734	₱4,643,300

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, short-term 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, SNAP M and SNAP B in the amount of ₱1.15 billion in 2016, ₱1.49 billion in 2015, and ₱1.98 billion in 2014.

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			
	2016	2015	2014	2016	2015	Terms	Conditions
Associates							
CEDC	₱103,945	₱110,157	₱66,935	₱13,972	₱14,997	30-day; interest-free	Unsecured; no impairment
SFELAPCO	58,119	66,274	88,358	21,827	57,006	30-day; interest-free	Unsecured; no impairment
EAUC	–	4,790	6,600	–	1,224	30-day; interest-free	Unsecured; no impairment
RPEI	5,882	–	23,612	–	–	30-day; interest-free	Unsecured; no impairment
	₱167,946	₱181,221	₱185,505	₱35,799	₱73,227		

b. Revenue - Sale of power

	Revenue			Receivable			
	2016	2015	2014	2016	2015	Terms	Conditions
AEV and subsidiaries							
Pilmico Foods Corporation	₱156,227	₱101,800	₱90,895	₱17,010	₱9,850	30-day; interest-free	Unsecured; no impairment
Lima Water Corporation	12,944	14,207	10,608	1,151	–	30-day; interest-free	Unsecured; no impairment
Aboitizland, Inc. and subsidiaries	11,192	11,299	9,552	1,333	1,360	30-day; interest-free	Unsecured; no impairment
Lima Land, Inc.	2,835	2,978	763	63	–	30-day; interest-free	Unsecured; no impairment
Associates and Joint Ventures							
SFELAPCO	2,669,036	2,654,128	2,567,959	196,912	197,118	30-day; interest-free	Unsecured; no impairment
SNAP B	18,291	–	48,952	–	–	30-day; interest-free	Unsecured; no impairment
SNAP M	13,868	–	19,182	–	–	30-day; interest-free	Unsecured; no impairment
Other related parties							
Tsuneishi Heavy Industries Cebu, Inc. (a joint venture of ACO and Tsuneishi Group)	545,344	589,082	616,373	45,266	47,822	30-day; interest-free	Unsecured; no impairment
Metaphil International, Inc. (a subsidiary of ACO)	10,868	6,722	7,276	429	1,088	30-day; interest-free	Unsecured; no impairment
	₱3,440,605	₱3,380,216	₱3,371,560	₱262,164	₱257,238		

c. Cost of purchased power

	Purchases			Payable			
	2016	2015	2014	2016	2015	Terms	Conditions
Associates and Joint Ventures							
CEDC	₱4,552,650	₱4,593,202	₱285,774	₱395,904	₱391,761	30-day; interest-free	Unsecured
SPPC	328,000	–	–	32,900	–	30-day; interest-free	Unsecured
SNAP M	219,272	216,525	–	21,702	–	30-day; interest-free	Unsecured
WMPC	136,500	–	–	–	–	30-day; interest-free	Unsecured
SNAP B	–	84,744	–	–	–	30-day; interest-free	Unsecured
EAUC	–	87,411	108,354	–	6,328	30-day; interest-free	Unsecured
	₱5,236,422	₱4,981,882	₱394,128	₱450,506	₱398,089		

d. Expenses

	Nature	Purchases/Expenses 2016	2015	2014	Payable 2016	2015	Terms	Conditions
Ultimate Parent								
ACO	Professional and Technical fees	₱8,313	₱17,809	₱–	₱727	₱1,438	30-day; interest-free	Unsecured
AEV and subsidiaries								
AEV	Professional and Technical fees	550,290	451,935	569,373	169,170	79,907	30-day; interest-free	Unsecured
AAI	Aviation Services	30,009	45,326	58,034	2,167	4,151	30-day; interest-free	Unsecured
Lima Land, Inc.	Concession fees	49,622	44,861	50,507	4,008	–	30-day; interest-free	Unsecured
CPDC	Rental	20,364	17,202	20,415	7,258	7,825	30-day; interest-free	Unsecured
CPDC	Professional and Technical fees	10,426	6,554	–	121	699	30-day; interest-free	Unsecured
Aboitizland, Inc. and subsidiaries	Rental	2,253	1,070	2,109	–	–	30-day; interest-free	Unsecured
Associate								
EAUC	Professional and Technical fees	–	3,924	–	–	3,806	30-day; interest-free	Unsecured
		₱671,277	₱588,681	₱700,438	₱183,451	₱97,826		

e. Capitalized construction and rehabilitation costs

	Purchases 2016	2015	2014	Payable 2016	2015	Terms	Conditions
Other related parties							
ACI	₱388,172	₱–	₱412,980	₱2,583	₱–	30-day; interest-free	Unsecured

f. Temporary advances

	Interest Expense 2016	2015	2014	Payable 2016	2015	Terms	Conditions
Parent							
AEV	₱16,290	₱–	₱–	₱2,559,500	₱–	On-demand; interest-bearing	Unsecured

g. Notes receivable

	Interest Income 2016	2015	2014	Receivable 2016	2015	Terms	Conditions
Joint venture							
SACASUN (see Note 14)	₱847	₱–	₱–	₱2,882,456	₱–	Interest-bearing	Secured

The notes receivable from SACASUN is collectible in 12 years with one-year grace period, and bears interest as follows:

- Peso fixed tranche – 6.43% per annum on initial advance; interest will be calculated at the time of each drawdown per note agreement, on subsequent advances
- Peso floating tranche – 4.55% per annum on initial advance; PDST-R2 plus spread or the fixed rate, whichever is higher, on subsequent advances. Interest is repriced quarterly.

The receivable is secured by a mortgage of SACASUN's property, plant and equipment amounting to P3.63 billion and a pledge of SACASUN's shares of stock held by its shareholders

h. Cash deposits and placements with UBP

	Interest Income			Outstanding Balance			
	2016	2015	2014	2016	2015	Terms	Conditions
Company	₱78,251	₱34,910	₱70,232	₱712,619	₱1,468,003	90 days or less; interest-bearing	No impairment
TPI and subsidiaries	102,242	29,557	43,839	2,820,245	1,821,709	90 days or less; interest-bearing	No impairment
ARI and subsidiaries	43,955	26,874	57,100	3,941,308	4,062,425	90 days or less; interest-bearing	No impairment
AESI	5,615	1,854	360	251,570	231,970	90 days or less; interest-bearing	No impairment
DLP	4,509	825	5,959	229,069	125,454	90 days or less; interest-bearing	No impairment
VECO	3,755	1,289	10,831	301,062	140,732	90 days or less; interest-bearing	No impairment
CPPC	3,221	1,073	2,963	356,444	16,901	90 days or less; interest-bearing	No impairment
SEZ	2,992	228	3,269	442,712	5,322	90 days or less; interest-bearing	No impairment
EAUC	2,157	51	49	197,607	5,102	90 days or less; interest-bearing	No impairment
LEZ	1,821	948	–	98,052	170,015	90 days or less; interest-bearing	No impairment
AI	1,202	1,674	572	82,520	83,605	90 days or less; interest-bearing	No impairment
MEZ	839	212	702	79,862	24,588	90 days or less; interest-bearing	No impairment
BEZ	679	114	880	81,372	9,852	90 days or less; interest-bearing	No impairment
CLP	405	302	62	2,545	9,212	90 days or less; interest-bearing	No impairment
PEI	51	51	49	4,965	5,102	90 days or less; interest-bearing	No impairment
	₱251,694	₱99,962	₱196,867	₱9,601,952	₱8,179,992		

The Company's retirement benefit fund ("Fund") is in the form of a trust being maintained and managed by AEV. In 2016 and 2015, 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:

	2016	2015	2014
Short-term benefits	₱791,708	₱456,844	₱413,429
Post-employment benefits	24,795	30,616	31,351
	₱816,503	₱487,460	₱444,780

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. 4.81% and 4.18% of the Group's debt will mature in less than one year as of December 31, 2016 and 2015, 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 ₱47.09 billion and ₱15.47 billion, respectively, as of December 31, 2016 and ₱51.10 billion and ₱13.69 billion, respectively, as of December 31, 2015 (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, 2016 and 2015 based on contractual undiscounted payments:

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	157,721,664	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	–
	₱235,722,874	₱281,626,406	₱2,561,032	₱34,427,268	₱109,912,046	₱134,726,060

December 31, 2015

	Total carrying value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Short-term loans	₱2,568,000	₱2,577,358	₱–	₱2,577,358	₱–	₱–
Trade and other payables	11,235,724	11,235,724	1,536	11,234,188	–	–
Long-term debts	58,375,024	84,608,031	–	6,296,553	32,736,451	45,575,027
Customers' deposits	6,383,278	6,383,278	–	–	28,284	6,354,994
Finance lease obligation	53,668,854	88,453,330	–	7,842,450	34,221,600	46,389,280
Long-term obligation on power distribution system	247,184	480,000	–	40,000	200,000	240,000
	₱132,478,064	₱193,737,721	₱1,536	₱27,990,549	₱67,186,335	₱98,559,301

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, 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 4.28% to 6.68%. As of December 31, 2015, 3% of the Group's long-term debt had annual floating interest rates ranging from 2.00% to 2.75%, and 97% have annual fixed interest rates ranging from 3.50% to 6.68%.

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, 2016

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

As of December 31, 2015

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	₱256,763	₱1,289,300	₱7,056	₱1,553,119

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 2016	**200**	**(₱798,339)**
	(100)	**399,170**
December 2015	200	(₱31,062)
	(100)	15,531

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:

	2016	2015	2014
Finance lease obligation (see Note 35)	**₱4,794,801**	₱5,287,369	₱5,289,650
Short-term loans and long-term debt (see Notes 16 and 17)	**2,876,651**	1,208,555	539,909
Customers' deposits (see Note 18)	**2,493**	4,241	8,498
Other long-term obligations (see Notes 13 and 19)	**30,065**	133,693	156,040
	₱7,704,010	₱6,633,858	₱5,994,097

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 40% and 26% of total consolidated borrowings as of December 31, 2016 and 2015, respectively.

Presented below are the Group's foreign currency denominated financial assets and liabilities as of December 31, 2016 and 2015, translated to Philippine Peso:

	December 31, 2016		December 31, 2015	
	US Dollar	Philippine Peso equivalent[1]	US Dollar	Philippine Peso equivalent[2]
Loans and receivables:				
Cash and cash equivalents	$14,990	₱745,303	$39,695	₱1,868,047
Trade and other receivables	266	13,231	224	10,559
Derivative assets	1,098	54,595	6,750	317,645
Total financial assets	16,354	813,129	46,669	2,196,251
Other financial liabilities:				
Trade and other payables	26,578	1,321,455	291	13,691
Long-term debt	623,500	31,000,420	–	–
Finance lease obligation	555,448	27,616,875	588,108	27,676,362
Total financial liabilities	1,205,526	59,938,750	588,399	27,690,053
Total net financial liabilities	($1,189,172)	(₱59,125,621)	($541,730)	(₱25,493,802)

[1]US$1 = ₱49.72
[2]US$1 = ₱47.06

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
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
2015		
US Dollar denominated accounts	US Dollar strengthens by 5%	(₱1,274,690)
US Dollar denominated accounts	US Dollar weakens by 5%	1,274,690

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:

	2016		2015	
	Philippine Peso	US Dollar Equivalent[1]	Philippine Peso	US Dollar Equivalent[1]
Loans and receivables:				
Cash and cash equivalents	₱1,513,927	$30,449	₱36,078	$767
Trade and other receivables	583,160	11,729	1,525	32
	2,097,087	42,178	37,603	799
Other financial liabilities:				
Trade and other payables	893,586	17,973	245,921	5,226
Net foreign currency denominated assets (liabilities)	₱1,203,501	$24,205	(₱208,318)	($4,427)

[1]US$1 = ₱49.72
[2]US$1 = ₱47.06

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:

2016	Effect on income before tax
U.S. dollar appreciates against Philippine peso by 5.0%	($1,216)
U.S. dollar depreciates against Philippine peso by 5.0%	1,204
2015	
U.S. dollar appreciates against Philippine peso by 5.0%	$211
U.S. dollar depreciates against Philippine peso by 5.0%	(233)

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, 2016 and 2015 is summarized in the following table:

	2016	2015
Power distribution:		
Industrial	₱3,589,973	₱3,173,687
Residential	1,324,289	1,395,502
Commercial	545,173	601,065
City street lighting	31,196	28,924
Power generation:		
Power supply contracts	6,945,891	5,202,474
Spot market	1,480,162	1,408,744
	₱13,916,684	₱11,810,396

The above receivables were provided with allowance for doubtful accounts amounting to ₱1.76 billion in 2016 and ₱1.84 billion in 2015 (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:

	2016			2015		
	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	₱5,490,631	₱5,490,631	₱–	₱5,199,178	₱5,199,178	₱–

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, 2016

	Neither past due nor impaired			Past due or individually impaired	Total
	High Grade	Standard	Sub-standard		
Cash and cash equivalents:					
Cash on hand and in banks	₱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	1,166,187	–	–	–	1,166,187
Total	₱65,881,508	₱155,379	₱–	₱4,534,174	₱70,571,061

December 31, 2015

	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	₱5,898,064	₱–	₱–	₱–	₱5,898,064
Short-term deposits	45,200,205	–	–	–	45,200,205
	51,098,269	–	–	–	51,098,269
Trade receivables:					
Power supply contracts	2,781,023	–	–	2,421,451	5,202,474
Spot market	164,747	–	–	1,243,997	1,408,744
Industrial	2,758,983	87,624	81,617	245,463	3,173,687
Residential	774,040	60	6,875	614,527	1,395,502
Commercial	368,280	2,479	30,053	200,253	601,065
City street lighting	13,032	–	1,398	14,494	28,924
	6,860,105	90,163	119,943	4,740,185	11,810,396
Other receivables	3,587,365	–	–	136,257	3,723,622
AFS investments	3,620	–	–	–	3,620
Derivative assets	563,366	–	–	–	563,366
Total	₱62,112,725	₱90,163	₱119,943	₱4,876,442	₱67,199,273

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 investments 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, 2016

		Neither past	Past due but not impaired			
	Total	due nor 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	₱11,584,720	₱11,584,720	₱–	₱–	₱–	₱–
Short-term deposits	35,510,021	35,510,021	–	–	–	–
	47,094,741	47,094,741	–	–	–	–

(Forward)

	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
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	1,166,187	1,166,187	–	–	–	–
Total	₱70,571,061	₱66,036,887	₱1,472,872	₱292,560	₱1,007,106	₱1,761,636

December 31, 2015

	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	₱5,898,064	₱5,898,064	₱–	₱–	₱–	₱–
Short-term deposits	45,200,205	45,200,205	–	–	–	–
	51,098,269	51,098,269	–	–	–	–
Trade receivables:						
Power supply contracts	5,202,474	2,781,023	1,122,354	139,138	622,593	537,365
Spot market	1,408,744	164,747	12,160	6,588	107,250	1,117,999
Industrial	3,173,687	2,928,224	63,862	7,467	162,063	12,071
Residential	1,395,502	780,975	197,886	31,738	246,127	138,776
Commercial	601,065	400,812	59,883	11,338	96,799	32,233
City street lighting	28,924	14,430	1,426	324	9,563	3,181
	11,810,396	7,070,211	1,457,571	196,593	1,244,395	1,841,625
Other receivables	3,723,622	3,587,365	9,991	7,391	118,875	–
AFS investments	3,620	3,620	–	–	–	–
Derivative assets	563,366	563,366	–	–	–	–
Total	₱67,199,273	₱62,322,831	₱1,467,562	₱203,984	₱1,363,270	₱1,841,625

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, 2016 and 2015 are as follows:

	2016	2015
Short-term loans	₱4,155,600	₱2,568,000
Long-term debt	210,061,868	112,043,878
Cash and cash equivalents	(47,094,741)	(51,098,269)
Restricted cash	(2,100,611)	–
Net debt (a)	165,022,116	63,513,609
Equity	111,629,432	101,613,567
Equity and net debt (b)	₱276,651,548	₱165,127,176
Gearing ratio (a/b)	59.65%	38.46%

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 debts as of December 31, 2016 and 2015 (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, 2016 and 2015, 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, 2016 and 2015.

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.

	2016		2015	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Liabilities				
Finance lease obligation	₱52,340,204	₱49,699,074	₱53,668,854	₱56,465,454
Long-term debt - fixed rate	117,804,710	117,710,942	56,821,905	56,387,654
Long-term obligation on power distribution system	237,248	414,135	247,184	414,135
	₱170,382,162	₱167,824,151	₱110,737,943	₱113,267,243

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 2.47% to 7.20% in 2016 and 1.88% to 6.23% in 2015.

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 5.83% to 8.43% in 2016 and 5.83% to 8.17% in 2015 for dollar payments and 1.78% to 6.57% in 2016 and 1.78% to 6.51% in 2015 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 3.83% to 4.47% in 2016 and 2.70% to 4.66% in 2015.

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 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 interest rate swap 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, 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. As of December 31, 2015, the outstanding notional amount and derivative asset as a result of the swap amounted to US$33.1 million and ₱3.4 million, respectively.

GMCP has an interest rate swap agreement to hedge the variability in the interest cash flows on the entire amount of its Onshore - Tranche B loans (see Notes 9 and 17). 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.

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 has an interest rate cap 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 Notes 9 and 17). 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.

Prepayment option
GMCP's offshore and onshore loans have embedded prepayment options subject to a 3% prepayment penalty (see Notes 9 and 17), which was bifurcated and accounted for separately. As of December 31, 2016, the value of the derivative assets related to the embedded prepayment options amounted to ₱874.3 million.

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, 2016 and 2015, the outstanding sell U.S. Dollar buy Euro forward contract has an aggregate notional of €6.4 million and €7.4 million, respectively. The maturity of the derivatives begins on December 21, 2015 until September 1, 2017.

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, 2016 and 2015, the contract has an aggregate notional amount of US$6.9 and US$8.0 million, respectively that will be fully settled within 2017.

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

Par forward contracts
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, 2016 and 2015, the aggregate notional amount of the par forward contracts is US$47.6 million and US$211.4 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, 2016 and 2015, the aggregate notional amount of the par forward contracts is ₱700.0 million and ₱3.64 billion, respectively.

The movements in fair value changes of all derivative instruments for the year ended December 31, 2016 and 2015 are as follows:

	2016	2015
At beginning of year	**₱563,366**	₱112,544
Additions due to business combination (see Note 9)	**523,752**	–
Net changes in fair value of derivatives designated as cash flow hedges	**36,859**	150,474
Net changes in fair value of derivatives not designated as accounting hedges	**(127,039)**	331,291
Fair value of settled instruments	**(191,628)**	(30,943)
At end of year	**₱805,310**	₱563,366

The net gains and losses from the net fair value changes of derivatives not designated as accounting hedges are included under "Net foreign exchange gains" 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:

	2016	2015
Balance at beginning of year (net of tax)	₱147,337	₱81,388
Changes in fair value recorded in equity	62,586	150,474
	209,923	231,862
Additions due to business combination (see Note 9)	(257,500)	–
Transfers to construction in progress	(178,646)	(67,191)
Changes in fair value transferred to profit or loss	10,191	18,704
Balance at end of year before deferred tax effect	(216,032)	183,375
Deferred tax effect	39,096	(36,038)
Balance at end of year (net of tax)	(₱176,936)	₱147,337

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, 2016 and 2015, the Group held the following financial instruments that are measured and carried or disclosed at fair value:

December 31, 2016

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative assets	₱1,166,187	₱–	₱1,166,187	₱–
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

December 31, 2015

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative assets	₱563,366	₱–	₱563,366	₱–
Disclosed at fair value:				
Finance lease obligation	56,465,454	–	–	56,465,454
Long-term debt - fixed rate	56,387,654	–	–	56,387,654
Long-term obligation on PDS	414,135	–	–	414,135

During the years ended December 31, 2016 and 2015, 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 2016, 2015 and 2014 amounted to ₱4.70 billion, ₱5.29 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, 2016 and 2015 are as follows:

	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

	Dollar payments	Peso equivalent of dollar payments[1]	Peso payments	2015 Total
Within one year	$82,500	₱3,882,450	₱3,960,000	₱7,842,450
After one year but not more than five years	468,000	22,024,080	22,464,000	44,488,080
More than five years	380,000	17,882,800	18,240,000	36,122,800
Total contractual payments	930,500	43,789,330	44,664,000	88,453,330
Unamortized discount	342,392	16,112,978	18,671,498	34,784,476
Present value	588,108	27,676,352	25,992,502	53,668,854
Less current portion				2,583,754
Noncurrent portion of finance lease obligation				₱51,085,100

[1]US$1 = ₱49.72 in 2016; ₱47.06 in 2015

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 14). Total lease charged to operations amounted to ₱19.7 million in 2016, 2015 and 2014 (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 25 years renewable upon mutual agreement by the parties.

Therma Mobile

Lease agreements with the Philippine Fisheries Development Authority:

- 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 and
- On December 1, 2014, a 10-year lease for the ground floor of NFPC's administrative building.

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, HI, HTI, HSI, Therma Mobile and EAUC are as follows (amounts in millions):

	2016	2015
Not later than 1 year	₱166.9	₱22.0
Later than 1 year but not later than 5 years	503.6	118.2
Later than 5 years	4,036.5	204.1

Total lease charged to operations related to these contracts amounted to ₱38.5 million in 2016, ₱33.1 million in 2015, and ₱30.2 million in 2014 (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 ₱4.11 billion in 2016, ₱3.96 billion in 2015, and ₱4.94 billion in 2014 (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 25, 2017.

b. Construction of civil works and electro-mechanical works and project management related to the construction of the Tudaya 1 and 2 hydro power plants. Total purchase commitments entered into by Hedcor Sibulan and Hedcor Tudaya amounted to ₱6.3 million and €0.1 million as of December 31, 2015, respectively, and ₱52.7 million and €2.0 million as of December 31, 2014, respectively. Total payments made for the commitments amounted to ₱5.7 million and ₱49.4 million as of December 31, 2015 and 2014, respectively.

c. TLI enters into short-term coal supply agreements. Outstanding coal supply agreements as of December 31, 2016 have aggregate supply amounts of 510,000 MT (equivalent dollar value is estimated to be at $42 million) which are due for delivery from January 2017 to August 2017. 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. 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, 2016, the joint operation has a retention payable amounting to ₱334.4 million, 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 six (7) years, as follows:

Subsidiary	BOI Approval Date	Start of ITH Period	ITH Period
Hedcor Sibulan[3]	December 27, 2007	March 1, 2010	7 years
APRI[2]	June 19, 2009	June 1, 2009	7 years
TLI[2]	February 26, 2010	January 1, 2010	4 years
Therma Marine[2]	May 28, 2010	May 1, 2010	4 years
TSI	July 15, 2011	June 1, 2015[1]	4 years
TVI	July 17, 2012	July 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	4 years

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

[2] Expired ITH: TLI - December 2013; Therma Marine - May 2014; 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, 2016 and 2015, the power generation subsidiaries referred to above, which are currently availing the incentives, have complied with the requirements.

38. 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 amounting to ₱1.15 billion in 2016, ₱1.49 billion in 2015, and ₱1.98 billion in 2014 (see Note 32).

39. 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.

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. Therma Mobile is in receipt of PEMC's Motion for Reconsideration, and in compliance with a Resolution of the CA, has filed a comment on the said motion.

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, 2015, 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) and 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, 2016.

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, 2016.

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.

The Group expects that some of its subsidiaries and associates who are registered RE developers may benefit from the fiscal incentives provided for under the Act.

k. CSR Projects

The Group has several CSR projects in 2016, 2015 and 2014 which are presented as part of "General and administrative expenses" (see Note 24).

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

The Board of Directors and Stockholders
Aboitiz Power Corporation
32[nd] 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 7, 2017. 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.

Leovina Mae V. Chu

Leovina Mae V. Chu
Partner
CPA Certificate No. 99910
SEC Accreditation No. 1199-AR-1 (Group A),
June 22, 2015, valid until June 21, 2018
Tax Identification No. 209-316-911
BIR Accreditation No. 08-001998-96-2015,
January 5, 2015, valid until January 4, 2018
PTR No. 5908776, January 3, 2017, Makati City

March 7, 2017

Aboitiz Power Corporation and Subsidiaries

Supplementary Schedules
to the Financial Statements
Required by the Securities and Exchange Commission
For the Year Ended December 31, 2016

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, 2016

NA: NOT APPLICABLE

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

AS OF DECEMBER 31, 2016
(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		P283	P-
Banco de Oro		1,590,506	1,168
Bank of America Corporation		248	-
Bank of Commerce		277	5
Bank of the Philippine Islands		2,844,801	4,783
Bank of Tokyo - Mitsubishi UFJ		10,233	-
Cash on Hand, Cash in Vault and Revolving Fund		151,447	412
China Development Bank Corporation		45	-
Citibank		1,481,956	1,301
Development Bank of the Philippines		996	3
Eastwest Banking Corporation		15,651	-
ING Bank N.V.		1,290,374	-
Land Bank of the Philippines		8,528	15
Metropolitan Bank and Trust Company		307,665	1,719
One Network Bank		8,970	-
Philippine National Bank		89,347	51
Rizal Commercial Banking Corporation		53,950	126
Security Bank Corporation		224,933	136
Standard Chartered Bank		20,844	-
Union Bank of the Philippines		3,032,536	23,522
TOTAL		P11,133,591	P33,242
MONEY MARKET PLACEMENT			
Banco de Oro		P1,941,076	P65,505
Bank of the Philippine Islands		10,961,293	184,941
Citibank		1,342,440	1,187
City Savings Bank		10,941,821	221,281
First Metro Investment Corporation		-	25,254
Metropolitan Bank and Trust Company		4,130,335	64,066
Philippine National Bank		6,613	149,361
Rizal Commercial Banking Corporation		9,087	2,545
Security Bank Corporation		33,809	15,163
Mizuho Corporate Bank, Ltd.		15,043	89,057
United Coconut Planters Bank		10,218	-
Union Bank of the Philippines		6,569,416	228,172
TOTAL		P35,961,150	P1,046,532
TRADE AND OTHER RECEIVABLES			
Trade Receivables (net of allowance):			
Residential		P1,163,210	P-
Commercial		3,556,131	-
Industrial		540,692	-
City street Lighting		23,815	-
Spot market		254,546	-
Power supply contracts		6,516,654	-
Dividends Receivable		748,000	-
Advances to contractors		773,545	
Accrued Revenues		548,852	-
Non-trade Receivables		256,447	-
Interest receivable		256,998	
Other Receivables		726,231	
TOTAL		P15,465,121	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	96,689	
Others	938	94	
TOTAL		P100,309	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, 2016
(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.	P426,898	P6,401,333	(P6,316,964)	P-	P511,267	P-	P511,267
Therma Power, Inc. and Subsidiaries	61,856	1,303,204	(1,300,715)	-	64,345	-	64,345
Cotabato Light & Power Company	10,812	27,416	(34,241)	-	3,987	-	3,987
Aboitiz Renewables, Inc. and Subsidiaries	2,891	22,557	(25,313)	-	135	-	135
Subic Enerzone Corporation	226,596	793,043	(811,455)	-	208,184	-	208,184
Visayan Electric Co., Inc.	525,491	3,349,499	(3,549,031)		325,959	-	325,959
Aboitiz Energy Solutions, Inc.	346,001	3,641,848	(3,486,032)	-	501,817	-	501,817
Mactan Enerzone Corporation	682	2,470	(2,371)	-	781	-	781
Balamban Enerzone Corporation	623	28,061	(17,686)	-	10,998	-	10,998
Cebu Private Power Corporation	10,530	18,499	(11,010)	-	-	-	18,019
Lima Enerzone Corporation	82,862	785,315	(789,309)	-	78,868	-	78,868
East Asia Utilities Corporation	0	883	(883)	-	0	-	0
Adventenergy, Inc.	243,992	2,347,341	(2,283,461)	-	307,872	-	307,872
TOTAL	P1,939,234	P18,721,469	(P18,628,471)	P-	P2,014,213	P-	P2,032,232

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS

AS OF DECEMBER 31, 2016
(Amount in Thousands)

Description	Beginning Balance	Additions At Cost	DEDUCTIONS		Other Changes Additions (Deductions)	Ending Balance
			Charged to Costs and Expenses	Charged to Other Accounts		
A. Intangibles						
Goodwill	P1,094,687	P-	(P169,469)	P-	P36,269,602	P37,194,820
Service concession rights	3,226,536	45,875	(199,342)	-	149,054	3,222,123
Project development costs	269,889	93,693	(80,380)	-	(9,477)	273,725
Franchise	2,879,615	-	(76,961)	-		2,802,654
Customer contracts	42,906	-	(11,442)	-	-	31,464
Software and licenses	79,087	56,705	(32,092)	-	14,047	117,747
Total	P7,592,720	P196,273	(P569,686)	P-	P36,423,226	P43,642,533
B. Other Noncurrent Assets						
Restricted cash	P-	P-	P-	P-	P-	P-
Prepaid rent	430,348	-	-	-	92,876	523,224
Deferred input vat and tax credit receivable	4,579,445	2,161,513	-	-	-	6,740,958
Notes Receivable					2,739,632	2,739,632
Advances to contractors and projects	555,507	-	-	-	(107,831)	447,676
Receivable from NGCP	102,350	-	-	-	44,364	146,714
Refundable deposits	308,854	-	-	-	(67,257)	241,597
Others	143,870	-	-	-	28,312	172,182
Total	P6,120,374	P2,161,513	P-	P-	P2,730,096	P11,011,983
Total	**P13,713,094**	**P2,357,786**	**(P569,686)**	**P-**	**P39,153,322**	**P54,654,516**

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE E - LONG-TERM DEBT

AS OF DECEMBER 31, 2016
(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	P9,922,153	P-	P9,922,153	
Subsidiaries:				
Hedcor, Inc.	626,620	89,151	537,469	
Subic Enerzone Corporation	282,500	56,500	226,000	
Luzon Hydro Corporation	1,369,631	271,667	1,097,964	
Davao Light & Power Co., Inc.	1,034,250	152,250	882,000	
Cotabato Light & Power Company	206,850	30,450	176,400	
Therma South, Inc.	23,737,423	1,280,444	22,456,979	
Pagbilao Energy Corp. (Joint Operation)	11,414,270	-	11,414,270	
Visayan Electric Co., Inc.	1,375,066	201,896	1,173,170	
GNPower Mariveles Coal Plant Ltd. Co.	26,425,533	3,991,223	22,434,310	
Therma Visayas, Inc.	27,185,268		27,185,268	
Therma Power, Inc.	30,492,512		30,492,512	
AP Renewables, Inc.	11,608,257	1,250,240	10,358,017	
Aseagas Corporation	2,423,555	131,579	2,291,976	
Hedcor Sibulan, Inc.	4,049,945	2,963	4,046,982	
Hedcor Bukidnon, Inc.	5,567,831		5,567,831	
Total	**P157,721,664**	**P7,458,363**	**P150,263,301**	

ABOITIZ POWER CORPORATION

SCHEDULE H - CAPITAL STOCK

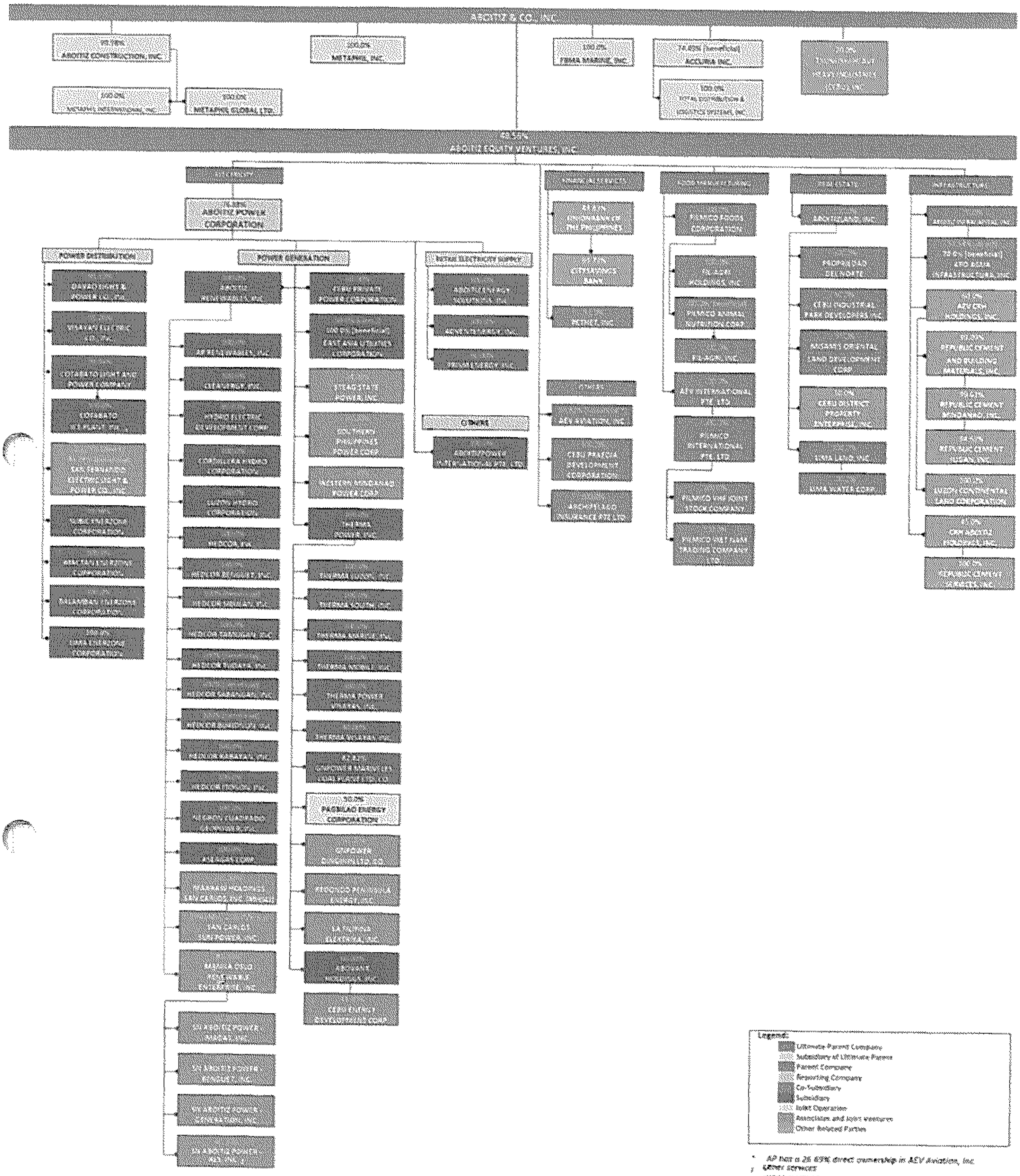
AS OF DECEMBER 31, 2016
(Amounts in Thousands)

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	145,448	1,401,221
PREFERRED SHARES	1,000,000	-	-	-	-	-

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONGLOMERATE MAPPING

As of December 31, 2018



* AP has a 26.69% direct ownership in AEV Aviation, Inc.

1 Other services

2 Retail electricity supply

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE OF RELEVANT FINANCIAL RATIOS

	FORMULA	2016	2015
LIQUIDITY RATIOS			
Current ratio	Current assets / Current liabilities	2.25	3.12
Acid test ratio	(Cash + Marketable securities + Accounts receivable + Other liquid assets) / Current liabilities	1.91	2.88
SOLVENCY RATIOS			
Debt to equity ratio	Total liabilities / Total equity	2.18	1.39
Asset to equity ratio	Total assets / Total equity	3.18	2.39
Net debt to equity ratio	Debt - Cash & cash equivalents / Total equity	1.48	0.63
Gearing ratio	Debt - Cash & cash equivalents / Total equity + (Debt - Cash & cash equivalents)	59.65%	38.46%
Interest coverage ratio	EBIT / Interest expense	477.62%	489.50%
PROFITABILITY RATIOS			
Operating margin	Operating profit / Total revenues	29.5%	29.0%
Return on equity	Net income after tax / Total equity adjusted for cash dividends	22.6%	21.3%

Aboitiz Power Corporation and Subsidiaries

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2016

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 PFRS 7: Transitions	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: 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 or final version)	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
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception	See footnote[1]
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

Philippine Accounting Standards (PAS)

PAS 1 (Revised)	Presentation of Financial Statements	Adopted

Aboitiz Power Corporation and Subsidiaries

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2016

Standards and Interpretations		Remarks
	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
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
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: Actuarial Gains and Losses, Group Plans and Disclosures	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 Government Assistance	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: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	See footnote[3]
	Amendments to PAS 28, Investment Entities: Applying the Consolidation Exception	See footnote[2]
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 Liabilities	Adopted
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	Adopted
	Amendments to PAS 39: The Fair Value Option	Adopted

Aboitiz Power Corporation and Subsidiaries

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2016

Standards and Interpretations		Remarks
	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
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 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 12	Service Concession Arrangements	Adopted
IFRIC 13	Customer Loyalty Programmes	Not Applicable
IFRIC 14	PAS 19 - 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 Requirement	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

Philippine Interpretations - Standing Interpretations Committee (SIC)

SIC 7	Introduction of the Euro	Not Applicable
SIC 10	Government Assistance - No Specific Relation to Operating Activities	Not Applicable
SIC 15	Operating Leases - Incentives	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

International Financial Reporting Standards

IFRS 15	Revenue from Contracts with Customers	See footnote[1]
IFRS 16	Leases	See footnote[1]

[1] Effective subsequent to December 31, 2016

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)
608	May/16	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.

SEC
Cebu Extension Office
APR 13 2016
By:
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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 consolidated financial statements for the years ended December 31, 2015 and 2014, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined 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 examination.

ENRIQUE M. ABOITIZ, JR.
Chairman of the Board

ERRAMON I. ABOITIZ
Chief Executive Officer

LIZA LUV T. MONTELIBANO
FVP/Chief Financial Officer/Corporate Information Officer

BUREAU OF INTERNAL REVENUE
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Signed this 8th day of March 2016

AboitizPower

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 02194391	September 24, 2013, Manila January 20, 2016, Cebu City
ERRAMON I. ABOITIZ	EB7151577 02252882	January 14, 2013; Cebu City January 26, 2016, Cebu City
LIZA LUV T. MONTELIBANO	EC1111684 15267743	May 16, 2014, NCR South February 24, 2016, Makati City

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 14 2016.

Doc. No. 450;
Page No. 91;
Book No. III;
Series of 2016

Joyce Grace B. Casas
Notary Public for Taguig City
Notarial Commission No. 271
Until December 31, 2016
NAC Tower, 32nd Street, Bonifacio Global City, Taguig City
PTR No. A-2626644; Taguig City; January 04, 2016
IBP No. 1017212; January 04, 2016; Taguig City
Roll No. 61486
MCLE No. IV-0008071

ATTY. JOYCE GRACE B. CASAS
ROLL NO. 61486
NOTARY PUBLIC

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
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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 AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Aboitiz Power Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aboitiz Power Corporation and Subsidiaries as at December 31, 2015 and 2014, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Leovina Mae V. Chu

Leovina Mae V. Chu
Partner
CPA Certificate No. 99910
SEC Accreditation No. 1199-AR-1 (Group A),
June 22, 2015, valid until June 21, 2018
Tax Identification No. 209-316-911
BIR Accreditation No. 08-001998-96-2015,
January 5, 2015, valid until January 4, 2018
PTR No. 5321709, January 4, 2016, Makati City

March 8, 2016

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ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31 2015	December 31 2014
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	₱51,098,269	₱40,231,875
Trade and other receivables (Note 6)	13,692,393	12,332,513
Derivative assets (Note 35)	185,283	53,500
Inventories (Note 7)	2,040,603	2,168,832
Other current assets (Note 8)	3,392,473	1,939,369
Total Current Assets	70,409,021	56,726,089
Noncurrent Assets		
Investments and advances (Note 10)	22,551,845	24,816,278
Property, plant and equipment (Note 13)	134,810,627	119,646,640
Intangible asset - service concession rights (Note 14)	3,226,536	3,400,354
Investment properties	3,300	28,300
Derivative assets - net of current portion (Note 35)	378,083	59,044
Available-for-sale (AFS) investments - net of allowance for impairment of ₱5,254	3,620	3,620
Goodwill (Note 12)	1,094,687	1,094,687
Net pension assets (Note 28)	34,777	79,000
Deferred income tax assets (Note 30)	584,879	243,756
Other noncurrent assets (Note 15)	9,391,871	10,663,253
Total Noncurrent Assets	172,080,225	160,034,932
TOTAL ASSETS	₱242,489,246	₱216,761,021
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Note 17)	₱2,568,000	₱103,000
Current portions of:		
Long-term debts (Note 18)	2,368,161	1,388,991
Finance lease obligation (Note 36)	2,583,754	1,971,739
Long-term obligation on power distribution system (Note 14)	40,000	40,000
Trade and other payables (Note 16)	14,140,576	12,778,001
Income tax payable (Note 30)	852,709	604,158
Total Current Liabilities	22,553,200	16,885,889

(Forward)

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BUREAU OF INTERNAL REVENUE LARGE TAXPAYERS DIVISION-CEBU RECEIVED APR 13 2016 DPGIA SECTION INITIAL

	December 31	
	2015	2014
Noncurrent Liabilities		
Noncurrent portions of:		
Long-term debts (Note 18)	**₱56,006,863**	₱41,394,084
Finance lease obligation (Note 36)	**51,085,100**	52,489,282
Long-term obligation on power distribution system (Note 14)	**207,184**	216,015
Customers' deposits (Note 19)	**6,383,278**	5,686,490
Asset retirement obligation (Note 20)	**3,016,528**	2,353,250
Net pension liabilities (Note 28)	**492,848**	405,854
Deferred income tax liabilities (Note 30)	**1,130,678**	1,249,717
Total Noncurrent Liabilities	**118,322,479**	103,794,692
Total Liabilities	**140,875,679**	120,680,581
Equity Attributable to Equity Holders of the Parent		
Capital stock (Note 21a)	**7,358,604**	7,358,604
Additional paid-in capital (Note 21a)	**12,588,894**	12,588,894
Share in net unrealized valuation gains on AFS investments of an associate (Note 10)	**114,920**	119,087
Cumulative translation adjustments (Note 35)	**185,431**	38,091
Share in cumulative translation adjustments of associates and joint ventures (Note 10)	**(256,376)**	(375,489)
Actuarial losses on defined benefit plans (Note 28)	**(609,066)**	(519,854)
Share in actuarial losses on defined benefit plans of associates and joint ventures (Note 10)	**(3,748)**	(48,589)
Acquisition of non-controlling interests	**(259,147)**	(259,147)
Excess of cost over net assets of investments (Note 9)	**(421,260)**	(421,260)
Retained earnings (Note 21b)		
Appropriated	**20,900,000**	20,900,000
Unappropriated (Notes 10 and 21c)	**57,970,269**	52,581,755
	97,568,521	91,962,092
Non-controlling Interests	**4,045,046**	4,118,348
Total Equity (Note 21)	**101,613,567**	96,080,440
TOTAL LIABILITIES AND EQUITY	**₱242,489,246**	₱216,761,021

See accompanying Notes to Consolidated Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
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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		
	2015	2014	2013
OPERATING REVENUES			
Sale of power (Notes 22 and 33):			
Generation	₱33,368,797	₱36,877,070	₱39,436,267
Distribution	41,379,270	39,975,961	28,067,236
Retail electricity supply	10,227,771	9,702,714	4,372,597
Technical, management and other fees (Note 33)	198,114	203,641	179,067
	85,173,952	86,759,386	72,055,167
OPERATING EXPENSES			
Cost of purchased power (Notes 23 and 33)	27,902,180	29,834,149	24,715,315
Cost of generated power (Note 24)	18,524,059	21,037,658	17,642,484
General and administrative (Note 25)	5,818,090	5,500,130	4,120,297
Depreciation and amortization (Notes 13, 14 and 15)	4,322,000	4,643,302	3,875,299
Operations and maintenance (Note 26)	3,921,046	3,393,388	2,224,483
	60,487,375	64,408,627	52,577,878
FINANCIAL INCOME (EXPENSES)			
Interest income (Notes 5 and 33)	846,293	471,915	413,795
Interest expense and other financing costs (Notes 17, 18 and 34)	(6,633,858)	(5,994,097)	(5,343,728)
	(5,787,565)	(5,522,182)	(4,929,933)
OTHER INCOME (EXPENSES)			
Share in net earnings of associates and joint ventures (Note 10)	3,979,947	4,009,488	6,474,370
Other income (expenses) - net (Note 29)	(336,639)	591,925	(1,083,764)
	3,643,308	4,601,413	5,390,606
INCOME BEFORE INCOME TAX	22,542,320	21,429,990	19,937,962
PROVISION FOR INCOME TAX (Note 30)	3,589,669	3,424,089	526,625
NET INCOME	₱18,952,651	₱18,005,901	₱19,411,337
ATTRIBUTABLE TO:			
Equity holders of the parent	₱17,603,797	₱16,705,184	₱18,576,845
Non-controlling interests	1,348,854	1,300,717	834,492
	₱18,952,651	₱18,005,901	₱19,411,337
EARNINGS PER COMMON SHARE (Note 31)			
Basic and diluted, for income for the year attributable to ordinary equity holders of the parent	₱2.39	₱2.27	₱2.52

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2015	2014	2013
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the parent	**₱17,603,797**	₱16,705,184	₱18,576,845
Non-controlling interests	**1,348,854**	1,300,717	834,492
	18,952,651	18,005,901	19,411,337
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)	**(4,167)**	30,900	2,891
Movement in cumulative translation adjustments	**147,340**	62,602	145,334
Share in movement in cumulative translation adjustment of associates and joint ventures (Note 10)	**119,113**	13,068	459,032
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**262,286**	106,570	607,257
Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:			
Actuarial gains (losses) on defined benefit plans, net of tax (Note 28)	**(81,205)**	170,244	(363,091)
Share in actuarial gains (losses) on defined benefit plans of associates and joint ventures, net of tax (Note 10)	**44,841**	(16,774)	59,659
Net other comprehensive gain (loss) not to be reclassified to profit or loss in subsequent periods	**(36,364)**	153,470	(303,432)
Total other comprehensive income for the year, net of tax	**225,922**	260,040	303,825
TOTAL COMPREHENSIVE INCOME	**₱19,178,573**	₱18,265,941	₱19,715,162
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱17,821,712**	₱16,969,872	₱18,951,123
Non-controlling interests	**1,356,861**	1,296,069	764,039
	₱19,178,573	₱18,265,941	₱19,715,162

See accompanying Notes to Consolidated Financial Statements.

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ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(Amounts in Thousands, Except Dividends Per Share Amounts)

	Attributable to Equity Holders of the Parent									Retained Earnings			
	Capital Stock (Note 21a)	Additional Paid-in Capital	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 28)	Share in Actuarial 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 21b)	Unappropriated (Note 21b)	Non-controlling Interests	Total
Balances at January 1, 2015	₱7,358,604	₱12,588,894	₱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 gains 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 on defined benefit plans, net of tax	–	–	–	–	–	(89,212)	–	–	–	–	–	8,007	(81,205)
Share in actuarial losses 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 21b)	–	–	–	–	–	–	–	–	–	–	(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	₱7,358,604	₱12,588,894	₱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

	Attributable to Equity Holders of the Parent												
										Retained Earnings			
	Capital Stock (Note 21a)	Additional Paid-in Capital	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 28)	Share in Actuarial 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 21b)	Unappropriated (Note 21b)	Non-controlling Interests	Total
Balances at January 1, 2014	₱7,358,604	₱12,588,894	₱88,187	(₱24,511)	(₱388,557)	(₱694,746)	(₱31,815)	(₱259,147)	₱–	₱–	₱68,991,854	₱3,621,994	₱91,250,757
Net income for the year	–	–	–	–	–	–	–	–	–	–	16,705,184	1,300,717	18,005,901
Other comprehensive income													
Share in net unrealized valuation gains on AFS investments of an associate	–	–	30,900	–	–	–	–	–	–	–	–	–	30,900
Movement in cumulative translation adjustments	–	–	–	62,602	–	–	–	–	–	–	–	–	62,602
Share in movement in cumulative translation adjustment of associates and joint ventures	–	–	–	–	13,068	–	–	–	–	–	–	–	13,068
Actuarial gains on defined benefit plans, net of tax	–	–	–	–	–	174,892	–	–	–	–	–	(4,648)	170,244
Share in actuarial losses on defined benefit plans of associates and joint ventures	–	–	–	–	–	–	(16,774)	–	–	–	–	–	(16,774)
Total comprehensive income (loss) for the year	–	–	30,900	62,602	13,068	174,892	(16,774)	–	–	–	16,705,184	1,296,069	18,265,941
Acquisition of a subsidiary (Note 8)	–	–	–	–	–	–	–	–	(421,260)	–	–	–	(421,260)
Appropriation during the year	–	–	–	–	–	–	–	–	–	20,900,000	(20,900,000)	–	–
Cash dividends - ₱1.66 a share (Note 21b)	–	–	–	–	–	–	–	–	–	–	(12,215,283)	–	(12,215,283)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(1,141,673)	(1,141,673)
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	341,958	341,958
Balances at December 31, 2014	₱7,358,604	₱12,588,894	₱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

	Capital Stock (Note 21a)	Additional Paid-in Capital	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 28)	Share in Actuarial Losses on Defined Benefit Plans of Associates and Joint Ventures (Note 10)	Acquisition of Non-controlling Interests	Unappropriated Retained Earnings (Note 21b)	Non-controlling Interests	Total
	Attributable to Equity Holders of the Parent										
Balances at January 1, 2013	₱7,358,604	₱12,588,894	₱85,296	(₱169,845)	(₱847,589)	(₱402,108)	(₱91,474)	(₱259,147)	₱62,630,292	₱1,566,040	₱82,458,963
Net income for the year	–	–	–	–	–	–	–	–	18,576,845	834,492	19,411,337
Other comprehensive income											
Share in net unrealized valuation gains on AFS investments of an associate	–	–	2,891	–	–	–	–	–	–	–	2,891
Movement in cumulative translation adjustments	–	–	–	145,334	–	–	–	–	–	–	145,334
Share in movement in cumulative translation adjustment of associates and joint ventures	–	–	–	–	459,032	–	–	–	–	–	459,032
Actuarial losses on defined benefit plans, net of tax	–	–	–	–	–	(292,638)	–	–	–	(70,453)	(363,091)
Share in actuarial losses on defined benefit plans of associates and joint ventures	–	–	–	–	–	–	59,659	–	–	–	59,659
Total comprehensive income (loss) for the year	–	–	2,891	145,334	459,032	(292,638)	59,659	–	18,576,845	764,039	19,715,162
Cash dividends - ₱1.66 a share (Note 21b)	–	–	–	–	–	–	–	–	(12,215,283)	–	(12,215,283)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(612,229)	(612,229)
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	1,904,144	1,904,144
Balances at December 31, 2013	₱7,358,604	₱12,588,894	₱88,187	(₱24,511)	(₱388,557)	(₱694,746)	(₱31,815)	(₱259,147)	₱68,991,854	₱3,621,994	₱91,250,757

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱22,542,320	₱21,429,990	₱19,937,962
Adjustments for:			
Interest expense and other financing costs (Note 34)	6,633,858	5,994,097	5,343,728
Depreciation and amortization (Notes 13, 14 and 15)	4,322,000	4,643,302	3,875,299
Net unrealized foreign exchange losses	1,390,459	188,018	2,078,138
Write-off of project costs and other assets (Notes 13 and 15)	69,137	26,000	85,051
Impairment losses on AFS and investment in an associate (Note 10)	–	2,834	568,125
Gain on redemption of shares (Note 29)	–	(4,904)	(4,792)
Fair valuation gain on investment property	–	(15,000)	–
Impairment loss on goodwill (Note 12)	–	–	368,904
Gain on remeasurement in step acquisition (Note 9)	–	–	(964,600)
Gain on sale of property, plant and equipment	(5,656)	(13,195)	(1,323)
Unrealized fair valuation losses (gains) on derivatives (Note 35)	(317,645)	897	(395)
Interest income (Notes 5 and 33)	(846,293)	(471,915)	(413,795)
Share in net earnings of associates and joint ventures (Note 10)	(3,979,947)	(4,009,488)	(6,474,370)
Operating income before working capital changes	29,808,233	27,770,636	24,397,932
Decrease (increase) in:			
Trade and other receivables	(249,822)	200,799	(2,167,657)
Inventories	128,229	477,019	(311,931)
Other current assets	(1,453,104)	(202,403)	(680,254)
Increase (decrease) in:			
Trade and other payables	(421,548)	(2,834,127)	3,700,017
Long-term obligation on power distribution system	(40,000)	(40,000)	(40,000)
Customers' deposits	696,788	548,335	898,974
Net cash generated from operations	28,468,776	25,920,259	25,797,081
Income and final taxes paid	(3,269,179)	(2,482,280)	(1,383,938)
Net cash flows from operating activities	25,199,597	23,437,979	24,413,143
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash dividends received (Note 10)	4,071,041	4,618,730	4,241,994
Proceeds from redemption of shares (Note 10)	2,677,204	31,599	323,717
Interest received	837,978	390,638	364,490
Net collection of advances (Note 10)	285,520	101,835	25,000
Proceeds from sale of property, plant and equipment	35,714	17,406	10,222

(Forward)

	Years Ended December 31		
	2015	2014	2013
Additional AFS investments	₱–	₱–	(₱200)
Acquisitions through business combinations, net of cash acquired (Note 9)	–	(1,182,366)	217,862
Proceeds from sale of AFS	–	200	–
Additions to:			
Property, plant and equipment (Note 13)	(15,701,414)	(15,003,744)	(15,618,273)
Intangible assets - service concession rights (Note 14)	(20,046)	(36,286)	(41,694)
Increase in other noncurrent assets	(636,988)	(1,915,107)	(968,892)
Additional investments (Note 10)	(451,655)	(2,500)	(56,250)
Net cash flows used in investing activities	(8,902,646)	(12,979,595)	(11,502,024)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of long-term debt - net of transaction costs (Note 18)	16,350,925	20,634,755	20,797,150
Cash dividends paid (Note 21b)	(12,215,283)	(12,215,283)	(13,834,176)
Payments of:			
Long-term debt (Note 18)	(908,611)	(854,220)	(8,965,920)
Finance lease obligation	(7,482,447)	(6,970,625)	(6,722,939)
Net availments (payments) of bank loans (Note 17)	2,465,000	103,000	(2,332,000)
Changes in non-controlling interests	(1,430,153)	(949,131)	(612,229)
Interest paid	(2,228,186)	(1,367,428)	(513,562)
Payments to a preferred shareholder of a subsidiary	–	–	(62,140)
Net cash flows used in financing activities	(5,448,755)	(1,618,932)	(12,245,816)
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,848,196	8,839,452	665,303
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	18,198	8,924	39,703
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	40,231,875	31,383,499	30,678,493
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	₱51,098,269	₱40,231,875	₱31,383,499

See accompanying 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, 2015, 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).

On March 21, 2013, the Board of Directors (BOD) approved the change in registered office address of the Company from Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City to 32nd street, Bonifacio Global City, Taguig City, Metro Manila. The change of principal office address is reflected under Article III of the Amended Articles of Incorporation.

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, 2016.

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					
		2015		2014		2013	
		Direct	Indirect	Direct	Indirect	Direct	Indirect
Aboitiz Renewables, Inc. (ARI) and Subsidiaries	Power generation	100.00	–	100.00	–	100.00	–
AP Renewables, Inc. (APRI)	Power generation	–	100.00	–	100.00	–	100.00
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	–	–
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. (formerly Hedcor Cordillera, Inc.)*	Power generation	–	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. (formerly Hedcor Bokod, 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
Kookaburra Equity Ventures, Inc.	Holding company	–	100.00	–	100.00	–	100.00
Mt. Apo Geopower, Inc.*	Power generation	–	100.00	–	100.00	–	–

(Forward)

	Nature of Business	Percentage of Ownership					
		2015		2014		2013	
		Direct	Indirect	Direct	Indirect	Direct	Indirect
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
Therma Power, Inc. (TPI) and Subsidiaries	Power generation	100.00	–	100.00	–	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
La Filipina Elektrika, Inc. (LFEI), formerly Therma Southern Mindanao, Inc.)*	Power generation	–	–	–	100.00	–	100.00
Therma Subic, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Therma Visayas, Inc. (TVI)*	Power generation	–	80.00	–	80.00	–	100.00
Abovant Holdings, Inc.	Holding company	–	60.00	–	60.00	–	60.00
Pagbilao Energy Corporation (PEC)*	Power generation	–	–	–	–	–	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, formerly Lima Utilities Corporation) (see Note 9)	Power distribution	100.00	–	100.00	–	–	–
Mactan Enerzone Corporation (MEZ)	Power distribution	100.00	–	100.00	–	100.00	–
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	–
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) (see Note 9)	Power distribution	55.26	–	55.26	–	55.26	–

[1] *AP Solar Tiwi, Inc., Hedcor Kabayan, Inc., and Mt. Apo Geopower, Inc. were incorporated in 2014*
[2] *On February 3, 2014, SEC approved the change in corporate name of Hedcor Bakod, Inc. to Hedcor Mt. Province, Inc.*
[3] *On July 15, 2014, SEC approved the change in corporate name of Lima Utilities Corporation to LEZ*
[4] *On November 13, 2015, SEC approved the change in corporate name of Hedcor Cordillera, Inc. to Hedcor Kabayan, Inc.*
[5] *In 2015, TPI entered into an agreement which reduced its ownership in LFEI to 40%. As a result, LFEI ceased to be classified as a subsidiary (see Note 10)*
[6] *In 2014, TPI entered into a joint arrangement effectively reducing its ownership in PEC to 50%. As a result, PEC ceased to be classified as a subsidiary (see Note 11)*
[7] *In 2014, TPI entered into an agreement with Vivant Integrated Generation Corporation for the development, construction and operation of a coal-fired power generation facility, effectively reducing its ownership in TVI to 80%*
* *No commercial operations as of December 31, 2015.*

All of the Company's subsidiaries are incorporated and registered with the Philippine SEC and operate in the Philippines.

Material partly-owned subsidiary

Information on VECO, a subsidiary that has material non-controlling interests is provided below:

	2015	2014
Summarized balance sheet information		
Current assets	₱2,748,992	₱2,758,372
Noncurrent assets	10,404,487	9,875,843
Current liabilities	3,131,752	2,920,508
Noncurrent liabilities	4,760,983	4,774,151
Non-controlling interests	2,127,066	2,157,189
Summarized comprehensive income information		
Profit for the year	₱1,805,390	₱1,798,344
Total comprehensive income	1,798,738	1,807,749
Summarized other financial information		
Profit attributable to non-controlling interests	₱779,983	₱774,716
Dividends paid to non-controlling interests	807,120	704,002

(Forward)

	2015	2014
Summarized cash flow information		
Operating	₱2,182,373	₱2,291,060
Investing	(897,109)	(842,487)
Financing	(1,634,431)	(1,913,047)
Net decrease in cash and cash equivalents	(349,167)	(464,474)

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 (PFRS).

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 following new and revised standards and Philippine Interpretations which were applied starting January 1, 2015. These new and revised standards and interpretations did not have any significant impact on the Group's financial statements:

- PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
  Amendment to PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. It clarifies that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

This amendment is not applicable to the Group since the entities in the Group have defined benefit plans which do not require contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and have no material impact on the Group. They include:

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  a. A performance condition must contain a service condition.
  b. A performance target must be met while the counterparty is rendering service.
  c. A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
  d. A performance condition may be a market or non-market condition.
  e. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted).

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments are applied retrospectively and clarify that:

  a. An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  b. The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
  The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- PAS 24, *Related Party Disclosures – Key Management Personnel*
  The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the

related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and have no material impact on the Group. They include:

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  a. Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  b. This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement – Portfolio Exception*
  The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

- PAS 40, *Investment Property*
  The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

<u>New Standards and Interpretation Issued and Effective after December 31, 2015</u>
The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its financial statements.

Deferred

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Adoption of the interpretation when it becomes effective will not have impact on the financial statements of the Group.

Effective January 1, 2016

- PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception* (Amendments)
  The amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments are not expected to have any impact on the Group.

- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
  The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Group shall consider these amendments if it enters into this type of arrangement in the future.

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. This standard is not applicable since the Group is an existing PFRS preparer.

- PAS 1, *Presentation of Financial Statements – Disclosure Initiative* (Amendments)
  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:

  a. That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions.
  b. That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated.
  c. That entities have flexibility as to the order in which they present the notes to the financial statements.
  d. That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect an entity's accounting policies or accounting estimates. These amendments are not expected to have any impact on the Group.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These will have no impact on the Group given that it has not used a revenue-based method to depreciate its non-current assets.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments)
  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These will have no relevance to the Group as it does not have any bearer plants.

- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments)
  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have any material impact on the Group. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits – Regional Market Issue Regarding Discount Rate*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting – Disclosure of Information "Elsewhere in the Interim Financial Report"*

  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

- PFRS 9, *Financial Instruments*

  In July 2014, the IASB issued the final version of International Financial Reporting Standards (IFRS) 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39 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. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015.

  The adoption of PFRS 9 will have an effect on the classification and measurement of and impairment methodology for the Group's financial assets, and on its application of hedge accounting. However, it will have no impact on the classification and measurement of its financial liabilities.

  After evaluating the impact of PFRS 9 and considering that it will not have any significant effect on the Group's operating results or financial condition, management has decided not to early adopt the said standard. It will be implemented only when it becomes effective on January 1, 2018. Thus, the consolidated financial statements do not reflect the impact of this standard.

- IFRS 15, *Revenue from Contracts with Customers*

  IFRS 15 was issued in May 2014 by the IASB and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date, once adopted locally.

Effective January 1, 2019

- IFRS 16, *Leases*
  On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

  Under the new standard, lessees will no longer classify their lessees as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

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.

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 and property, plant and equipment. 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 and property, plant and equipment 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 LHC, a subsidiary, and Western Mindanao Power Corporation (WMPC), Southern Philippines Power Corporation (SPPC) and STEAG State Power, Inc. (STEAG), associates, 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 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 35).

(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. Loans and receivables are included in current assets if maturity is within twelve months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

Included under this category are the Group's cash and cash equivalents and trade and other receivables (see Note 34).

(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, 2015 and 2014.

(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. These financial assets are classified as noncurrent assets unless the investment matures or management intends to dispose it within twelve months after the end of the reporting period.

The Group's AFS investments as of December 31, 2015 and 2014 include investments in unquoted shares of stock (see Note 34).

(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, bank loans, finance lease obligation, long-term obligation on power distribution system, and long-term debts (see Note 34).

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, 2015 and 2014, 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 2015 and 2014, 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. 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.

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) 2015	2014
Buildings, warehouses and improvements	10-40	10-40
Power plant equipment	2-38	2-38
Transmission, distribution and substation equipment		
Power transformers	30	30
Poles and wires	20-40	20-40
Other components	12-30	12-30
Transportation equipment	5-10	5-10
Office furniture, fixtures and equipment	1-20	2-20
Electrical equipment	5-25	5-20
Meters and laboratory equipment	25	12-25
Steam field assets	20-25	20-25
Tools and others	2-20	2-10
Leasehold improvements	5-20	5-15

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

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

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

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

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

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

Arrangement Containing a Lease

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

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

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

Finance lease

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

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

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

Operating lease

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

Service Concession Arrangements

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

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

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

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

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

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

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

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

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

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

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

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

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

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

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

The intangible assets - customer contracts are amortized using the straight-line method over the remaining life of the contract, and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The remaining contract life is 6 years. 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. Prior to 2014, the Group carried the investment property at cost, as allowed by PAS 40. The change in accounting policy in 2014 resulted to fair value gain of ₱15.0 million and deferred tax liability of ₱4.5 million. 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 reporting 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 its useful lives of the steam field assets 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 the steam field asset. The amount deducted from the cost of the steam field asset, shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the steam field asset, 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 "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 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 32.

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 LHC, STEAG, SPPC and WMPC 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 models. 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 ₱6.38 billion and ₱5.69 billion as of December 31, 2015 and 2014, respectively (see Note 19).

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 36).

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, 2015 and 2014, the carrying value of the power plant amounted to ₱37.95 billion and ₱39.05 billion, respectively (see Notes 13 and 36). The carrying value of finance lease obligation amounted to ₱53.67 billion and ₱54.46 billion as of December 31, 2015 and 2014, respectively (see Note 36).

Nonconsolidation of Manila-Oslo Renewable Enterprise, Inc. (MORE) and its investees, and Mooraw Holdings San Carlos, Inc. (MHSCI) and investee
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 has 60% interest in MHSCI which has a 25% ownership interest in San Carlos Sun Power, Inc. (SACASUN).

The Group does not consolidate MORE and MHSCI since it does not have the ability to direct the relevant activities which most significantly affect the returns of MORE and MHSCI, and their respective investees. This is a result of the shareholders' agreements which, among others, stipulate the management and operation of MORE and MHSCI. Management of MORE and MHSCI are 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 (see Note 10).

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

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

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

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

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

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

Estimating allowance for impairment losses on investments and advances
Investments and advances are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There were no impairment indicators in 2015 and 2014 based on management's assessment. In 2013, it was determined that the carrying value of the investment in Hijos exceeded its recoverable amount. As a result, an impairment loss amounting to ₱568.1 million was recognized. The recoverable amount of Hijos was determined to be ₱122.8 million as of December 31, 2013. The carrying

amounts of the investments and advances amounted to ₱22.55 billion and ₱24.82 billion as of December 31, 2015 and 2014, 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, 2015 and 2014 amounted to ₱1.09 billion. Goodwill impairment recognized in 2013 amounted to ₱368.9 million (see Note 12). No impairment of goodwill was recognized in 2015 and 2014.

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, 2015 and 2014, the net book values of property, plant and equipment, excluding land, amounted to ₱133.47 billion and ₱118.30 billion, respectively (see Note 13).

The estimated useful life (EUL) of the distribution utilities property, plant and equipment were reviewed by an independent firm of appraisers resulting to adjustments in the EUL. The changes in the EUL of the assets were applied prospectively since the impact to the financial statements is not significant. These changes resulted to a decrease in depreciation expense in 2015 until 2024 amounting to ₱435.4 million annually. Thereafter the amount will change since some of the assets will already be fully depreciated.

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, 2015 and 2014, the aggregate net book values of property, plant and equipment, excluding land, amounted to ₱133.47 billion and ₱118.30 billion, respectively (see Note 13).

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, 2015 and 2014, the carrying value of the franchise amounted to ₱2.88 billion and ₱2.96 billion, respectively (see Note 15).

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, 2015 and 2014, the net book values of intangible assets - customer contracts amounted to ₱42.9 million and ₱54.3, respectively (see Note 15). The intangible asset - customer contract in 2014 was acquired in a business combination.

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, 2015 and 2014, the aggregate net book values of intangible asset - service concession rights amounted to ₱3.23 billion and ₱3.40 billion, respectively (see Note 14).

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 asset - service concession rights, 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 asset - service concession rights, 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, 2015 and 2014, the aggregate net book values of these assets amounted to ₱150.82 billion and ₱135.65 billion, respectively (see Notes 8, 13, 14 and 15). No impairment losses were recognized in 2015, 2014 and 2013.

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, 2015 and 2014, allowance

for impairment of trade and other receivables amounted to ₱1.84 billion and ₱1.56 billion, respectively. Trade and other receivables, net of allowance for impairment, amounted to ₱13.69 billion and ₱12.33 billion as of December 31, 2015 and 2014, 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, 2015 and 2014, allowance for inventory obsolescence amounted to ₱54.4 million. The carrying amount of the inventories amounted to ₱2.04 billion and ₱2.17 billion as of December 31, 2015 and 2014, respectively (see Note 7).

Estimating asset retirement obligation
Under the Geothermal Resource Service Contract (GRSC), which took effect in 2013, 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 recognizes the present value of the obligation to decommission, abandon and perform surface rehabilitation of the steam field asset and capitalizes the present value of this cost as part of the balance of the related steam field asset, which are being depreciated and amortized on a straight-line basis over the useful life of the related asset.

Cost estimates expressed at current price levels at the date of the estimate are discounted using a rate of interest of 3.2% and 4.4% in 2015 and 2014, respectively, to take into account the timing of payments. 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 ₱3.02 billion and ₱2.35 billion as of December 31, 2015 and 2014, respectively, (see Note 20). On December 31 2015, the Group revised its discount rate to align with the prevailing market rates. In addition, the Group moved the forecast of the plug and abandonment of its steam wells to begin in 2016. This change in estimate did not result in any charge to income for the year ended December 31, 2015 and the asset and liability as of December 31, 2015 increased by ₱560.8 million. Future yearly depreciation will increase by ₱22.97 million and future accretion of interest will decrease by 19.74%.

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 ₱584.9 million and ₱243.8 million as of December 31, 2015 and 2014, respectively. The Company did not recognize deferred income tax assets on minimum corporate income tax (MCIT) amounting to ₱26.3 million and ₱23.6 million as of December 31, 2015 and 2014, respectively, and NOLCO amounting to ₱436.9 million and ₱895.3 million as of December 31, 2015 and 2014, 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 30).

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 28.

Net benefit expense amounted to ₱193.7 million in 2015, ₱212.4 million in 2014 and ₱141.4 million in 2013. The net pension assets as of December 31, 2015 and 2014 amounted to ₱34.8 million and ₱79.0 million, respectively. Net pension liabilities as of December 31, 2015 and 2014 amounted to ₱492.8 million and ₱405.9 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 35.

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, 2015, 2014 and 2013.

5. Cash and Cash Equivalents

	2015	2014
Cash on hand and in banks	₱5,898,064	₱4,707,517
Short-term deposits	45,200,205	35,524,358
	₱51,098,269	₱40,231,875

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 ₱845.2 million in 2015, ₱471.9 million in 2014 and ₱413.8 million in 2013.

6. Trade and Other Receivables

	2015	2014
Trade receivables - net of allowance for impairment losses of ₱1.84 billion in 2015 and ₱1.56 billion in 2014 (see Note 34)	₱9,968,771	₱9,530,244
Others		
Dividends receivable (see Note 10)	1,320,000	1,498,000
Advances to contractors	1,084,377	42,967
Accrued revenue	499,999	474,356
Non-trade receivable	270,167	333,093
Interest receivable	194,933	135,735
Others	354,146	318,118
	₱13,692,393	₱12,332,513

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 33.

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:

	2015	2014
January 1	₱1,559,014	₱1,093,015
Provision (see Note 25)	418,029	563,278
Write-off	(135,418)	(97,279)
December 31	₱1,841,625	₱1,559,014

Allowance for impairment losses as of December 31, 2015 and 2014 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

	2015	2014
Fuel and lube oil	₱1,045,021	₱1,241,252
Transmission and distribution supplies	435,245	486,476
Plant spare parts and supplies	416,312	431,554
Parts and supplies in transit	127,950	7,970
Other parts and supplies	16,075	1,580
	₱2,040,603	₱2,168,832

Inventories are carried at cost as of December 31, 2015 and 2014.

The cost of inventories recognized as part of cost of generated power in the consolidated statements of income amounted to ₱13.60 billion in 2015, ₱15.15 billion in 2014 and ₱12.71 billion in 2013 (see Note 24). The cost of inventories recognized as part of operations and maintenance in the consolidated statements of income amounted to ₱910.5 million in 2015, ₱840.8 million in 2014 and ₱190.3 million in 2013 (see Note 26).

8. Other Current Assets

	2015	2014
Input VAT	₱2,115,613	₱830,890
Prepaid tax	879,832	776,246
Prepaid expenses	328,140	221,739
Prepaid rent (see Note 36)	48,313	42,909
Others	20,575	67,585
	₱3,392,473	₱1,939,369

Prepaid expenses mainly include prepayments for insurance.

9. Business Combination

Acquisition of LEZ

In June 2014, the Company completed the acquisition of 100% ownership of LEZ, from its parent, Lima Land, Inc., after the execution of the Share Purchase Agreement and transfer documents, for cash consideration of ₱1.33 billion. Lima Land, Inc. is a wholly-owned subsidiary of AEV. LEZ is the licensed electricity distributor for Lima Technology Center (LTC) located in Lipa City and Malvar, Batangas. The primary reason for acquiring LEZ was to expand the Group's power distribution business.

The transaction was a business combination involving entities under common control of AEV, and control was not transitory. The acquisition was accounted for as a pooling of interests, applied on a prospective basis. The pooling of interests method affected only the values assigned to the assets and liabilities of LEZ, which is now under direct control of the Company. Accordingly, there was no restatement of financial information made in the consolidated financial statements for the periods prior to the combination under common control, and the pre-acquisition income and expenses of LEZ in 2014 were excluded.

The following assets and liabilities of LEZ were consolidated at their carrying values on acquisition date:

	Carrying value on acquisition
Assets:	
Cash and cash equivalents	₱147,331
Trade and other receivables	128,779
Materials and supplies	16,819
Other current assets	394
Property, plant, and equipment	357,146
Intangible asset	60,068
Goodwill	467,586
Other assets	8,999
	1,187,122

(Forward)

	Carrying value on acquisition
Liabilities:	
Trade and other payables	₱153,343
Income tax payable	1,849
Customers' deposit	109,334
Pension liability	9,189
Deferred income tax liabilities	4,970
	278,685
Total identifiable net assets at carrying value	₱908,437
Total consideration satisfied by cash	₱1,329,697
Share in net assets of LEZ	(908,437)
Excess of cost over net assets	₱421,260
Cash flow on acquisition:	
Net cash acquired with the subsidiary	₱147,331
Cash paid	(1,329,697)
Net cash outflow	(₱1,182,366)

The acquisition of LEZ resulted to an excess of acquisition cost over the book value amounting to ₱421.3 million, which was recognized by the Company under "Excess of cost over net assets of investments" in the equity section of the consolidated balance sheets.

In 2014, LEZ contributed ₱492.2 million to the consolidated revenue and ₱62.2 million to the net income of the Group. If the combination had taken place at the beginning of 2014, the Group's revenue would have been ₱87.26 billion and net income would have been ₱18.05 billion.

Step-acquisition of VECO

VECO is primarily engaged in the construction, operation and maintenance of a distribution system for the conveyance of electric power to the end-users in the cities of Cebu, Mandaue, Talisay and Naga and the municipalities of Minglanilla, San Fernando, Consolacion and Lilo-an, province of Cebu. It originally has a 50-year distribution franchise granted by the Philippine Legislature which was extended for two 25-year terms up to December 2028.

Prior to the step acquisition in 2013, the Company directly owns 43.49% of VECO. It also owns 11.77% of VECO through 46.73% owned associate, Hijos de F. Escaño, Inc. (Hijos).

In 2013 and 2012, Hijos declared property dividends in the form of VECO shares to its shareholders. As a result of the property dividends, the Company's direct ownership in VECO increased to 55.26%, allowing it to obtain control in VECO. The transaction was accounted for as a business combination achieved in stages.

The accounting for this business combination recognized in the December 31, 2013 consolidated financial statements was finalized in 2014. The business combination resulted to the recognition of franchise amounting to ₱3.08 billion (see Note 15), increase in fair value of property, plant and equipment amounting to ₱475.8 million and gain on the remeasurement of previously held interest amounting to ₱964.6 million (see Note 29).

From the date of acquisition in May 2013, revenue of VECO amounting to ₱11.33 billion formed part of the consolidated revenue of the Group. If the combination had taken place at the beginning of 2013, Group's revenue would have increased by ₱8.06 billion. There is no additional increase in net income because prior to the date of step-acquisition, share in the net income of VECO, an associate then, was already taken up in the books.

10. Investments and Advances

	2015	2014
Acquisition cost:		
Balance at beginning of the year	₱18,118,354	₱18,142,549
Additions during the year	451,598	2,500
Redemptions during the year	(2,677,204)	(26,695)
Balance at end of year	15,892,748	18,118,354
Accumulated equity in net earnings:		
Balance at beginning of the year	7,253,461	7,668,703
Share in net earnings	3,979,947	4,009,488
Dividends received or receivable	(3,893,041)	(4,424,730)
Balance at end of year	7,340,367	7,253,461
Share in net unrealized valuation gains on AFS investment of an associate	114,920	119,087
Share in actuarial losses on defined benefit plans of associates and joint ventures	(3,748)	(48,589)
Share in cumulative translation adjustments of associates and joint ventures	(256,376)	(375,489)
	23,087,911	25,066,824
Less allowance for impairment losses (see Note 29)	568,125	568,125
Investments at equity	22,519,786	24,498,699
Advances	32,059	317,579
	₱22,551,845	₱24,816,278

As of December 31, 2015 and 2014, the undistributed earnings of the associates and joint ventures included in the Group's retained earnings amounting to ₱7.34 billion and ₱7.25 billion, respectively, are not available for distribution to the stockholders unless declared by the investees (see Note 21).

2015

In April 2015, the Group acquired, through ARI, shares of SACASUN amounting to ₱0.1 million, equivalent to 35% ownership in SACASUN. In various dates in 2015, the Group also infused additional capital to SACASUN by way of deposits for stock subscriptions amounting to ₱316.0 million. These were subsequently converted into shares of stock.

In various dates in 2015, the Company infused capital to MHSCI by way of deposits for stock subscriptions amounting to ₱135.4 million. These were subsequently converted into shares of stock.

In September 2015, MORE redeemed 282.4 million RPS held by the Group for ₱2.65 billion.

In June 2015, AEV Aviation, Inc. (AAI) redeemed 28,000 RPS held by the Company for ₱28.0 million.

In April 2015, Cebu Energy Development Corporation (CEDC) returned shareholder's deposits to the Group amounting to ₱289.6 million.

2014

In July 2014, SPPC redeemed 96,775 RPS at a redemption price of ₱31.6 million or ₱326.52 per share attributable to the Company. The book value of the redeemed shares amounted to ₱26.7 million. Gain on redemption amounted to ₱4.9 million (see Note 29).

In April 2014, CEDC returned shareholder's deposits to the Group amounting to ₱88.0 million.

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

	Nature of Business	Percentage of Ownership		
		2015	2014	2013
MORE[1]	Holding company	**83.33**	83.33	83.33
MHSCI[1]	Holding company	**60.00**	–	–
East Asia Utilities Corporation (EAUC)	Power generation	**50.00**	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**	–	–
SACASUN[1] *	Power generation	**35.00**	–	–
STEAG	Power generation	**34.00**	34.00	34.00
AAI	Service	**26.69**	49.25	49.25
CEDC	Power generation	**26.40**	26.40	26.40
Redondo Peninsula Energy, Inc. (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

[1] *Joint ventures.*
* *No commercial operations as of December 31, 2015.*

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 and MHSCI since it does not have the ability to direct the relevant activities which most significantly affect the returns of MORE and MHSCI, and their respective investees. This is a result of the shareholders' agreements which, among others, stipulate the management and operation of MORE and MHSCI. Management of MORE and MHSCI 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:

	2015	2014
MORE	₱13,123,420	₱15,352,082
STEAG	4,150,972	4,252,177
CEDC	2,694,465	2,955,873
PEVI	423,740	390,352
SFELAPCO	345,202	316,549
RPEI	322,565	330,018
SACASUN	314,706	–
WMPC	262,303	193,986
EAUC	249,511	224,757
SPPC	137,777	91,296
MHSCI	134,199	–
Hijos	122,846	122,846
Others	238,080	268,763
	₱22,519,786	₱24,498,699

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

	2015	2014	2013
MORE:			
Total current assets	₱133,894	₱1,024,283	₱1,214,975
Total noncurrent assets	15,705,943	18,420,732	18,197,774
Total current liabilities	(91,473)	(999,803)	(1,217,972)
Total noncurrent liabilities	(260)	(22,714)	(25,104)
Equity	₱15,748,104	₱18,422,498	₱18,169,673
Gross revenue	₱166,636	₱166,636	₱181,785
Operating profit	2,557,392	3,098,681	5,464,695
Net income	2,552,419	3,087,584	5,443,857
Other comprehensive income	113,073	49,978	232,247
Group's share in net income	₱2,127,016	₱2,552,580	₱4,538,352
Additional information:			
Cash and cash equivalents	₱26,500	₱11,905	₱11,997
WMPC:			
Total current assets	₱1,256,744	₱982,321	₱903,464
Total noncurrent assets	414,139	391,953	833,267
Total current liabilities	(266,259)	(357,644)	(363,058)
Total noncurrent liabilities	(93,109)	(46,701)	(300,434)
Equity	₱1,311,515	₱969,929	₱1,073,239
Gross revenue	₱1,430,260	₱1,441,632	₱1,385,924
Operating profit	926,475	758,494	785,228
Net income	776,764	617,781	620,297
Other comprehensive income (loss)	2,270	1,490	(524)
Group's share in net income	₱155,353	₱123,556	₱132,689

(Forward)

	2015	2014	2013
SPPC:			
Total current assets	₱529,902	₱432,433	₱522,843
Total noncurrent assets	351,948	305,304	586,581
Total current liabilities	(123,326)	(174,915)	(191,808)
Total noncurrent liabilities	(69,638)	(106,344)	(209,581)
Equity	₱688,886	₱456,478	₱708,035
Gross revenue	₱709,403	₱742,717	₱716,856
Operating profit	430,392	312,739	306,109
Net income	365,152	456,478	266,063
Other comprehensive income (loss)	(360)	300	(743)
Group's share in net income	₱73,030	₱50,256	₱53,933
SFELAPCO*:			
Total current assets	₱1,302,248	₱1,317,304	₱1,048,331
Total noncurrent assets	2,015,544	2,145,415	1,833,986
Total current liabilities	(742,792)	(814,231)	(736,821)
Total noncurrent liabilities	(565,278)	(618,794)	(509,292)
Equity	₱2,009,722	₱2,029,694	₱1,636,204
Gross revenue	₱4,208,990	₱4,140,738	₱3,980,252
Operating profit	170,695	191,652	124,502
Net income	165,094	249,413	109,278
Other comprehensive income (loss)	–	310,688	(18,698)
Group's share in net income	₱146,977	₱132,570	₱106,869
STEAG:			
Total current assets	₱3,286,363	₱3,005,932	₱3,171,335
Total noncurrent assets	10,265,755	9,921,145	10,073,983
Total current liabilities	(1,747,652)	(1,737,831)	(1,483,567)
Total noncurrent liabilities	(3,900,707)	(3,899,890)	(2,368,601)
Equity	₱7,903,759	₱7,289,356	₱9,393,150
Gross revenue	₱4,864,480	₱4,351,273	₱5,006,570
Operating profit	2,060,028	658,167	1,542,600
Net income	1,414,229	495,672	1,020,201
Other comprehensive income (loss)	50,338	3,095	(11,133)
Group's share in net income	₱324,455	₱9,520	₱185,553
EAUC:			
Total current assets	₱501,439	₱499,712	₱662,744
Total noncurrent assets	341,450	376,152	165,780
Total current liabilities	(101,726)	(96,393)	(226,011)
Total noncurrent liabilities	(23,832)	(23,180)	(14,149)
Equity	₱717,331	₱756,291	₱588,364
Gross revenue	₱936,209	₱1,204,811	₱1,066,284
Operating profit	224,986	219,004	308,504
Net income	160,596	199,344	237,806
Other comprehensive income (loss)	3,242	8,334	(2,791)
Group's share in net income	₱125,233	₱123,598	₱176,953

(Forward)

	2015	2014	2013
CEDC:			
Total current assets	₱5,083,812	₱5,602,608	₱5,810,072
Total noncurrent assets	15,418,308	16,023,078	16,697,916
Total current liabilities	(5,250,521)	(4,755,207)	(5,003,268)
Total noncurrent liabilities	(9,127,815)	(10,152,587)	(11,388,005)
Equity	₱6,123,784	₱6,717,892	₱6,116,715
Gross revenue	₱8,108,516	₱8,037,147	₱7,699,359
Operating profit	3,196,976	3,439,164	3,264,960
Net income	2,366,296	2,325,609	1,933,739
Other comprehensive income (loss)	39,595	(24,431)	5,648
Group's share in net income	₱1,041,170	₱1,023,268	₱850,845
SACASUN:			
Total current assets	₱984,914	₱–	₱–
Total noncurrent assets	2,515,145	–	–
Total current liabilities	(956,524)	–	–
Total noncurrent liabilities	(1,645,852)	–	–
Equity	₱897,683	₱–	₱–
Gross revenue	₱–	₱–	₱–
Operating loss	(829)	–	–
Net loss	(4,099)	–	–
Other comprehensive income (loss)	–	–	–
Group's share in net loss	(₱1,434)	₱–	₱–
Additional information:			
Cash and cash equivalents	₱935,637	₱–	₱–
Noncurrent financial liabilities	1,645,852	–	–
Others**:			
Total current assets	₱297,940	₱398,334	₱474,479
Total noncurrent assets	2,600,411	2,368,857	2,358,093
Total current liabilities	(20,047)	(11,124)	(39,643)
Total noncurrent liabilities	(36,664)	(36,855)	(34,653)
Gross revenue	124,029	127,791	143,224
Net loss	(54,196)	(24,080)	(180,855)

**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 ₱335.7 million, ₱301.1 million and ₱255.7 million in 2015, 2014 and 2013, 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		
		2015	2014	2013
PEC	Power generation	50.00	50.00	100.00

** PEC's principal place of business and country of incorporation is the Philippines; No commercial operations as of December 31, 2015.*

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. This effectively reduced the Group's ownership in PEC from 100% to 50%.

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. Impairment Testing of Goodwill

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

The carrying amount of goodwill follows:

	2015	2014
LEZ (see Note 9)	**₱467,586**	₱467,586
BEZ	**237,404**	237,404
HI	**220,228**	220,228
MEZ	**169,469**	169,469
	₱1,094,687	₱1,094,687

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, 2015 and 2014
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 11.36% to 12.90% in 2015 and 12.05% to 13.87% in 2014, 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 2015, revenue growth of 6% in year 1, and 4% for the next four years was applied for LEZ; 8% in year 1 and 4% for the next four years was applied to MEZ; 1% for year 1, 4% for the next three years and 5% in year 5 was applied to BEZ; and 11% in year 1, 1% in year 2, -18% in year 3, 16% in year 4 and 3% in year 5 was applied for HI.

In 2014, revenue growth of 24% in year 1, 14% in year 2, 10% in year 3, 5% in year 4 and 0% in year 5 was applied for LEZ; 2% in year 1 and 1% for the next four years was applied to MEZ; 8% for year 1 and 1% for the next four years was applied to BEZ; and 6% in year 1 and 0% for the next four years for HI.

Materials price inflation
The assumption used to determine the value assigned to the materials price inflation is 4.00% in 2016 and remains constant until 2020. The starting point of 2016 is consistent with external information sources.

Based on the assumptions used in impairment testing, no impairment on goodwill was recognized in 2015 and 2014. In 2013, the Group recognized an impairment loss on goodwill amounting to ₱368.9 million on the investment in MEZ (see Note 29). The recoverable amount of MEZ CGU was determined to be ₱319.2 million as of December 31, 2013.

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.

13. Property, Plant and Equipment

December 31, 2015

	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	₱1,301,343	₱3,280,262	₱87,239,294	₱12,715,286	₱944,230	₱274,486	₱647,403	₱2,459,261	₱1,169,042	₱590,776	₱32,568,672	₱143,190,055
Additions (see Notes 15 and 20)	34,489	163,748	832,326	813,284	60,164	65,038	1,054	39,366	119,461	78,511	16,957,464	19,164,905
Disposals	–	(55,489)	(131,758)	–	(45,204)	1,135	(19,065)	(5,526)	–	(35)	–	(255,942)
Reclassifications and others	4,450	10,701,906	11,718,240	1,155,032	42,742	164,614	2,067,470	686,085	258,142	95,656	(26,948,093)	(53,756)
Balances at end 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
Accumulated Depreciation and Amortization:												
Balances at beginning of year	–	1,355,394	15,092,946	4,239,131	547,689	239,713	160,518	1,115,322	434,622	358,080	–	23,543,415
Depreciation and amortization	–	265,954	3,184,895	110,693	62,010	59,873	59,814	110,853	15,387	12,672	–	3,882,151
Disposals	–	(53,571)	(62,646)	–	(37,738)	(1,184)	(11,407)	(5,485)	–	(33)	–	(172,064)
Reclassifications and others	–	194,004	(405,446)	(10,799)	(1,748)	1,941	1,353	170,150	7,610	24,068	–	(18,857)
Balances at end 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
Net book values	₱1,340,282	₱12,328,646	₱81,848,353	₱10,344,577	₱431,719	₱204,930	₱2,486,584	₱1,788,346	₱1,089,026	₱370,121	₱22,578,043	₱134,810,627

December 31, 2014

	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	₱1,079,468	₱3,239,327	₱84,148,750	₱10,886,448	₱903,676	₱342,447	₱621,144	₱2,433,283	₱1,076,246	₱533,276	₱20,662,391	₱125,926,456
Additions (see Notes 15 and 20)	116,817	30,090	1,281,957	957,752	61,395	38,443	20,313	26,230	83,876	43,315	13,643,476	16,303,664
Business combinations (see Note 9)	105,058	694	–	869,281	20,046	11,858	3,268	100	8,721	12,383	7,015	1,038,424
Disposals	–	–	(24,455)	(5,184)	(36,068)	(2,577)	–	(365)	–	(187)	–	(68,836)
Reclassifications and others	–	10,151	1,833,042	6,989	(4,819)	(115,685)	2,678	13	199	1,989	(1,744,210)	(9,653)
Balances at end of year	1,301,343	3,280,262	87,239,294	12,715,286	944,230	274,486	647,403	2,459,261	1,169,042	590,776	32,568,672	143,190,055
Accumulated Depreciation and Amortization:												
Balances at beginning of year	–	1,234,259	12,160,092	3,361,694	486,788	192,110	121,517	953,378	362,285	299,582	–	19,171,705
Business combinations (see Note 9)	–	303	–	167,647	12,760	8,562	3,090	100	2,296	10,760	–	205,518
Depreciation and amortization	–	120,804	2,945,730	714,942	80,057	52,756	35,803	162,126	70,041	47,588	–	4,229,847
Disposals	–	–	(24,455)	(5,184)	(31,933)	(2,570)	108	(297)	–	(294)	–	(64,625)
Reclassifications and others	–	28	11,579	32	17	(11,145)	–	15	–	444	–	970
Balances at end of year	–	1,355,394	15,092,946	4,239,131	547,689	239,713	160,518	1,115,322	434,622	358,080	–	23,543,415
Net book values	₱1,301,343	₱1,924,868	₱72,146,348	₱8,476,155	₱396,541	₱34,773	₱486,885	₱1,343,939	₱734,420	₱232,696	₱32,568,672	₱119,646,640

In 2015 and 2014, additions to power plant equipment and steam field assets include asset retirement obligation amounting to ₱560.8 million and ₱220.7 million, respectively (see Note 20).

In 2015 and 2014, additions to "Construction in progress" include capitalized borrowing costs amounting to ₱1.52 billion and ₱1.05 billion, respectively, and construction costs that have not been paid as of December 31, 2015 and 2014 (see Note 16).

Property, plant and equipment with carrying amounts of ₱43.47 billion and ₱29.25 billion as of December 31, 2015 and 2014, respectively, are used to secure the Group's long-term debts (see Note 18).

Fully depreciated property and equipment with gross carrying amount of ₱4.97 billion and ₱4.36 billion as of December 31, 2015 and 2014, 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, 2015 and 2014, as shown below:

Project Company	Estimated Cost to Complete (in millions)		% of Completion	
	2015	2014	2015	2014
TVI	₱32,023	not started	17%	not started
Hedcor Bukidnon	9,964	not started	12%	not started
TSI	1,918	₱6,686	94%	79%
Hedcor Sabangan	–	742	100%	61%
PEC (see Note 11)	14,798	19,416	33%	13%

14. Intangible Asset - Service Concession Rights

	2015	2014
Cost:		
At January 1	₱4,847,271	₱4,792,017
Additions from internal development	20,046	36,286
Effect of translation	144,167	18,968
	5,011,484	4,847,271
Accumulated amortization:		
At January 1	1,446,917	1,128,742
Amortization	338,031	318,175
	1,784,948	1,446,917
	₱3,226,536	₱3,400,354

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

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 ₱2.38 billion and ₱2.50 billion as of December 31, 2015 and 2014, respectively, was used as collateral to secure LHC's long-term debt (see Note 18).

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 ₱747.9 million and ₱786.8 million as of December 31, 2015 and 2014, 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 ₱102.4 million and ₱112.5 million as of December 31, 2015 and 2014, respectively.

15. Other Noncurrent Assets

	2015	2014
Input VAT and tax credit receivable (net of allowance for probable losses amounting to ₱114.8 million and nil in 2015 and 2014, respectively)	₱4,579,445	₱5,708,855
Intangible assets:		
Franchise (see Note 9)	2,879,615	2,956,576
Project development costs	269,889	246,595
Customer contracts (see Note 9)	42,906	54,347
Software and licenses	79,087	37,744
Receivable from National Grid Corporation of the Philippines (NGCP)	102,350	608,482
Refundable deposits	308,854	412,949
Prepaid rent - net of current portion (see Note 36)	430,348	369,109
Advances to contractors and projects	555,507	105,228
Others	143,870	163,368
	₱9,391,871	₱10,663,253

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.

Receivable from NGCP pertains to cost of installation and construction of substation and transmission facilities to be reimbursed by NGCP as part of the agreement on the advance implementation of network assets.

Intangible assets

Rollforward of intangible assets follow:

	2015				2014			
	Franchise	Project development costs	Customer contracts	Software and licenses	Franchise	Project development costs	Customer contracts	Software and licenses
Cost:								
Balances at beginning of year	₱3,078,431	₱246,595	₱60,068	₱77,460	₱3,091,394	₱121,988	₱–	₱39,965
Additions	–	23,611	–	54,759	–	143,820	60,068	37,495
Write-off	–	(317)	–	–	–	(19,213)	–	–
Adjustment	–	–	–	–	(12,963)	–	–	–
Balances at end of year	3,078,431	269,889	60,068	132,219	3,078,431	246,595	60,068	77,460
Accumulated amortization:								
Balances at beginning of year	(121,855)	–	(5,721)	(39,716)	(45,083)	–	–	(26,929)
Amortization	(76,961)	–	(11,441)	(13,416)	(76,772)	–	(5,721)	(12,787)
Balances at end of year	(198,816)	–	(17,162)	(53,132)	(121,855)	–	(5,721)	(39,716)
	₱2,879,615	₱269,889	₱42,906	₱79,087	₱2,956,576	₱246,595	₱54,347	₱37,744

16. Trade and Other Payables

	2015	2014
Trade payables (see Notes 23 and 33)	₱5,749,973	₱5,445,210
Output VAT	2,172,527	2,443,718
Amounts due to contractors and other third parties	1,771,363	941,168
Accrued expenses:		
Taxes and fees	697,620	581,008
Materials and supplies cost	521,410	542,064
Interest	399,912	272,766
Energy fees and fuel purchase	69,243	78,846
Claims conversion costs	36,450	205,890
Insurance	6,888	799
Unearned revenues	34,705	35,663
Dividends payable	112,895	33,363
Nontrade	1,937,870	1,807,628
Others	629,720	389,878
	₱14,140,576	₱12,778,001

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 13).

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.

17. Bank Loans

The peso loans are unsecured short-term notes payable obtained from local banks with annual interest rates ranging from 2.50% to 2.75% in 2015 and 1.90% in 2014. The 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 bank loans amounted to ₱87.6 million in 2015, ₱61.9 million in 2014 and ₱47.4 million in 2013 (see Note 34).

18. Long-term Debts

	Annual Interest Rate	2015	2014
Company:			
Bonds due 2021	5.21%	₱6,600,000	₱6,600,000
Bonds due 2026	6.10%	3,400,000	3,400,000
Subsidiaries:			
TSI			
Financial institutions - secured	4.50% - 5.14% in 2015 4.50% - 6.43% in 2014	25,083,407	24,000,000
TVI			
Financial institutions - secured	6.02% - 6.23%	8,673,999	–
Hedcor Bukidnon			
Financial institutions - secured	5.28% - 6.00%	3,215,247	–
VECO			
Financial institution - unsecured	3.50% - 4.81%	1,584,000	1,792,000
LHC			
Financial institutions - secured	2.38% - 2.56%	1,560,039	1,728,428
DLP			
Financial institution - unsecured	3.50% - 4.81%	1,188,000	1,344,000
HI			
Financial institution - secured	5.25%	720,000	810,000
SEZ			
Financial institution - unsecured	5.61% - 6.06%	339,000	395,500
CLP			
Financial institution - unsecured	3.50% - 4.81%	237,600	268,800
Joint operation (see Note 11)			
Financial institutions - secured	4.70% - 6.68%	6,973,502	3,173,501
		59,574,794	43,512,229
Less deferred financing costs		1,199,770	729,154
		58,375,024	42,783,075
Less current portion - net of deferred financing costs		2,368,161	1,388,991
		₱56,006,863	₱41,394,084

Interest expense and other financing costs on long-term debt amounted to ₱1.12 billion in 2015, ₱478.0 million in 2014, and ₱360.8 million in 2013 (see Note 34).

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.

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. Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱88.8 million and ₱98.1 million as of December 31, 2015 and 2014, respectively.

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. As of December 31, 2015, ₱1.20 billion has been drawn from the loan facility.

The loan is secured by a mortgage of all its assets with carrying amount of ₱36.32 billion and ₱33.53 billion as of December 31, 2015 and 2014, respectively, and a pledge of TSI's shares of stock held by the Company and TPI.

Interest rate ranging from 4.50% - 5.14% 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.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱264.3 million and ₱278.5 million as of December 31, 2015 and 2014, respectively.

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, 2015, ₱8.67 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 ₱9.64 billion as of December 31, 2015, and a pledge of TVI's shares of stock held by its shareholders.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱398.9 million as of December 31, 2015.

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, 2015, ₱3.22 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.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱106.5 million as of December 31, 2015.

VECO

On December 20, 2013, VECO availed of a ₱2.00 billion loan from the Notes Facility Agreement (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.

Unamortized deferred financing cost reduced the carrying amount of the loan by ₱5.3 million and ₱7.1 million as of December 31, 2015 and 2014, respectively.

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 2.38% to 2.56% in 2015 and 2.38% in 2014.

Intangible asset arising from service concession arrangement with carrying value of ₱2.38 billion and ₱2.50 billion as of December 31, 2015 and 2014, respectively, was used as collateral to secure LHC's long-term debt (see Note 14).

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱6.9 million and ₱8.9 million as of December 31, 2015 and 2014, respectively.

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.

Unamortized deferred financing cost reduced the carrying value of long-term debt by ₱4.3 million and ₱5.4 million as of December 31, 2015 and 2014, respectively.

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 annual fixed interest rates ranging from 5.61% - 6.06%. 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 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; ₱29M on maturity date
I	December 20, 2022	₱0.15M each on first 8 years; ₱28.8M on maturity date
J	December 20, 2023	₱0.175M 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 is subject to a semi-annual interest payment with fixed interest ranging from 4.70% - 6.68%.

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 all its assets with carrying amount of ₱21.40 billion and ₱8.04 billion as of December 31, 2015 and 2014, respectively, and a pledge of the shares of stock held by the joint operators.

Unamortized deferred financing cost reduced the carrying value of long-term debt by ₱324.7 million and ₱331.2 million as of December 31, 2015 and 2014, respectively.

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, 2015 and 2014.

19. Customers' Deposits

	2015	2014
Transformers	**₱2,500,344**	₱2,195,913
Lines and poles	**1,607,907**	1,471,673
Bill and load	**2,275,027**	2,018,904
	₱6,383,278	₱5,686,490

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 ₱4.2 million in 2015, ₱8.5 million in 2014, and ₱1.4 million in 2013 (see Note 34).

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

20. Asset Retirement Obligation

Asset retirement obligation includes the estimated costs to decommission, abandon and perform surface rehabilitation on a subsidiary's steam field assets at the end of their useful lives (see Note 13).

	2015	2014
Balances at beginning of year	₱2,353,250	₱2,008,669
Provision during the year	560,754	220,691
Accretion of decommissioning liability (see Note 34)	102,524	123,890
Balances at end of year	₱3,016,528	₱2,353,250

These technical estimates of probable costs were discounted using applicable PDST-R2 and PDST-F rates in 2015 and 2014, respectively.

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.

21. Equity

a. Capital Stock (number of shares in disclosed figures)

	2015	2014
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

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, 2015, 2014 and 2013, the Company has 608, 606 and 588 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, 2015 and 2014.

b. Retained Earnings

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

** Full commercial operations by 1st quarter of 2016*

On March 5, 2013, the BOD approved the declaration of cash dividends of ₱1.66 a share (₱12.22 billion) to all stockholders of record as of March 19, 2013. These dividends were paid on April 15, 2013.

On March 11, 2014, the BOD approved the declaration of regular cash dividends of ₱1.26 a share (₱9.27 billion) and special cash dividends of ₱0.40 a share (₱2.94 billion) to all stockholders of record as of March 25, 2014. These dividends were paid on April 22, 2014.

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.

To comply with the requirements of Section 43 of the Corporation Code, 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 are payable on April 19, 2016.

c. The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint arrangements amounting to ₱33.58 billion and ₱24.36 billion as at December 31, 2015 and 2014, 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).

22. 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.

   Total sale from distribution of power amounted to ₱41.38 billion, ₱39.98 billion and ₱28.07 billion in 2015, 2014 and 2013, 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 ₱4.59 billion, ₱5.77 billion and ₱6.51 billion in 2015, 2014 and 2013, 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 ₱28.78 billion in 2015, ₱31.11 billion in 2014 and ₱32.92 billion in 2013.

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

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 ₱10.23 billion, ₱9.70 billion and ₱4.37 billion in 2015, 2014 and 2013, respectively.

23. 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	Ten years; expiring in December 2015	1,569,479
VECO	Ended in December 2014	898,632
CLP	Ten years; expiring in December 2015	116,906
MEZ	Ten years; ended in September 2015	114,680

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 ₱9.49 billion in 2015, ₱13.19 billion in 2014 and ₱12.20 billion in 2013. 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 ₱760.3 million and ₱1.09 billion as of December 31, 2015 and 2014, respectively (see Note 16).

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 ₱1.21 billion in 2015, ₱1.83 billion in 2014 and ₱5.34 billion in 2013.

The Group entered into Replacement Power Contracts with certain related parties (see Note 33). 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 in 2015.

24. Cost of Generated Power

	2015	2014	2013
Fuel costs (see Note 7)	**₱13,598,737**	₱15,146,281	₱12,705,303
Steam supply costs (see Note 37)	**3,956,979**	4,935,022	4,260,552
Energy fees	**684,279**	688,059	584,810
Ancillary charges	**262,536**	240,502	55,636
Wheeling expenses	**21,528**	27,794	36,183
	₱18,524,059	₱21,037,658	₱17,642,484

25. General and Administrative

	2015	2014	2013
Personnel costs (see Note 27)	**₱1,928,040**	₱1,805,862	₱1,227,618
Outside services (see Note 33)	**777,323**	650,088	508,037
Taxes and licenses	**726,398**	531,609	567,443
Provision for impairment of trade receivables (see Note 6)	**418,029**	563,278	14,055
Repairs and maintenance	**290,159**	271,638	130,824
Insurance	**248,071**	261,934	211,336
Transportation and travel (see Note 33)	**166,799**	165,076	160,024
Market service and administrative fees	**164,311**	140,930	157,505
Professional fees (see Note 33)	**116,484**	119,703	124,302
Corporate social responsibility (CSR) (see Note 40j)	**106,522**	84,249	484,014
Rent (see Notes 33 and 36)	**97,232**	98,403	68,579
Information technology and communication	**75,112**	74,001	52,505
Training	**44,125**	29,694	37,223
Entertainment, amusement and recreation	**24,699**	17,005	14,790
Advertisements	**24,370**	28,714	15,014
Guard services	**5,746**	6,963	4,694
Freight and handling	**2,994**	2,672	1,506
Supervision and regulatory fees	**1,264**	1,578	1,547
Gasoline and oil	**1,180**	2,772	4,791
Others	**599,232**	643,963	334,490
	₱5,818,090	₱5,500,132	₱4,120,297

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

26. Operations and Maintenance

	2015	2014	2013
Personnel costs (see Note 27)	**₱978,106**	₱755,681	₱836,416
Materials and supplies (see Note 7)	**483,880**	587,191	144,692
Insurance	**471,397**	455,520	345,160
Outside services	**437,881**	325,616	189,735
Fuel and lube oil (see Note 7)	**426,649**	253,576	45,623
Repairs and maintenance	**407,260**	479,356	474,405
Taxes and licenses	**348,175**	271,380	(64,718)
Rent (see Note 36)	**52,556**	47,096	21,802
Transportation and travel	**37,259**	40,942	27,556
Others	**277,883**	177,030	203,812
	₱3,921,046	₱3,393,388	₱2,224,483

"Others" include environmental, health and safety expenses, and transmission charges.

27. Personnel Costs

	2015	2014	2013
Salaries and wages	**₱2,027,096**	₱1,883,006	₱1,489,864
Employee benefits (see Note 28)	**879,050**	678,537	574,170
	₱2,906,146	₱2,561,543	₱2,064,034

28. Pension Benefit Plans

Under the existing regulatory framework, Republic Act 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):

	2015	2014	2013
Current service cost	₱185,701	₱164,024	₱114,637
Interest cost	7,534	7,411	(7,862)
Past service cost	422	40,992	34,662
	₱193,657	₱212,427	₱141,437

Remeasurement effects to be recognized in other comprehensive income:

	2015	2014	2013
Actuarial gains (losses) due to:			
Changes in financial assumptions	₱220,857	₱61	(₱559,040)
Changes in demographic assumptions	67,874	–	–
Return on assets excluding amount included in net interest cost	(59,439)	31,427	5,022
Experience adjustments	(361,869)	208,644	107,623
	(₱132,577)	₱240,132	(₱446,395)

Net pension assets

	2015	2014
Fair value of plan assets	₱161,845	₱361,577
Present value of the defined benefit obligation	(127,068)	(282,577)
	₱34,777	₱79,000

Net pension liabilities

	2015	2014
Present value of the defined benefit obligation	₱1,657,526	₱1,324,165
Fair value of plan assets	(1,164,678)	(918,311)
	₱492,848	₱405,854

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

	2015	2014
At January 1	₱1,606,742	₱1,627,300
Net benefit expense:		
Current service cost	185,701	164,024
Net interest cost	68,245	63,054
Past service cost	422	40,992
	254,368	268,070
Benefits paid	(109,969)	(89,713)
Transfers and others	(39,683)	601

(Forward)

	2015	2014
Remeasurements in other comprehensive income:		
Actuarial losses (gains) due to:		
Experience adjustments	₱361,869	(₱208,644)
Changes in demographic assumptions	(67,874)	–
Changes in financial assumptions	(220,857)	(61)
	73,138	(208,705)
Increase from business combinations (see Note 9)	–	9,189
At December 31	₱1,784,596	₱1,606,742

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

	2015	2014
At January 1	₱1,279,888	₱1,184,961
Contribution by employer	170,187	96,969
Interest income included in net interest cost	60,711	55,643
Fund transfer from affiliates	(30,077)	601
Return on assets excluding amount included in net interest cost	(59,439)	31,427
Benefits paid	(94,745)	(89,713)
At December 31	₱1,326,525	₱1,279,888

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

	2015	2014
At January 1	₱326,854	₱442,339
Retirement expense during the year	193,657	212,427
Actuarial loss (gain) recognized during the year	132,577	(240,132)
Increase from business combinations (see Note 9)	–	9,189
Transferred obligation	(9,606)	–
Benefits paid from Group operating funds	(15,224)	–
Contribution to retirement fund	(170,187)	(96,969)
At December 31	₱458,071	₱326,854

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

	2015	2014
Cash and fixed-income investments	₱1,043,975	₱998,032
Equity instruments:		
Holding	107,832	35,687
Financial institution	104,217	153,771
Power	22,936	31,964
Others	47,565	60,434
	282,550	281,856
Fair value of plan assets	₱1,326,525	₱1,279,888

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, 2015, 2014 and 2013 in determining pension benefit obligations for the Group's plans are shown below:

	2015	2014	2013
Discount rates	**4.91%-5.26%**	4.21%-7.02%	4.21%-5.26%
Salary increase rates	**6.00%**	7.00%	7.00%

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, 2015, assuming if all other assumptions were held constant:

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rates	100	(₱24,437)
	(100)	28,723
Future salary increases	100	26,673
	(100)	(23,277)

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

The Group expects to contribute ₱406.6 million to the defined benefit plans in 2016. The average durations of the defined benefit obligation as of December 31, 2015 and 2014 are 11.84 to 23.00 years and 12.27 to 28.48 years, respectively.

29. Other Income (Expense) - Net

	2015	2014	2013
Surcharges	₱342,871	₱348,666	₱231,050
Non-utility operating income	114,108	179,478	157,157
Rental income	24,586	32,631	11,934
Gain on sale of property, plant and equipment	5,656	13,195	1,323
Net unrealized fair valuation gain	–	15,000	–
Gain on redemption of shares	–	4,904	4,792
Gain on remeasurement in step acquisition (see Note 9)	–	–	964,600
Impairment loss on goodwill (see Note 12)	–	–	(368,904)
Write off of project costs and other assets	(69,137)	(26,000)	(85,051)
Net foreign exchange losses (see Note 35)	(948,761)	(173,587)	(2,002,506)
Others	194,038	197,638	1,841
	(₱336,639)	₱591,925	(₱1,083,764)

Included in "Net foreign exchange losses" are the net gains and losses relating to currency forward transactions (see Note 35). "Others" comprise non-recurring items like sale of scrap and sludge oil, and reversal of provisions.

30. Income Tax

The provision for income tax account consists of:

	2015	2014	2013
Current:			
Corporate income tax	₱3,848,706	₱2,957,769	₱1,321,636
Final tax	160,608	84,680	81,853
	4,009,314	3,042,449	1,403,489
Deferred	(419,645)	381,640	(876,864)
	₱3,589,669	₱3,424,089	₱526,625

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

	2015	2014	2013
Statutory income tax rate	30.00%	30.00%	30.00%
Tax effects of:			
Nondeductible interest expense	8.11	8.58	9.09
Nondeductible depreciation expense	1.46	1.53	1.65
Deductible lease payments	(10.82)	(9.76)	(10.12)
Income under income tax holiday (ITH)	(7.77)	(8.74)	(19.33)
Nontaxable share in net earnings of associates and joint ventures	(5.30)	(5.61)	(9.74)
Interest income subjected to final tax at lower rates - net	(1.10)	(0.61)	(0.17)
Others	1.34	0.59	1.27
	15.92%	15.98%	2.65%

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:

	2015	2014
Net deferred income tax assets:		
Allowances for impairment and probable losses	₱236,408	₱99,287
Difference between the carrying amount of nonmonetary assets and related tax base	70,577	77,217
Unrealized foreign exchange loss	63,603	393
Pension asset (liability):		
Unamortized contributions for past service	52,095	24,595
Recognized in other comprehensive income	76,424	99,753
Recognized in statements of income	19,015	(45,317)
Unamortized streetlight donations capitalized	(1,233)	(1,370)
Unamortized customs duties and taxes capitalized	(27,466)	(26,906)
Others	95,456	16,104
Net deferred income tax assets	₱584,879	₱243,756

	2015	2014
Net deferred income tax liabilities:		
Unamortized franchise	₱863,884	₱886,972
Fair valuation adjustments to property, plant and equipment	136,503	140,313
Unrealized foreign exchange gains	104,666	362,402
Capitalized interest	41,324	39,753
Unamortized customs duties and taxes capitalized	6,608	6,822
Pension asset (liability):		
Recognized in other comprehensive income	(166,368)	(91,667)
Recognized in statements of income	110,463	75,443
Unamortized past service cost	(7,669)	(45,279)
Allowances for impairment and probable losses	(43,522)	(165,395)
Others	84,789	40,353
Net deferred income tax liabilities	₱1,130,678	₱1,249,717

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 40i).

No deferred income tax assets were recognized on the Company's NOLCO and MCIT amounting to ₱436.9 million and ₱26.3 million, respectively, as of December 31, 2015 and ₱895.3 million and ₱23.6 million, respectively, as of December 31, 2014, 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.

31. Earnings Per Common Share

Earnings per common share amounts were computed as follows:

	2014	2014	2013
a. Net income attributable to equity holders of the parent	₱17,603,797	₱16,705,184	₱18,576,845
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)	₱2.39	₱2.27	₱2.52

There are no dilutive potential common shares for the years ended December 31, 2015, 2014 and 2013.

32. 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 40h) 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 38%, 36% and 31% of the power generation revenues of the Group in 2015, 2014 and 2013, respectively.

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

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)	₱22,519,786
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)	₱242,489,246
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

2014

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱36,877,070	₱39,975,961	₱9,906,355	₱–	₱86,759,386
Inter-segment	10,912,569	–	703,972	(11,616,541)	–
Total Revenue	₱47,789,639	₱39,975,961	₱10,610,327	(₱11,616,541)	₱86,759,386
Segment Results	₱17,460,060	₱4,495,412	₱395,287	₱–	₱22,350,759
Unallocated corporate income - net	(95,975)	670,934	16,966	–	591,925
INCOME FROM OPERATIONS	17,364,085	5,166,346	412,253	–	22,942,684
Interest expense	(5,566,441)	(242,525)	(185,131)	–	(5,994,097)
Interest income	196,330	31,523	244,062	–	471,915
Share in net earnings of associates and joint ventures	3,875,761	132,570	16,536,149	(16,534,992)	4,009,488
Provision for income tax	(1,915,896)	(1,379,703)	(128,490)	–	(3,424,089)
NET INCOME	₱13,953,839	₱3,708,211	₱16,878,843	(₱16,534,992)	₱18,005,901
OTHER INFORMATION					
Investments	₱23,320,487	₱829,747	₱92,185,215	(₱91,836,750)	₱24,498,699
Capital Expenditures	₱12,821,960	₱2,186,654	₱31,416	₱–	₱15,040,030
Segment Assets	₱173,999,700	₱20,342,183	₱116,756,308	(₱94,337,170)	₱216,761,021
Segment Liabilities	₱93,667,237	₱14,334,634	₱25,582,137	(₱12,903,427)	₱120,680,581
Depreciation and Amortization	₱3,470,689	₱1,048,726	₱20,151	₱103,734	₱4,643,300

2013

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱39,436,267	₱28,067,236	₱4,551,664	₱–	₱72,055,167
Inter-segment	6,084,876	–	430,849	(6,515,725)	–
Total Revenue	₱45,521,143	₱28,067,236	₱4,982,513	(₱6,515,725)	₱72,055,167
Segment Results	₱15,923,907	₱3,532,053	₱21,329	₱–	₱19,477,289
Unallocated corporate income - net	(1,997,682)	515,152	398,766	–	(1,083,764)
INCOME FROM OPERATIONS	13,926,225	4,047,205	420,095	–	18,393,525
Interest expense	(5,162,937)	(109,207)	(71,584)	–	(5,343,728)
Interest income	309,381	20,971	83,443	–	413,795
Share in net earnings of associates and joint ventures	5,893,358	589,392	18,295,842	(18,304,222)	6,474,370
Provision for income tax	641,423	(1,097,559)	(70,489)	–	(526,625)
NET INCOME	₱15,607,450	₱3,450,802	₱18,657,307	(₱18,304,222)	₱19,411,337
OTHER INFORMATION					
Investments	₱23,789,796	₱747,143	₱85,577,649	(₱85,203,646)	₱24,910,942
Capital Expenditures	₱13,591,131	₱1,290,785	₱47,210	₱–	₱14,929,126
Segment Assets	₱162,531,048	₱18,868,694	₱102,002,925	(₱89,463,849)	₱193,938,817
Segment Liabilities	₱85,998,490	₱13,802,458	₱14,577,384	(₱11,690,272)	₱102,688,060
Depreciation and Amortization	₱3,136,961	₱763,744	₱19,182	(₱44,588)	₱3,875,299

33. 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 22)
   - Replacement power contracts (Note 23)

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 25).

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 Group, Inc. (ACGI), a wholly owned subsidiary of ACO, rendered its services to the Group for the following projects: Construction of Tudaya 1 and 2 hydroelectric power plants and TSI power plant, and rehabilitation of Tiwi and Makban power plants.

g. Cash deposits with Union Bank of the Philippines (UBP) earn interest at prevailing market rates (see Note 5). UBP is an associate of AEV.

h. 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, SNAP M and SNAP B in the amount of ₱1.49 billion in 2015, ₱1.98 billion in 2014 and ₱2.10 billion in 2013.

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			
	2015	2014	2013	2015	2014	Terms	Conditions
Associates							
CEDC	₱110,157	₱66,935	₱106,140	₱14,997	₱14,997	30-day; interest-free	Unsecured; no impairment
SFELAPCO	66,274	88,358	51,448	57,006	57,006	30-day; interest-free	Unsecured; no impairment
EAUC	4,790	6,600	4,650	1,224	–	30-day; interest-free	Unsecured; no impairment
RPEI	–	23,612	–	–	–	30-day; interest-free	Unsecured; no impairment
	₱181,221	₱185,505	₱162,238	₱73,227	₱72,003		

b. Revenue - Sale of power

	Revenue 2015	Revenue 2014	Revenue 2013	Receivable 2015	Receivable 2014	Terms	Conditions
AEV and subsidiaries							
Pilmico Foods Corporation	₱101,800	₱90,895	₱64,792	₱9,850	₱10,021	30-day; interest-free	Unsecured; no impairment
Lima Water Corporation	14,207	10,608	–	–	4	30-day; interest-free	Unsecured; no impairment
Aboitizland, Inc. and subsidiaries	11,299	9,552	5,787	1,360	1,026	30-day; interest-free	Unsecured; no impairment
Lima Land, Inc.	2,978	763	–	–	116	30-day; interest-free	Unsecured; no impairment
Associates and Joint Ventures							
SFELAPCO	2,654,128	2,567,959	2,642,512	197,118	263,216	30-day; interest-free	Unsecured; no impairment
SNAP B	–	48,952	–	–	–	30-day; interest-free	Unsecured; no impairment
SNAP M	–	19,182	44,640	–	–	30-day; interest-free	Unsecured; no impairment
Other related parties							
Tsuneishi Heavy Industries Cebu, Inc.(a joint venture of ACO and Tsuneishi Group)	589,082	616,373	635,649	47,822	49,538	30-day; interest-free	Unsecured; no impairment
Metaphil International, Inc. (a subsidiary of ACO)	6,722	7,276	8,417	1,088	334	30-day; interest-free	Unsecured; no impairment
	₱3,380,216	₱3,371,560	₱3,401,797	₱257,238	₱324,255		

c. Cost of purchased power

	Purchases 2015	Purchases 2014	Purchases 2013	Payable 2015	Payable 2014	Terms	Conditions
Associates and Joint Ventures							
CEDC	₱276,433	₱285,774	₱302,186	₱24,122	₱23,790	30-day; interest-free	Unsecured
EAUC	87,411	108,354	99,241	6,328	6,163	30-day; interest-free	Unsecured
SNAP B	84,744	–	–	–	–	30-day; interest-free	Unsecured
SNAP M	216,525	–	103,845	–	–	30-day; interest-free	Unsecured
	₱665,113	₱394,128	₱505,272	₱30,450	₱29,953		

d. Expenses

	Nature	Purchases/Expenses 2015	2014	2013	Payable 2015	2014	Terms	Conditions
Ultimate Parent								
ACO	Professional and Technical fees	₱17,809	₱–	₱–	₱1,438	₱–	30-day; interest-free	Unsecured
AEV and subsidiaries								
AEV	Professional and Technical fees	451,935	569,373	264,167	79,907	102,191	30-day; interest-free	Unsecured
AAI	Aviation Services	45,326	58,034	57,183	4,151	8,038	30-day; interest-free	Unsecured
Lima Land, Inc.	Concession fees	44,861	50,507	–	–	6,359	30-day; interest-free	Unsecured
CPDC	Rental	17,202	20,415	12,985	7,825	411	30-day; interest-free	Unsecured
CPDC	Professional and Technical fees	6,554	–	–	699	–	30-day; interest-free	Unsecured
Aboitizland, Inc. and subsidiaries	Rental	1,070	2,109	4,675	–	19	30-day; interest-free	Unsecured
Associate								
EAUC	Professional and Technical fees	3,924	–	–	3,806	–	30-day; interest-free	Unsecured
		₱588,681	₱700,438	₱339,010	₱97,826	₱117,018		

e. Capitalized construction and rehabilitation costs

	Purchases 2015	2014	2013	Payable 2015	2014	Terms	Conditions
Other related parties							
ACGI	₱–	₱412,980	₱469,333	₱–	₱–	30-day; interest-free	Unsecured

f. Cash deposits and placements with UBP

	Interest Income 2015	2014	2013	Outstanding Balance 2015	2014	Terms	Conditions
Company	₱34,910	₱70,232	₱23,162	₱1,468,003	₱3,409,341	90 days or less; interest-bearing	No impairment
TPI and subsidiaries	29,557	43,839	57,794	1,821,709	2,850,616	90 days or less; interest-bearing	No impairment
ARI and subsidiaries	26,874	57,100	47,299	4,062,425	1,792,428	90 days or less; interest-bearing	No impairment
AESI	1,854	360	2,985	231,970	533,213	90 days or less; interest-bearing	No impairment
AI	1,674	572	215	83,605	184,448	90 days or less; interest-bearing	No impairment
VECO	1,289	10,831	4,491	140,732	227,525	90 days or less; interest-bearing	No impairment
CPPC	1,073	2,963	2,982	16,901	15,171	90 days or less; interest-bearing	No impairment
LEZ	948	–	–	170,015	100,272	90 days or less; interest-bearing	No impairment
DLP	825	5,959	2,531	125,454	51,105	90 days or less; interest-bearing	No impairment
CLP	302	62	178	9,212	2,164	90 days or less; interest-bearing	No impairment

(Forward)

	Interest Income			Outstanding Balance			
	2015	2014	2013	2015	2014	Terms	Conditions
SEZ	₱228	₱3,269	₱2,090	₱5,322	₱78,532	90 days or less; interest-bearing	No impairment
MEZ	212	702	503	24,588	57,425	90 days or less; interest-bearing	No impairment
BEZ	114	880	657	9,852	56,246	90 days or less; interest-bearing	No impairment
PEI	51	49	62	5,102	5,082	90 days or less; interest-bearing	No impairment
	₱99,911	₱196,818	₱144,949	₱8,174,890	₱9,363,568		

The Company's retirement benefit fund ("Fund") is in the form of a trust being maintained and managed by AEV. In 2015 and 2014, 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:

	2015	2014	2013
Short-term benefits	₱456,844	₱413,429	₱462,710
Post-employment benefits	30,616	31,351	61,751
	₱487,460	₱444,780	₱524,461

34. 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, bank 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 35).

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. 4.18% and 3.27% of the Group's debt will mature in less than one year as of December 31, 2015 and 2014, 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 ₱51.10 billion and ₱13.69 billion, respectively, as of December 31, 2015 and ₱40.23 billion and ₱12.33 billion, respectively, as of December 31, 2014 (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, 2015 and 2014 based on contractual undiscounted payments:

December 31, 2015

	Total carrying value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Bank loans	₱2,568,000	₱2,577,358	₱–	₱2,577,358	₱–	₱–
Trade and other payables	11,235,724	11,235,724	1,536	11,234,188	–	–
Long-term debts	58,375,024	84,608,031	–	6,296,553	32,736,451	45,575,027
Customers' deposits	6,383,278	6,383,278	–	–	28,284	6,354,994
Finance lease obligation	53,668,854	88,453,330	–	7,842,450	34,221,600	46,389,280
Long-term obligation on power distribution system	247,184	480,000	–	40,000	200,000	240,000
	₱132,478,064	₱193,737,721	₱1,536	₱27,990,549	₱67,186,335	₱98,559,301

December 31, 2014

	Total carrying value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Bank loans	₱103,000	₱103,163	₱–	₱103,163	₱–	₱–
Trade and other payables	9,717,612	9,717,612	1,532	9,716,080	–	–
Long-term debts	42,783,075	61,007,138	–	3,669,788	20,388,802	36,948,548
Customers' deposits	5,686,490	5,686,490	–	–	26,266	5,660,224
Finance lease obligation	54,461,021	94,324,983		7,353,623	41,724,000	45,247,360
Long-term obligation on power distribution system	256,015	520,000	–	40,000	200,000	280,000
	₱113,007,213	₱171,359,386	₱1,532	₱20,882,654	₱62,339,068	₱88,136,132

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, 2015, 3% of the Group's long-term debt had annual floating interest rates ranging from 2.00% to 2.75%, and 97% have annual fixed interest rates ranging from 3.50% to 6.68%. As of December 31, 2014, 4% of the Group's long-term debt had annual floating interest rates ranging from 2.00% to 2.75%, and 96% have annual fixed rates ranging from 3.50% to 6.68%.

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, 2015

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	**₱256,763**	**₱1,289,300**	**₱7,056**	**₱1,553,119**

As of December 31, 2014

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	₱243,658	₱1,223,456	₱252,436	₱1,719,550

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 35).

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 2015	**200**	**(₱31,062)**
	(100)	**15,531**
December 2014	200	(₱34,391)
	(100)	17,196

The Group's sensitivity to an increase/decrease in interest rates pertaining to derivative instruments is expected to be insignificant in 2015 and 2014 due to their short-term maturities and immateriality relative to the total assets and liabilities of the Group.

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:

	2015	2014	2013
Finance lease obligation (see Note 36)	**₱5,287,369**	₱5,289,650	₱4,804,072
Bank loans and long-term debt (see Notes 17 and 18)	**1,208,555**	539,909	408,231
Payable to a preferred shareholder of a subsidiary	**–**	–	16,072
Customers' deposits (see Note 19)	**4,241**	8,498	1,411
Other long-term obligations (see Notes 14 and 20)	**133,693**	156,040	113,942
	₱6,633,858	₱5,994,097	₱5,343,728

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 26% and 30% of total consolidated borrowings as of December 31, 2015 and 2014, respectively.

Presented below are the Group's foreign currency denominated financial assets and liabilities as of December 31, 2015 and 2014, translated to Philippine Peso:

	December 31, 2015		December 31, 2014	
	US Dollar	Philippine Peso equivalent[1]	US Dollar	Philippine Peso equivalent[2]
Loans and receivables:				
Cash and cash equivalents	$39,695	₱1,868,047	$37,628	₱1,682,724
Trade and other receivables	224	10,559	302	13,526
Derivative assets	6,750	317,645	–	–
Total financial assets	46,669	2,196,251	37,930	1,696,250
Other financial liabilities:				
Trade and other payables	291	13,691	410	18,327
Finance lease obligation	588,108	27,676,362	614,635	27,486,477
Total financial liabilities	588,399	27,690,053	615,045	27,504,804
Total net financial liabilities	($541,730)	(₱25,493,802)	($577,115)	(₱25,808,554)

[1]US$1 = ₱47.060
[2]US$1 = ₱44.720

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
2015		
US Dollar denominated accounts	**US Dollar strengthens by 5%**	**(₱1,274,690)**
US Dollar denominated accounts	**US Dollar weakens by 5%**	**1,274,690**
2014		
US Dollar denominated accounts	US Dollar strengthens by 5%	(₱1,290,428)
US Dollar denominated accounts	US Dollar weakens by 5%	1,290,428

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 foreign currency denominated assets and liabilities:

	2015		2014	
	Philippine Peso	**US Dollar Equivalent[1]**	Philippine Peso	US Dollar Equivalent[2]
Loans and receivables:				
Cash and cash equivalents	**₱36,078**	**$767**	₱24,367	$545
Trade and other receivables	**1,525**	**32**	4,119	92
	37,603	**799**	28,486	637
Other financial liabilities:				
Trade and other payables	**245,921**	**5,226**	220,113	4,922
Net foreign currency denominated liabilities	**₱208,318**	**$4,427**	₱191,627	$4,285

[1]US$1 = ₱47.060
[2]US$1 = ₱44.720

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:

2015	Effect on income before tax
U.S. dollar appreciates against Philippine peso by 5.0%	**$211**
U.S. dollar depreciates against Philippine peso by 5.0%	**(233)**
2014	
U.S. dollar appreciates against Philippine peso by 5.0%	$226
U.S. dollar depreciates against Philippine peso by 5.0%	(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, 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, 2015 and 2014 is summarized in the following table:

	2015	2014
Power distribution:		
Industrial	**₱3,173,687**	₱2,968,690
Residential	**1,395,502**	1,218,810
Commercial	**601,065**	547,802
City street lighting	**28,924**	15,630
Power generation:		
Power supply contracts	**5,202,474**	4,652,728
Spot market	**1,408,744**	1,685,598
	₱11,810,396	₱11,089,258

The above receivables were provided with allowance for doubtful accounts amounting to ₱1.84 billion in 2015 and ₱1.56 billion in 2014 (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:

	2015			2014		
	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	₱5,199,178	₱5,199,178	₱–	₱4,750,932	₱4,750,932	₱–

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:

<u>December 31, 2015</u>

	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	₱5,898,064	₱–	₱–	₱–	₱5,898,064
Short-term deposits	45,200,205	–	–	–	45,200,205
	51,098,269	–	–	–	51,098,269
Trade receivables:					
Power supply contracts	2,781,023	–	–	2,421,451	5,202,474
Spot market	164,747	–	–	1,243,997	1,408,744
Industrial	2,758,983	87,624	81,617	245,463	3,173,687
Residential	774,040	60	6,875	614,527	1,395,502
Commercial	368,280	2,479	30,053	200,253	601,065
City street lighting	13,032	–	1,398	14,494	28,924
	6,860,105	90,163	119,943	4,740,185	11,810,396
Other receivables	3,587,365	–	–	136,257	3,723,622
AFS investments	3,620	–	–	–	3,620
Derivative assets	563,366	–	–	–	563,366
Total	₱62,112,725	₱90,163	₱119,943	₱4,876,442	₱67,199,273

December 31, 2014

	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	₱4,707,517	₱–	₱–	₱–	₱4,707,517
Short-term deposits	35,524,358	–	–	–	35,524,358
	40,231,875	–	–	–	40,231,875
Trade receivables:					
Power supply contracts	1,913,221	–	–	2,739,507	4,652,728
Spot market	495,172	–	–	1,190,426	1,685,598
Industrial	2,398,768	78,698	227,425	263,799	2,968,690
Residential	448,741	10,980	53,015	706,074	1,218,810
Commercial	263,999	4,669	40,862	238,272	547,802
City street lighting	5,447	17	1,481	8,685	15,630
	5,525,348	94,364	322,783	5,146,763	11,089,258
Other receivables	2,695,032	375	5,495	101,367	2,802,269
AFS investments	3,620	–	–	–	3,620
Derivative assets	112,544	–	–	–	112,544
Total	₱48,568,419	₱94,739	₱328,278	₱5,248,130	₱54,239,566

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, 2015

	Total	Neither past due nor impaired	Past due but not impaired: Less than 30 days	Past due but not impaired: 31 days to 60 days	Past due but not impaired: Over 60 days	Individually impaired
Cash and cash equivalents:						
Cash on hand and in banks	₱5,898,064	₱5,898,064	₱–	₱–	₱–	₱–
Short-term deposits	45,200,205	45,200,205	–	–	–	–
	51,098,269	51,098,269	–	–	–	–
Trade receivables:						
Power supply contracts	5,202,474	2,781,023	1,122,354	139,138	622,593	537,365
Spot market	1,408,744	164,747	12,160	6,588	107,250	1,117,999
Industrial	3,173,687	2,928,224	63,862	7,467	162,063	12,071
Residential	1,395,502	780,975	197,886	31,738	246,127	138,776
Commercial	601,065	400,812	59,883	11,338	96,799	32,233
City street lighting	28,924	14,430	1,426	324	9,563	3,181
	11,810,396	7,070,211	1,457,571	196,593	1,244,395	1,841,625
Other receivables	3,723,622	3,587,365	9,991	7,391	118,875	–
AFS investments	3,620	3,620	–	–	–	–
Derivative assets	563,366	563,366	–	–	–	–
Total	₱67,199,273	₱62,322,831	₱1,467,562	₱203,984	₱1,363,270	₱1,841,625

December 31, 2014

	Total	Neither past due nor impaired	Past due but not impaired: Less than 30 days	Past due but not impaired: 31 days to 60 days	Past due but not impaired: Over 60 days	Individually impaired
Cash and cash equivalents:						
Cash on hand and in banks	₱4,880,668	₱4,880,668	₱–	₱–	₱–	₱–
Short-term deposits	35,351,207	35,351,207	–	–	–	–
	40,231,875	40,231,875	–	–	–	–
Trade receivables:						
Power supply contracts	4,652,728	1,913,221	1,270,302	157,415	1,131,418	180,372
Spot market	1,685,598	495,172	1,306	–	30,578	1,158,542
Industrial	2,968,690	2,704,891	78,130	9,884	164,045	11,740
Residential	1,218,810	512,736	291,029	66,037	179,790	169,218
Commercial	547,802	309,530	104,687	21,722	73,959	37,904
City street lighting	15,630	6,945	811	362	6,274	1,238
	11,089,258	5,942,495	1,746,265	255,420	1,586,064	1,559,014
Other receivables	2,802,269	2,700,902	891	1,607	98,869	–
AFS investments	3,620	3,620	–	–	–	–
Derivative assets	112,544	112,544	–	–	–	–
Total	₱54,239,566	₱48,991,436	₱1,747,156	₱257,027	₱1,684,933	₱1,559,014

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.

Gearing ratios of the Group as of December 31, 2015 and 2014 are as follows:

	2015	2014
Bank loans	**₱2,568,000**	₱103,000
Long-term debt	**112,043,878**	97,244,096
Cash and cash equivalents	**(51,098,269)**	(40,231,875)
Net debt (a)	**63,513,609**	57,115,221
Equity	**101,613,567**	96,080,439
Equity and net debt (b)	**₱165,127,176**	₱153,195,660
Gearing ratio (a/b)	**38.46%**	37.28%

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, 2015 and 2014 (see Note 18).

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, 2015 and 2014, these entities have complied with the requirement as applicable (see Note 38).

No changes were made in the objectives, policies or processes during the years ended December 31, 2015 and 2014.

35. 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.

	2015		2014	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Liabilities				
Finance lease obligation	**₱53,668,854**	**₱56,465,454**	₱54,461,021	₱67,425,952
Long-term debt - fixed rate	**56,821,905**	**56,387,654**	41,063,525	41,804,240
Long-term obligation on power distribution system	**247,184**	**414,135**	256,015	415,314
	₱110,737,943	**₱113,267,243**	₱95,780,561	₱109,645,506

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, bank loans and trade and other payables. The carrying amounts of cash and cash equivalents, trade and other receivables, bank 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 1.88% to 6.23% in 2015 and 3.10% to 6.17% in 2014.

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 5.83% to 8.17% in 2015 and 5.86% to 10.05% in 2014 for dollar payments and 1.78% to 6.51% in 2015 and 1.79% to 5.99% in 2014 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 3.83% to 4.47% in 2015 and 2.70% to 4.66% in 2014.

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 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 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 swap
In August 2012, LHC entered into an interest rate swap 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 interest rate swap 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, 2015, the outstanding notional amount and derivative asset as a result of the swap amounted to US$33.1 million and ₱3.4 million, respectively. As of December 31, 2014, the outstanding notional amount and derivative asset as a result of the swap amounted to US$38.7 million and ₱13.0 million, respectively.

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, 2015, the outstanding sell U.S. Dollar buy Euro forward contract has an aggregate notional of €7.4 million and weighted average forward exchange rates of €1.0624/US$1. The maturity of the derivatives begins on December 21, 2015 until September 1, 2017.

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, 2015, the contract has an aggregate notional amount of US$8 million that will be fully settled within 2017.

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

Par forward contracts
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, 2015, the aggregate notional amount of the par forward contracts is US$211.4 million.

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, 2015 and 2014, the aggregate notional amount of the par forward contracts is ₱3.64 billion and ₱1.58 billion, respectively.

The movements in fair value changes of all derivative instruments for the year ended December 31, 2015 and 2014 are as follows:

	2015	2014
At beginning of year	**₱112,544**	₱30,877
Net changes in fair value of derivatives designated as cash flow hedges	**150,474**	54,703
Net changes in fair value of derivatives not designated as accounting hedges	**331,291**	–
Fair value of settled instruments	**(30,943)**	26,964
At end of year	**₱563,366**	₱112,544

The net gains and losses from the net fair value changes of derivatives not designated as accounting hedges are included under "Net foreign exchange losses" in Note 29.

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:

	2015	2014
Balance at beginning of year (net of tax)	**₱81,388**	₱27,185
Changes in fair value recorded in equity	**150,474**	55,600
	231,862	82,785
Transfers to construction in progress	**(67,191)**	5,183
Changes in fair value transferred to profit or loss	**18,704**	21,556
Balance at end of year before deferred tax effect	**183,375**	109,524
Deferred tax effect	**(36,038)**	(28,135)
Balance at end of year (net of tax)	**₱147,337**	₱81,389

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, 2015 and 2014, the Group held the following financial instruments that are measured and carried or disclosed at fair value:

December 31, 2015

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative asset	**₱563,366**	**₱–**	**₱563,366**	**₱–**
Disclosed at fair value:				
Finance lease obligation	**56,465,454**	**–**	**–**	**56,465,454**
Long-term debt - fixed rate	**56,387,654**	**–**	**–**	**56,387,654**
Long-term obligation on PDS	**414,135**	**–**	**–**	**414,135**

December 31, 2014

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative asset	₱112,544	₱–	₱112,544	₱–
Disclosed at fair value:				
Finance lease obligation	67,425,952	–	–	67,425,952
Long-term debt - fixed rate	41,804,240	–	–	41,804,240
Long-term obligation on PDS	415,314	–	–	415,314

During the years ended December 31, 2015 and 2014, there were no transfers between level 1 and level 2 fair value measurements and transfers into and out of level 3 fair value measurement.

36. 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 2015, 2014 and 2013 amounted to ₱5.29 billion, ₱5.29 billion and ₱4.80 billion, respectively (see Note 34).

Future minimum monthly dollar and peso payments under the IPP Administration Agreement and their present values as of December 31, 2015 and 2014 are as follows:

	Dollar payments	Peso equivalent of dollar payments[1]	Peso payments	2015 Total
Within one year	$82,500	₱3,882,450	₱3,960,000	₱7,842,450
After one year but not more than five years	468,000	22,024,080	22,464,000	44,488,080
More than five years	380,000	17,882,800	18,240,000	36,122,800
Total contractual payments	930,500	43,789,330	44,664,000	88,453,330
Unamortized discount	342,392	16,112,978	18,671,498	34,784,476
Present value	588,108	27,676,352	25,992,502	53,668,854
Less current portion				2,583,754
Noncurrent portion of finance lease obligation				₱51,085,100

	Dollar payments	Peso equivalent of dollar payments[1]	Peso payments	2014 Total
Within one year	$79,310	₱3,546,743	₱3,806,880	₱7,353,623
After one year but not more than five years	450,000	20,124,000	21,600,000	41,724,000
More than five years	488,000	21,823,360	23,424,000	45,247,360
Total contractual payments	1,017,310	45,494,103	48,830,880	94,324,983
Unamortized discount	402,675	18,007,618	21,856,344	39,863,962
Present value	$614,635	₱27,486,485	₱26,974,536	54,461,021
Less current portion				1,971,739
Noncurrent portion of finance lease obligation				₱52,489,282

[1]US$1 = ₱47.060 in 2015; ₱44.720 in 2014

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 2015, 2014 and 2013 (see Note 26).

Therma Mobile

Lease agreements with the Philippine Fisheries Development Authority:

- 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 and
- On December 1, 2014, a 10-year lease for the ground floor of NFPC's administrative building.

Future minimum lease payments are as follows (amounts in millions):

	2015	2014
Not later than 1 year	₱10.8	₱11.7
Later than 1 year but not later than 5 years	72.4	71.7
Later than 5 years	42.5	59.1

Rental expense amounted to ₱18.7 million in 2015, ₱17.4 million in 2014 and ₱2.6 million in 2013 (see Note 26).

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 25 years renewable upon mutual agreement by the parties. Future minimum rental contract provisions are as follows (amounts in millions):

	2015	2014
Not later than 1 year	₱11.2	₱9.8
Later than 1 year but not later than 5 years	45.8	38.5
Later than 5 years	161.6	143.9

Total lease charged to operations related to these contracts amounted to ₱14.4 million in 2015, ₱12.8 million in 2014 and ₱9.5 million in 2013 (see Note 26).

37. 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 36).

Agreements with Contractors and Suppliers

a. APRI total steam supply cost reported as part of "Cost of generated power" amounted to ₱3.96 billion in 2015, ₱4.94 billion in 2014 and ₱4.26 billion in 2013 (see Note 24).

   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 25, 2016.

b. Construction of civil works and electro-mechanical works and project management related to the construction of the Tudaya 1 and 2 hydro power plants. Total purchase commitments entered into by Hedcor Sibulan and Hedcor Tudaya amounted to ₱6.3 million and €0.1 million as of December 31, 2015, respectively, and ₱52.7 million and €2.0 million as of December 31, 2014, respectively. Total payments made for the commitments amounted to ₱5.7 million and ₱49.4 million as of December 31, 2015 and 2014, respectively.

c. TLI enters into short-term coal supply agreements. Outstanding coal supply agreements as of December 31, 2015 have aggregate supply amounts of 615,000 MT (equivalent dollar value is estimated to be at US$30 million) which are due for delivery from January 2016 to April 2016. 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.

38. 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 six (7) years, as follows:

Subsidiary	BOI Approval Date	Start of ITH Period	ITH Period
Hedcor Sibulan[3]	December 27, 2007	March 1, 2010	7 years
APRI	June 19, 2009	June 1, 2009	7 years
TLI[2]	February 26, 2010	January 1, 2010	4 years
Therma Marine[2]	May 28, 2010	May 1, 2010	4 years
TSI	July 15, 2011	June 1, 2015[1]	4 years
TVI	July 17, 2012	July 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	4 years

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

[2] Expired ITH: TLI - December 31, 2013; Therma Marine - May 27, 2014.

[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, 2015 and 2014, the power generation subsidiaries referred to above, which are currently availing the incentives, have complied with the requirements.

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 a subsidiary in connection with loans and credit accommodations. The Company provided SBLC for STEAG, SNAP M, SNAP B, and CEDC in the amount of ₱1.49 billion in 2015, ₱1.98 billion in 2014 and ₱2.10 billion in 2013 (see Note 33).

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.

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. Therma Mobile is in receipt of PEMC's Motion for Reconsideration, and in compliance with a Resolution of the CA, has filed a comment on the said motion.

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, 2015, 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. 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, 2015.

f. 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, 2015.

g. 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.

h. 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 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.

i. 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.

The Group expects that some of its subsidiaries and associates who are registered RE developers may benefit from the fiscal incentives provided for under the Act.

j. CSR Projects

The Group has several CSR projects in 2015, 2014 and 2013 which are presented as part of "General and administrative expenses" (see Note 25).

Aboitiz Power Corporation and Subsidiaries

Supplementary Schedules
to the Financial Statements
Required by the Securities and Exchange Commission
For the Year Ended December 31, 2015

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, 2015

NA: NOT APPLICABLE

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

AS OF DECEMBER 31, 2015
(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		P24	P-
Banco de Oro		1,730,177	3,877
Bank of Commerce		530	5
Bank of the Philippine Islands		788,011	613
Cash on Hand, Cash in Vault and Revolving Fund		39,214	-
Citibank		606	-
Development Bank of the Philippines		905	1
Hongkong Shanghai Banking Corporation		403	-
Land Bank of the Philippines		14,785	16
Metropolitan Bank and Trust Company		425,060	903
Mizuho Corporate Bank, Ltd.		-	72
One Network Bank		6,651	-
Philippine National Bank		60,277	68
Rizal Commercial Banking Corporation		63,618	121
Rural Bank of Cotabato		20	-
Security Bank Corporation		83,842	121
Union Bank of the Philippines		2,684,141	21,628
TOTAL		P5,898,064	P27,425
MONEY MARKET PLACEMENT			
Banco de Oro		P4,092,611	P8,497
Bank of the Philippine Islands		1,272,993	17,699
City Savings Bank		13,766,972	390,398
First Metro Investment Corporation		5,566,682	111,724
Metropolitan Bank and Trust Company		11,448,561	164,825
Mizuho Corporate Bank, Ltd.		40,000	26,934
Rizal Commercial Banking Corporation		9,015	51
Security Bank Corporation		3,512,617	19,381
Union Bank of the Philippines		5,490,748	78,284
United Coconut Planters Bank		6	3
TOTAL		P45,200,205	P817,796
TRADE AND OTHER RECEIVABLES			
Trade Receivables (net of allowance):			
Residential		P1,256,726	P-
Commercial		568,832	-
Industrial		3,161,616	-
City street Lighting		25,743	-
Spot market		290,745	-
Power supply contracts		4,665,109	-
Dividends Receivable		1,320,000	-
Advances to contractors		1,084,377	
Accrued Revenues		499,999	-
Non-trade Receivables		270,167	-
Interest receivable		194,933	
Other Receivables		354,146	
TOTAL		P13,692,393	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	
Others	938	94	
TOTAL		P3,620	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, 2015
(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.	P308,592	P3,733,920	(P3,615,614)	P-	P426,898	P-	P426,898
Therma Power, Inc. and Subsidiaries	45,998	335,612	(319,754)	-	61,856	-	61,856
Cotabato Light & Power Company	9,435	25,538	(24,161)	-	10,812	-	10,812
Aboitiz Renewables, Inc. and Subsidiaries	56,068	26,156	(79,333)	-	2,891	-	2,891
Subic Enerzone Corporation	2,931	957,205	(733,540)	-	226,596	-	226,596
Visayan Electric Co., Inc.	136,980	3,491,039	(3,102,528)		525,491	-	525,491
Aboitiz Energy Solutions, Inc.	849,746	3,993,350	(4,497,095)	-	346,001	-	346,001
Mactan Enerzone Corporation	1,096	2,384	(2,798)	-	682	-	682
Balamban Enerzone Corporation	1,097	2,375	(2,849)	-	623	-	623
Cebu Private Power Corporation	-	31,096	(20,566)	-	-	-	10,530
Lima Enerzone Corporation	99,153	805,032	(821,323)	-	82,862	-	82,862
Adventenergy, Inc.	503,741	3,080,981	(3,340,730)	-	243,992	-	243,992
TOTAL	P2,014,837	P16,484,688	(P16,560,291)	P-	P1,928,704	P-	P1,939,234

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS

AS OF DECEMBER 31, 2015
(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	P1,094,687	P-	P-	P-	P-	P1,094,687
Service concession rights	3,400,354	20,046	(338,031)	-	144,167	3,226,536
Project development costs	246,595	23,611	(317)	-	-	269,889
Franchise	2,956,576	-	(76,961)	-	-	2,879,615
Customer contracts	54,347	-	(11,441)	-	-	42,906
Software and licenses	37,744	54,759	(13,416)	-	-	79,087
Total	P7,790,303	P98,416	(P440,166)	P-	P144,167	P7,592,720
B. Other Noncurrent Assets						
Restricted cash	P-	P-	P-	P-	P-	P-
Prepaid rent	369,109	-	-	-	61,239	430,348
Deferred input vat and tax credit receivable	5,708,855	-	-	-	(1,129,410)	4,579,445
Advances to contractors	5,294	-	-	-	279,789	285,083
Receivable from NGCP	608,482	-	-	-	(506,132)	102,350
Refundable deposits	412,949	-	-	-	(104,095)	308,854
Advances to projects	99,934				170,490	270,424
Others	163,368	-	-	-	(19,498)	143,870
Total	P7,367,991	P-	P-	P-	(P1,247,617)	P6,120,374
Total	**P15,158,294**	**P98,416**	**(P440,166)**	**P-**	**(P1,103,450)**	**P13,713,094**

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE E - LONG-TERM DEBT

AS OF DECEMBER 31, 2015
(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	P9,911,224	P-	P9,911,224	
Subsidiaries:				
Hedcor, Inc.	715,670	89,050	626,620	
Subic Enerzone Corporation	339,000	56,500	282,500	
Luzon Hydro Corporation	1,553,119	256,763	1,296,356	
Davao Light & Power Co., Inc.	1,188,000	156,000	1,032,000	
Cotabato Light & Power Company	237,600	30,000	207,600	
Therma South, Inc.	24,819,103	1,576,242	23,242,861	
Pagbilao Energy Corp. (Joint Operation)	6,648,773	-	6,648,773	
Visayan Electric Co., Inc.	1,578,672	203,606	1,375,066	
Therma Visayas, Inc.	8,275,112		8,275,112	
Hedcor Bukidnon, Inc.	3,108,751		3,108,751	
Total	P58,375,024	P2,368,161	P56,006,863	

ABOITIZ POWER CORPORATION

SCHEDULE H - CAPITAL STOCK

AS OF DECEMBER 31, 2015
(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	135,751	1,410,918
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, 2015
(Amounts in Thousands)

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Davao Light & Power Co., Inc.	P375,794	P51,104	P426,898	P3,733,920	P-	P-	30 days
Therma Power, Inc. and Subsidiaries	56,322	5,534	61,856	335,612	-	-	30 days
Cotabato Light & Power Company	-	10,812	10,812	25,538	-	-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	-	2,891	2,891	26,156	-	-	30 days
Subic Enerzone Corporation	225,144	1,452	226,596	957,205	-	-	30 days
Visayan Electric Co., Inc.	473,177	52,314	525,491	3,491,039	-	-	30 days
Aboitiz Energy Solutions, Inc.	346,001	-	346,001	3,993,350	-	-	30 days
Mactan Enerzone Corporation	-	682	682	2,384	-	-	30 days
Balamban Enerzone Corporation	-	623	623	2,375	-	-	30 days
Cebu Private Power Corporation	-	10,530	10,530	31,096	-	-	30 days
Lima Enerzone Corporation	82,004	858	82,862	805,032	-	-	30 days
Adventenergy, Inc.	243,992	-	243,992	3,080,981	-	-	30 days
TOTAL	**P1,802,434**	**P136,800**	**P1,939,234**	**P16,484,688**	**P-**	**P-**	

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

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

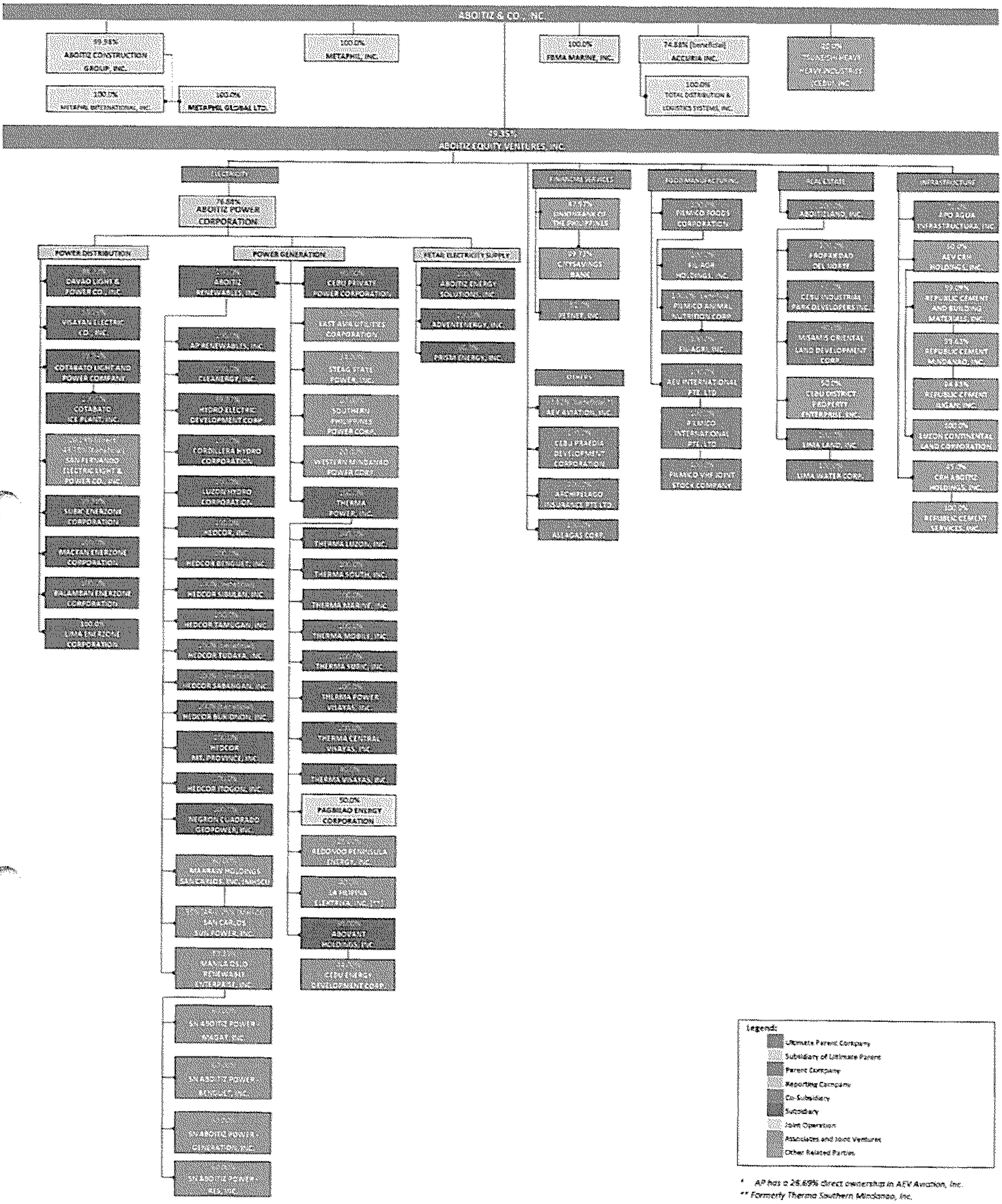
AS OF DECEMBER 31, 2015
(Amounts in Thousands)

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Parent Company	P-	P136,800	P136,800	P793,138	P-	P-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	428,047	-	428,047	5,015,654	-	-	30 days
Cebu Private Power Corporation	101,732	-	101,732	1,336,792	-	-	30 days
Therma Power, Inc. and Subsidiaries	901,210	-	901,210	7,416,235	-	-	30 days
Aboitiz Energy Solutions, Inc.	371,445	-	371,445	1,922,869	-	-	30 days
TOTAL	P1,802,434	P136,800	P1,939,234	P16,484,688	P-	P-	

Aboitiz Power Corporation
Reconciliation of Retained Earnings Available for Dividend Declaration
For the Year Ended December 31, 2015
(Amount in Philippine Currency)

Unappropriated Retained Earnings, *beginning*		P28,220,888,271
Less:		
Appropriation for the year 2015		-
		28,220,888,271
Net income based on face of audited financial statements	P6,380,622,960	
Less: Non-actual/unrealized income (net of tax)	-	
Add: Non-actual loss (net of tax)	-	
Net income actual/realized for the period		6,380,622,960
Less:		
Dividend declaration during the period		(12,215,283,150)
UNAPPROPRIATED RETAINED EARNINGS, AS ADJUSTED, ENDING		**P22,386,228,081**

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAPPING
As of December 31, 2015



* *AP has a 26.69% direct ownership in AEV Aviation, Inc.*
** *Formerly Therma Southern Mindanao, Inc.*

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
SCHEDULE OF RELEVANT FINANCIAL RATIOS

	FORMULA	2015	2014
LIQUIDITY RATIOS			
Current ratio	Current assets / Current liabilities	**3.12**	3.36
Acid test ratio	Cash + Marketable securities + Accounts receivable + Other liquid assets / Current liabilities	**2.88**	3.12
SOLVENCY RATIOS			
Debt to equity ratio	Total liabilities / Total equity	**1.39**	1.26
Asset to equity ratio	Total assets / Total equity	**2.39**	2.26
Net debt to equity ratio	Debt - Cash & cash equivalents / Total equity	**0.63**	**0.59**
Gearing ratio	Debt - Cash & cash equivalents / Total equity + (Debt - Cash & cash equivalents)	**38.46%**	**37.28%**
Interest coverage ratio	EBIT / Interest expense	**489.50%**	488.07%
PROFITABILITY RATIOS			
Operating margin	Operating profit / Total revenues	**28.98%**	25.76%
Return on equity	Net income after tax / Total equity adjusted for cash dividends	**21.26%**	**21.29%**

Aboitiz Power Corporation and Subsidiaries

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2015

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	Not Applicable
	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	See footnote[1]
PFRS 6	Exploration for and Evaluation of Mineral Resources	Not Applicable
PFRS 7	Financial Instruments: Disclosures	Adopted
	Amendments to PFRS 7: Transitions	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: Servicing Contracts	See footnote[1]
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	See footnote[1]
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 or final version)	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	See footnote[1]
PFRS 11	Joint Arrangements	Adopted
	Amendments to PFRS 11: Transition Guidance	Adopted
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	See footnote[1]
PFRS 12	Disclosure of Interests in Other Entities	Adopted
	Amendments to PFRS 12: Transition Guidance	Adopted
	Amendments to PFRS 12: Investment Entities	Adopted
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception	See footnote[1]
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	See footnote[1]

Philippine Accounting Standards (PAS)

Aboitiz Power Corporation and Subsidiaries

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2015

Standards and Interpretations		Remarks
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	See footnote[1]
PAS 2	Inventories	Adopted
PAS 7	Statement of Cash Flows	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
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	See footnote[1]
	Amendments to PAS 16: Bearer Plants	See footnote[1]
PAS 17	Leases	Adopted
PAS 18	Revenue	Adopted
PAS 19 (Revised)	Employee Benefits	Adopted
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	Adopted
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	Adopted
	Amendment to PAS 19: Discount Rate: Regional Market Issue	See footnote1
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	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	See footnote[1]
PAS 28 (Amended)	Investments in Associates and Joint Ventures	Adopted
	Amendments to PAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	See footnote[1]
	Amendments to PAS 28, Investment Entities: Applying the Consolidation Exception	See footnote[1]
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'	See footnote[1]
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 Liabilities	Adopted
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	Adopted

Aboitiz Power Corporation and Subsidiaries

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2015

Standards and Interpretations		Remarks
	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
PAS 41	Agriculture	Not Applicable
	Amendments to PAS 41: Bearer Plants	See footnote[1]

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 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 12	Service Concession Arrangements	Adopted
IFRIC 13	Customer Loyalty Programmes	Not Applicable
IFRIC 14	PAS 19 - 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 Requirement	Not Applicable
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

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 15	Operating Leases - Incentives	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

International Financial Reporting Standards

IFRS 15	Revenue from Contracts with Customers	See footnote[2]
IFRS 16	Leases	See footnote[2]

[1] Effective subsequent to December 31, 2015

[2] New standard issued by the IASB but has not yet been adopted by the FRSC.

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Building a better
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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 AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
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, 2016. 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.

Leovina Mae V. Chu

Leovina Mae V. Chu
Partner
CPA Certificate No. 99910
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June 22, 2015, valid until June 21, 2018
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BIR Accreditation No. 08-001998-96-2015,
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PTR No. 5321709, January 4, 2016, Makati City

March 8, 2016