

APR 12 2017

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City, 1307

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

via PSE EDGE

PHILIPPINE STOCK EXCHANGE, INC.

3rd Floor, Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

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

via electronic mail

PHILIPPINE DEALING & EXCHANGE CORP.

Market Regulatory Services Group
37/F, Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas, Makati City

ATTENTION : **MS. VINA VANESSA S. SALONGA**
Head – Issuer Compliance and Disclosures Department

Gentlemen:

Attached is the SEC Form 17-A (Annual Report 2016) of Aboitiz Power Corporation for your files.

Kindly acknowledge receipt hereof.

Thank you.

Very truly yours,

ABOITIZ POWER CORPORATION

By:



M. JASMINE S. OPORTO
Corporate Secretary^{TS}

COVER SHEET

C 1 9 9 8 0 0 1 3 4

S.E.C. Registration Number

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

(Company's Full Name)

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

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

P H I L I P P I N E S

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

M. JASMINE S. OPORTO

Contact Person

Contact Person

02- 886-2729

Company Telephone Number

3rd Monday of

May

1 2 3 1

Month Day

Fiscal Year

Annual Report

1 7 - A

FORM TYPE

0 5 1 5

Month Day

Annual Meeting

N/A

Secondary License Type, if Applicable

SEC

Dept. Requiring this Doc

N/A

Amended Articles Number/Section

Total No. of Stockholders

x

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier


S T A M P S

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the year ended 2016
2. SEC Identification Number C199800134 3. BIR TIN 200-652-460-000
4. Exact name of registrant as specified in its charter Aboitiz Power Corporation
5. Philippines 6. 
Province, country or other jurisdiction of incorporation Industry Classification Code
7. 32nd Street Bonifacio Global City, Taguig City 1634
Address of principal office Postal Code
8. (02) 886-2800
Issuer's telephone number, including area code
9. N.A.
Former name or former address, if changed since last report

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

Title of Each Class

Number of Shares of Common Stock
Outstanding and Amount of Debt Outstanding

Common 7,358,604,307

Total Debt (as of December 31, 2016) ₱214,217,468,000.00

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

Yes (✓)

No ()

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

Philippine Stock Exchange

Common

12. Check whether the registrant:

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

Yes (✓)

No ()

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

Yes (✓)

No ()

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

For 2016, aggregate voting stock of registrant held outside of its affiliates and/or officers and employees totaled 1,401,221,360 shares (for details please refer to the attached notes to financial statements and Schedule H of this report) while its average market price per share was ₱41.70.

Based on this data, total market value of registrant's voting stock not held by its affiliates and/or officers and employees was computed to be ₱58,430,930,712.00.

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

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

Yes ()

No (✓)

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:
- (a) Any annual report to security holders;
 - (b) Any information statement filed pursuant to SRC Rule 20;
 - (c) Any prospectus filed pursuant to SRC Rule 8.1.

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PART 1 – BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Business Development

Incorporated in 1998, AboitizPower is a publicly-listed holding company that, through its Subsidiaries and Affiliates, is a leader in the Philippine power industry and has interests in a number of privately-owned generation companies and distribution utilities. AEV owns 76.88% of the outstanding capital stock of AboitizPower as of March 31, 2017.

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

In December 1978, ACO divested its ownership interests in Ormoc Electric Light Company and Jolo Power Company to allow these companies to be converted into electric cooperatives, which was the policy being promoted by 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 February 13, 1998 as a holding company for the Aboitiz Group's investments in power generation and distribution. However, in order to prepare for growth in the power generation industry, AboitizPower was repositioned in the third quarter of 2003 as a holding company that owned power generation assets only. The divestment by AboitizPower of its power distribution assets was achieved through a property dividend declaration in the form of AboitizPower's ownership interests in the different power distribution companies. The property dividend declaration effectively transferred direct control over the Aboitiz Group's power distribution business to AEV. Further, in 2005, AboitizPower consolidated its investments in mini-hydroelectric plants in a single company by transferring all of HEDC's and Cleanergy's mini-hydroelectric assets to Hedcor, Inc. (Hedcor).

In December 2006, the Company and its partner, Statkraft Norfund Power Invest AS of Norway, through SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat), submitted the highest bid for the 360-MW Magat hydroelectric plant (Magat Plant) auctioned by the Power Sector Assets and Liabilities Management 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 April 26, 2007.

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

- (a) 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;

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

In February 2007, the Company, through its wholly owned Subsidiary, Therma Power, Inc. (TPI), entered into a Memorandum of Agreement (MOA) with Taiwan Cogeneration International Corporation (TCIC) to collaborate in the building and operation of an independent coal-fired power plant in the Subic Bay Freeport Zone (SBFZ), 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. MPMC took the controlling interest in RP Energy, while TCIC and TPI maintained the remaining stake equally.

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

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

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

In August 2007, the Company, together with Vivant Energy Corporation (VEC) 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.

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

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

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

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

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

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

AboitizPower, through its Subsidiary, Therma Marine, Inc. (TMI), assumed ownership over Mobile 1 and Mobile 2 on February 6, 2010 and March 1, 2010, respectively, after acquiring the two power barges from PSALM for US\$30 mn through a negotiated bid concluded on July 31, 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.

On May 27, 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.

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 address was approved by the stockholders during the May 20, 2013 Annual Stockholders' Meeting and was approved by the SEC on July 16, 2013. AboitizPower's current principal office address is at 32nd Street, Bonifacio Global City, Taguig City.

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

On March 31, 2014, Therma Power-Visayas, Inc. (TPVI) was declared the highest bidder for the privatization of the Naga Power Plant Complex (NPPC) located in Colon, Naga City, Province of Cebu. SPC Power Corporation (SPC), the other bidder, exercised its right-to-top (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 September 28, 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 Judgement on January 9, 2017. SPC has a pending Motion for Leave to File and Admit Motion for Reconsideration dated December 9, 2016 with the Supreme Court. On February 14, 2017, TPVI received the Entry of Judgement dated January 9, 2017, which states that the September 28, 2015 Decision and the October 5, 2016 Resolution have become final and executory on November 28, 2016 and have been recorded in the Books of Entries of Judgement.

On May 15, 2014, TPI entered into a joint venture agreement with TPEC Holdings Corporation to form Pagbilao Energy Corporation (PEC). PEC is the project company that 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.

On June 19, 2014, AboitizPower acquired 100% ownership interest in Lima Utilities Corporation, now Lima Enerzone Corporation (LEZ), from Lima Land, Inc. (Lima Land), a wholly owned Subsidiary of AboitizLand. LEZ is the 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.

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

On August 29, 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 ₱10 bn. The Bonds, which received the highest possible rating of "PR3 Aaa" rating from the Philippine Rating Services Corporation, were issued simultaneously in two series, the 7-year bonds with a fixed-interest rate of 5.205% per annum, and the 12-year bonds with a fixed-interest rate of 6.10% per annum. The Bonds are also listed with the PDEX, the fixed-income securities market which provides an electronic trading platform of exchange for fixed-income securities.

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 August 18, 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. (Sacasan), 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 July 15, 2016, ARI issued default notices to its joint venture partner, Sun Edison Philippines Helios BV, in respect of their project vehicle, Sacasan, 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 December 29, 2016, ARI signed a Memorandum of Understanding (MOU) with BDO Unibank, Inc. (BDO) and Sacasan for the acquisition by ARI of Sacasan's loan from BDO.

On September 18, 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 February 2, 2016.

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 Infrasantara on September 25, 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.

On September 21, 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 January 31, 2017, after reviewing its overall capital commitments, AboitizPower decided to exit from the Greenfield geothermal exploration and development project and allow PT Medco to proceed with the project.

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

On October 3, 2016, TPI was selected as the preferred bidder for the competitive tender process undertaken by certain investment funds affiliated with The Blackstone Group L.P. for the indirect sale of all of their partnership interests in GNPowder Mariveles Coal Plant Ltd. Co. (GNPowder-Mariveles or GMCP) and GNPowder Dinginin Ltd. Co. (GNPowder-Dinginini or GNPDP). The Purchase and Sale Agreements for the acquisition were finalized on October 4, 2016, which resulted in TPI acquiring an 82.8% beneficial ownership interest in GNPowder-Mariveles

and 50% beneficial ownership interest in GNPowder-Dingin. AboitizPower's ownership interest in GN Power-Mariveles will ultimately be reduced to 66.1% and in GN Power-Dingin to 40%, post return of capital. The acquisition was completed on December 27, 2016, Philippine time, upon receipt of the approvals from the Philippine Competition Commission (PCC) and the Philippine Board of Investments (BOI).

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

Neither AboitizPower nor any of its Subsidiaries has been the subject of any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

(2) Business of Issuer

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

(a) Description of Registrant

(i) Principal Products

GENERATION OF ELECTRICITY

Since its incorporation in 1998, AboitizPower has accumulated interests in both renewable and non-renewable generation plants. As of December 31, 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 December 31, 2016 compared to same periods 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 Aboitiz Power-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

*Operations of Unit 1 only for the 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 Energy Regulatory Commission.

Renewables

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:

- (a) 100% equity interest in Luzon Hydro Corporation (LHC) which operates the 70-MW Bakun AC HEPP in Ilocos Sur in northern Luzon;
- (b) 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;
- (c) 100% equity interest in Hedcor Sibulan, Inc. (Hedcor Sibulan), which operates the 49-MW Sibulan and Tudaya 1 HEPP in Davao del Sur;
- (d) 100% equity interest in Hedcor Tudaya, Inc. (Hedcor Tudaya), which operates the 7-MW Tudaya 2 HEPP in Davao del Sur;
- (e) 100% equity interest in Hedcor Sabangan, Inc. (Hedcor Sabangan), which operates the 14-MW Sabangan run-of-river HEPP in Sabangan, Mountain Province;
- (f) 100% equity interest in Hedcor Bukidnon, Inc. (Hedcor Bukidnon), which is currently building a 68-MW run-of-river HEPP in Manolo Fortich, Bukidnon;
- (g) 83.33% equity interest in Manila-Oslo Renewable Enterprise, Inc. (MORE), which owns SN Aboitiz Power-Magat, the company that operates the 360-MW Magat HEPP in Isabela in northern Luzon and SN Aboitiz Power-Benguet, the company that operates the 245-MW Ambuklao-Binga HEPP complex in northern Luzon;
- (h) 100% equity interest in APRI, which owns the 390-MW Tiwi-MakBan geothermal facilities located in Albay, Laguna and Batangas;
- (i) 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;
- (j) 100% equity interest in Aboitiz Power Distributed Energy, Inc. (APX), the company engaged in developing energy solutions using emerging technology; and
- (k) 100% equity interest in Aseagas Corporation (Aseagas), the company established for the Group's biomass project located in Lian, Batangas.

Run-of-River Hydros

Luzon Hydro Corporation (LHC)

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.

Hedcor, Inc. (Hedcor)

Hedcor, a wholly owned Subsidiary of ARI, is effectively 100% owned by AboitizPower. It was incorporated on October 10, 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 April 2012, is selling under the Feed-in Tariff (FIT) mechanism through a Renewable Energy Payment Agreement (REPA) with National Transmission Corporation (Transco). The remaining electricity is being sold through the Wholesale Electricity Spot Market (WESM).

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

Hedcor Sibulan, Inc. (Hedcor Sibulan)

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

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

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

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

Hedcor Tudaya, Inc. (Hedcor Tudaya)

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)

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.

Hedcor Bukidnon, Inc. (Hedcor Bukidnon)

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

effectively owns 100% interest in Hedcor Bukidnon.

This project is composed of the 43.4-MW Manolo Fortich Hydro 1 and the 25.4-MW Manolo Fortich Hydro 2 plants which shall be located in the Province of Bukidnon. Both plants are expected to produce at least 350 GWh annually. The construction of the Manolo Fortich Project began in 2015 with an estimated total project cost of ₱13 bn. 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 ₱10 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 Group (BPI-AMTG) acted as Trustee and Facility Agent.

Large Hydros

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

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 owned 60% by MORE. SN Power Invest Netherlands BV (SN Power Netherlands) owns the remaining 40% of SN Aboitiz Power-Magat. On December 14, 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 ₱10.1 bn. The financing agreement was hailed as the region's first-ever project finance debt granted to a merchant power plant. It won Project Finance International's Power Deal of the Year, and Asset's Best Project Finance Award and Best Privatization Award. The loan was used to partially finance the deferred balance of the purchase price of the Magat Plant under the Asset Purchase Agreement (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 which were used to acquire the Magat Plant. In 2012, SN Aboitiz Power-Magat secured top-up financing of ₱5 bn for its recapitalization requirements and general corporate purposes.

As a hallmark of innovation in revenue generation, SN Aboitiz Power-Magat garnered an AS contract 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 ₱19 bn. SN Aboitiz Power-Magat appointed BPI-AMTG as Facility Agent, BPI Capital Corporation as Mandated Lead Arranger and Bookrunner, and China Bank Capital Corporation as Joint Lead Arranger. The proceeds of the loan 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 which 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.

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

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

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

On September 21, 2015, SN Aboitiz Power-Benguet refinanced its existing peso credit facility from BDO and BPI. The new syndicated 15-year term loan is in the amount of ₱15 bn. The company also increased its previous US\$375 mn credit facility signed in August 2008 to US\$436.23 mn. The increased US dollar credit facility was availed by the 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 which was effective until August 11, 2015. The Ambuklao Plant also obtained an ITH extension on February 26, 2013, which is valid until June 30, 2018. A series of extensive stakeholder engagement activities was successfully conducted to mitigate the impact of the shift from national wealth tax to government share on host local government units to ensure a smooth transition.

On October 25, 2016, SN Aboitiz Power-Benguet and the Province of Benguet amicably settled and entered into a compromise agreement on a real property tax (RPT) dispute that has reached ₱157.7 mn. The amount represents three years of tax benefits to the municipalities of Bokod and Itogon and Benguet province. The 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 July 26, 2016 (2013 ASPA). On August 24, 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 December 5, 2016, the ERC issued a letter granting the issuance of a Provisional Authority for the implementation of the ASPA for the Ambuklao Plant effective December 26, 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 December 31, 2016, SN Aboitiz Power-Benguet has contributed 662 GWh and ₱1.037 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 TWh and total BCQ net revenue of ₱1.91 bn accounting for 29% and 17% of total SN Aboitiz Power Group volume sales and net revenue, respectively.

Geothermal

AP Renewables, Inc. (APRI)

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 May 25, 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 May 26, 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 August 13, 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 September 30, 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 ₱12.5 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.

Solar

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

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 December 10, 2015, Sacasun signed an Omnibus Loan and Security Agreement with BDO to secure a loan up to the amount of ₱3.7 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 a company owned by ARI, APX is engaged in developing energy solutions 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 energy products and services within the broader AboitizPower Group to provide superior customer experience.

Biogas

Aseagas Corporation (Aseagas)

Incorporated on June 5, 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 second 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)

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:

- (a) 100% equity interest in TMI, owner and operator of 100-MW Mobile 1 barge-mounted power plant in Maco, Compostela Valley and 100-MW Mobile 2 barge-mounted power plant in Nasipit, Agusan del Norte;
- (b) 100% equity interest in TMO, owner and operator of Mobile 3–6 barge-mounted power plants in Navotas Fishport, Manila, with a total generating capacity of 242 MW;
- (c) 100% equity interest in TLI, the IPPA of the 700-MW contracted capacity of the Pagbilao Plant in Quezon Province;
- (d) 100% equity interest in TSI, owner and operator of a 300 MW CFB coal-fired plant in Toril, Davao City;
- (e) 100% equity interest in TPVI, the project company that bid for the privatization of the Naga power plant, located in Naga City, Cebu;
- (f) 100% equity interest in EAUC, owner and operator of a 43-MW Bunker C fired power plant in MEPZ 1, Mactan, Cebu;
- (g) 80% equity interest in TVI, which is currently building a 300-MW coal-fired power plant in Toledo City, Cebu;
- (h) 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. TPI's ownership interest GN Power–Mariveles will ultimately be reduced to 66.1% post return of capital;
- (i) 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. TPI's ownership interest in GN Power–Dinginin will ultimately be reduced to 40% post return of capital;
- (j) 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

- (k) 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.

Oil Group

Therma Marine, Inc. (TMI)

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

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

Therma Mobile, Inc. (TMO)

On May 27, 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 November 12, 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.

East Asia Utilities Corporation (EAUC)

EAUC is the owner and operator of a Bunker C-fired power plant within Mactan Economic Processing Zone I (MEPZ I), Lapu-Lapu City, Cebu. It has been operating the plant since 1997. The company was formed on February 18, 1993 and began supplying power through the WESM on December 26, 2010. On April 26, 2011, EAUC entered into an Electric Power Purchase Agreement (EPPA) with the Philippine Economic Zone Authority (PEZA) to purchase 22 MW electric power from EAUC. EAUC also signed an EPPA with BEZ for the supply of power equivalent to 5.255 MW for a period of five years, starting May 25, 2011 until May 25, 2016. EAUC is currently negotiating for the renewal of its EPPA with BEZ.

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

Cebu Private Power Corporation (CPPC)

Incorporated on July 13, 1994, CPPC owns and operates a 70-MW Bunker C-fired power plant located in the Old VECO Compound, Cebu City. 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 April 20, 2007, AboitizPower acquired 60% of the outstanding common shares of CPPC from EAUC. VEC owns the remaining 40% of the outstanding common shares. VEC and AboitizPower are the major shareholders of VECO. CPPC is imbedded inside the franchise area of VECO.

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

Southern Philippines Power Corporation (SPPC)

SPPC is a joint venture company among AboitizPower, Alsing Power Holdings, Inc. and Tomen Power (Singapore) Pte. Ltd. AboitizPower has 20% equity interest in SPPC, 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 of its Energy Conversion Agreement (ECA) with NPC, which ended in 2016. SPPC currently supplies power to electric utilities and cooperatives pursuant to PSAs approved by the ERC. These utilities and cooperatives pay SPPC on a monthly basis for the fuel costs, capital recovery, energy, and fixed and variable operations and maintenance fees as specified in the PSAs.

Western Mindanao Power Corporation (WMPC)

WMPC is a joint venture company among 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 of its ECA with NPC, which ended in 2015. WMPC currently supplies power electric utilities and cooperatives pursuant to PSAs approved by the ERC. These utilities and cooperatives pay WMPC on a monthly basis for the fuel costs, capital recovery, energy, and fixed and variable operations and maintenance fees as specified in the PSAs.

Coal Group

Therma Luzon, Inc. (TLI)

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.

Pagbilao Energy Corporation (PEC)

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

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

On May 2014, PEC entered into an Engineering, Procurement and Construction (EPC) contract with a consortium comprised of Mitsubishi Hitachi Power Systems Ltd., Daelim Industrial Co. Ltd., DESCO Inc. and Daelim Philippines Inc. for the project. PEC also signed an Omnibus Agreement to obtain loans and credit accommodations to finance the construction of Pag3 with a consortium of lender-banks in the amount of up to ₱33.31 bn. Site construction activities are in progress in line with PEC's target commercial operations by 2017.

Therma South, Inc. (TSI)

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

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

TSI 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 plant through livelihood programs, education and enterprise development initiatives.

Therma Visayas, Inc. (TVI)

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 (Cebu Energy)

Incorporated on November 28, 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.

Redondo Peninsula Energy, Inc. (RP Energy)

Incorporated on May 30, 2007, RP Energy was originally a joint venture between AboitizPower and TCIC. On July 22, 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 November 15, 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 February 3, 2015, the Supreme Court dismissed the Writ of Kalikasan for insufficiency of evidence and upheld the validity of the December 22, 2008 ECC issued by the DENR in favor of RP Energy, as well as its July 8, 2010 first amendment and the May 26, 2011 second amendment. The Supreme Court also upheld the validity of the Lease and Development Agreement between SBMA and RP Energy dated June 8, 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 October 13, 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 ₱31.5 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. (STEAG Power)

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

On November 15, 2007, AboitizPower closed the sale and purchase of 34% equity ownership in STEAG Power from Evonik Steag GmbH (now STEAG GmbH or STEAG), Germany's fifth largest power generator. STEAG and La Filipina Uy Gongco Corporation (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 November 14, 2012. STEAG Power's COC, on the other hand, was renewed by the ERC and is effective until August 2021.

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

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 GNPower-Mariveles and GNPower-Dingin on December 27, 2016. This resulted in TPI ultimately acquiring an 82.8% beneficial ownership interest in GNPower- 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 January 29, 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 a long term power purchase agreements with high-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 December 27, 2016, TPI completed the acquisition of the partnership interests held by affiliated investment funds of The Blackstone Group, L.P in World Power Holdings, L.P. (currently registered as Therma Mariveles Holdings L.P.) and Sithe Global Power, L.P. (currently registered as Therma Dinginin

L.P.) This resulted to TPI's acquisition of 50% beneficial ownership interest in GNPowder-Dingin. AboitizPower's ownership interest in GNPowder-Dingin will eventually be reduced to 40% post return of capital.

GNPowder-Dingin 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.

GNPowder-Dingin 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 (Dingin 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, (Dingin Expansion Project).

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

GNPowder-Dingin successfully achieved its financial closing and started the construction of Unit 1 in September 2016 with target delivery in 2018. To date, GNPowder Digin 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 GNPowder Digin to enter into forward contract with prospective Contestable Customers.

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 stand-by 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 December 31, 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	2,992,950	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
Lima Enerzone	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)

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. To guarantee compliance with their respective obligations under the Shareholders' Cooperation Agreement, AboitizPower and Vivant were each required to place in escrow 5% of the shares in VECO registered in their names. The escrow shares will be forfeited in the event that a shareholder group violates the terms of the Shareholders' Cooperation Agreement.

VECO is part of the third group (Group C) of private distribution utilities to shift to Performance-Based-Rate-Setting Regulation (PBR). On May 2010, the ERC issued its final determination on VECO's application for approval of its annual revenue requirements and Performance Incentive Scheme (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 October 16, 2009 for the supply of 105 MW for 25 years. The contracted capacity with Cebu Energy was subsequently increased to 121 MW in 2014 and further increased by 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 December 26, 2010, VECO signed a five-year PSA with Green Core Geothermal, Inc. (GCGI) for the supply of 60 MW at 100% load factor. On October 23, 2014, VECO and GCGI amended the PSA, extending the term for another ten years at a reduced price. VECO entered into additional PPAs with GCGI for the supply of 15 MW starting December 25, 2011 and an additional 15 MW starting December 25, 2012. This addressed NPC's reduced power supply under its contract with VECO. The first and second 15MW contract with GCGI expired last December 26, 2016.

On December 25, 2014, the Contract for the Supply of Electric Energy (CSEE) between VECO and PSALM expired. Consequently, VECO entered into PSAs with AESI, Vivant Energy Solutions and Unified Leyte Geothermal Energy Inc. (ULGEI) for 40 MW, 17 MW, and 5 MW baseload supply, respectively. The 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 December 26, 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. (Davao Light)

Incorporated on October 11, 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 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 APRI, Hedcor, Hedcor Sibulan and Hedcor Tamugan. There was a notable price differential between Hedcor Consortium's winning bid price of ₱4.09 per kWh and the next lowest bid price of ₱1.01 per kWh. Over the life of the supply contract, the differential will amount to approximately ₱4.9 bn at current peso value, representing significant savings for Davao Light customers. Davao Light decided to secure the new supply contract in anticipation of the full utilization of the existing contracted energy supply under the ten-year contract with NPC for 1,363,375 MWh and the 12-year contract with Hedcor Consortium.

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

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 March 21, 2011, as approved by the ERC on May 30, 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 October 25, 2012, and an additional 50-MW PSA with SPPC in 2016.

Cotabato Light and Power Company (Cotabato Light)

Cotabato Light supplies electricity to Cotabato City and portions of the municipalities of Datu Odin Sinsuat and Sultan Kudarat, both in Maguindanao, with a land area of 191 square kilometers. As of December 2016, Cotabato Light's peak demand was recorded at 26.83 MW and 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 June 16, 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 April 1, 2013 to March 1, 2017. A reset process is underway to start the third regulatory period covering April 1, 2017 to March 1, 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)

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 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 October 1, 2011 until September 2015.

AboitizPower has an effective interest of 43.78% in SFELAPCO.

Subic EnerZone Corporation (SEZ)

In May 2003, the consortium of AEV and Davao Light won the competitive bid to provide distribution management services to SBMA and to operate the SBFZ power distribution utility for a period of 25 years. On June 3, 2003, SEZ was incorporated as a joint venture company owned by a consortium comprised of Davao Light, AEV, SFELAPCO, Team Philippines, Okeelanta, and PASUDECO to undertake the management and operation of the SBFZ power distribution utility. On October 25, 2003, SEZ was formally awarded the contract to manage SBFZ's power distribution utility and took over operations. As of December 2016, SEZ's peak demand was recorded at 48,017 kW and 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 ₱92 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 October 1, 2012 to September 30, 2013, it was able to implement the new rate schedule starting January 2013. Consequently, the resulting under-recoveries from the lag starting from October 1, 2012 were included by SEZ as under-recoveries in its rate filing in

the third regulatory year.

The 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 July 12, 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 October 1, 2019 to September 30, 2023.

On November 21, 2016, the ERC posted the draft Regulatory Asset Base (RAB) Roll Forward Handbook for Privately Owned Electricity Distribution Utilities for comments. Public consultations were conducted on January 6 and 9, 2017 in Cebu 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 Performance Based Regulation (PBR) methodology, wherein the distribution utilities' capital expenditures and rate recovery thereon are approved in advance but the charges to the customers will only start after the investments have actually been made and validated by ERC auditors. The first public consultation was scheduled on January 23, 2017.

Mactan Enerzone Corporation (MEZ)

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

MEZ sources its power from 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)

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

On March 7, 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 Enerzone Corporation (Lima Enerzone)

LEZ was incorporated as Lima Utilities Corporation on June 5, 1997 to serve and provide locators within the Lima Technology Center (LTC) with a reliable and stable power supply. 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. (AESI)

On November 9, 2009, AESI, a wholly owned Subsidiary of AboitizPower, was granted a license to act as a RES, which license was renewed on October 29, 2012 for another five years. With the start of commercial operations of Open Access on June 26, 2013, AESI has served 72 customers. For the year 2016, AESI had a total of 67 customers, with total energy consumption of 812 mn kWh.

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

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

Incorporated on August 14, 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 June 18, 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)

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

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

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

As of December 31, 2016, SN Aboitiz Power-RES accounts for 131 GWh or 9.5% of BCQ volumes which contributed ₱62 mn or 3% of BCQ net revenue.

(ii) Sales

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

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

	2016	2015	2014
Gross Income	₱89,163	₱85,174	₱86,579
Operating Income	26,310	24,687	22,351

Total Assets	₱354,776	₱242,489	₱216,761
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Note: Values are in Million Pesos. Operating Income is operating revenue net of operating expenses.

Comparative amounts of revenue contribution by business grouping are as follows:

	2016		2015		2014	
Power Generation	₱51,469	48%	₱47,137	46%	₱47,790	49%
Power Distribution	44,666	41%	41,379	41%	39,976	41%
Retail Electricity Supply	10,453	10	12,151	12%	9,703	10%
Services	1,296	1	991	1%	908	0%
Total Revenue	₱107,884	100%	₱101,658	100%	₱98,377	100%
Less: Eliminations	(₱18,721)		(₱16,484)		(₱11,618)	
Net Revenue	₱89,163		₱85,174		₱86,759	

Note: Values are in Millions.

(iii) 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, RES or other large end-users, and through the WESM. There are also Subsidiaries and Affiliates providing ancillary services through ASPAs with NGCP.

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

In addition, Hedcor Tudaya Hydro 2, Hedcor Irisan Hydro 1 and Hedcor Sabangan, 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.

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.

(iv) New Products/Services

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

(v) Competition

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 Customer in the Open Access regime. Customers with consumption of at least 1 MW are mandated to switch to Open Access by February 2017. The threshold of 1 MW will eventually be reduced to 750 kW, and further down to 500 kW. 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 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 66.1% in GNPower- Mariveles brings a considerable increase in its capacity. Furthermore, its simultaneous acquisition of 40% beneficial ownership in GNPower-Dingin also augments its project pipeline.

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-Dingin.

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.

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 June 25, 2016 with any of the following: (i) any licensed RES; (ii) any generating company with a COC and a RES license; or (iii) any prospective generation company whose power generation project is undergoing construction or planned and has been included in the DOE's Power Development Plan.

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

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

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

(vi) 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 2015, 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 continues to be supplied by the PGPC. The terms of the steam supply are governed by a Geothermal Resource Sales Contract (GRSC) under which price of steam is ultimately indexed to the Newcastle Coal Index and the Japanese Public Utilities coal price. The GRSC took effect on May 26, 2013. An interim agreement supplementing the GRSC was subsequently signed to make generation cost more competitive in the market.

Oil-fired plants use Bunker-C fuel to generate electricity. SPPC and WMPC source fuel from 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 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 last March 21, 2011, which was provisionally approved by the ERC on May 30, 2011. On February 29, 2012, Davao Light and TMI filed a Joint Manifestation with the ERC stating that they agreed to supplement and modify their supply contract to 30 MW. In March 1, 2012, TMI has supplied the contract 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 December 25, 2015, the CSEEs of Davao Light and Cotabato Light with PSALM expired. Following negotiations, on December 23, 2015, Davao Light and Cotabato Light entered into PSAs with WMPC for the supply of 18 MW and 2 MW, respectively, for a period of four months from January to April 2016. These PSAs were provisionally approved by the ERC on March 1, 2016. On April 2016, the PSALM CSEEs of Davao Light and Cotabato Light were renewed for an annual term with a lower contracted capacity. Due to significant reduction of the contracted capacity of the PSALM CSEEs, Davao Light and Cotabato Light entered into a PSA with SPPC for a supply of 50MW and 5MW, respectively, on April 28, 2016 for a period of two years. These were provisionally approved by the ERC on July 11, 2016.

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

To address VECO's long-term power supply requirement, VECO entered into an EPPA with Cebu Energy on October 16, 2009 for the supply of 105 MW for 25 years. The contracted capacity with Cebu Energy was subsequently increased to 121 MW in 2014, and further increased by 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 December 26, 2010, VECO signed a five-year PSA with GCGI for the supply of 60 MW at 100% load factor. On October 23, 2014, VECO and GCGI amended the PSA, extending the term for another ten years at a reduced price. VECO entered into additional PPAs with GCGI for the supply of 15 MW starting December 25, 2011 and an additional 15 MW starting December 25, 2012. This addressed NPC's reduced power supply under its contract with VECO. The first and second 15MW contracts with GCGI expired last December 26, 2016. On December 25, 2014, the CSEE between VECO and PSALM expired. Consequently, VECO entered into PSAs with AESI, 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 December 26, 2016, the contract with SLPGC was reduced to 47.79 MW as there were Contestable Customers who migrated to Open Access. VECO will continue to renegotiate the reduction of its bilateral contract to account for the continued migration of contestable customers. VECO's PSAs with TVI is pending with the ERC for approval.

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

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 December 25, 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.

(vii) Major 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:

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

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

(viii) 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 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. The parent company 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 Note 32 of the Audited Financial Statements of the Company.

(ix) Patents, Copyrights, Franchises

Generation Business

Power generation is not considered a public utility operation under the EPIRA. Thus, a 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 owns stand-by power plants possess COCs for their generation businesses, details of which are as follows:

Title of Document	Issued under the name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	
COC No. 13-11-GN-330-20029L	Hedcor, Inc.	Irisan 3	Hydroelectric Power Plant	Tadiangan, Tuba, Benguet	1.20 MW	Hydro	25	November 11, 2013
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
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

Title of Document	Issued under the name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	
COC No. 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*	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
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

Title of Document	Issued under the name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	
COC No. 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 Corporation - Bakun	N/A	Diesel Engine	Poblacion, Bakun	80 kW	Diesel	15	February 27, 2013
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. 13-06-GXT	East Asia Utilities	N/A	Bunker C-Fired Power Plant	Barrio Ibo, Mactan Export	49.60 MW	Bunker C	16	June 10, 2013

Title of Document	Issued under the name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	
2-0002V	Corporation			Processing Zone 1 (MEPZ 1), Lapu-Lapu City, Cebu				
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, Sarangani 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, Inc. (Binga Hydroelectric Power Plant)	Binga – Unit 1	Hydroelectric Power Plant	Brgy. Tinongdan, Itogon, Benguet	35 MW	Hydro	48	April 6, 2015
		Binga – Unit 2	Hydroelectric Power Plant		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		

Title of Document	Issued under the name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	
COC No. 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. 15-05-M-00007L	AP Renewables, Inc.	Makban – Bay, Plant A, Unit 1	Geothermal Power Plant	Brgy. Bitin, Bay, Laguna	63.2 MW	Geo-thermal Steam	23	May 4, 2015
		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, Unit 2			60 MW			
COC No. 15-11-M-286rL	AP Renewables, Inc.	Plant C, Unit 5	Geothermal Power Plant	Brgy. Cale, Tiwi, Albay	57 MW	Geo-thermal Steam	25	November 26, 2015
		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

Title of Document	Issued under the name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	
COC No. 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
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

¹Pursuant 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 June 16, 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 July 26, 2013, the implementation of Open Access commenced in Luzon and Visayas. Like power generation, the business of supplying electricity is not considered a public utility operation under the EPIRA. It is, however, considered a business affected with public interest. As such, the EPIRA requires all suppliers of electricity to end-users in the contestable market, other than distribution utilities within their franchise areas, to obtain a license from the ERC in accordance with the ERC's rules and regulations. With the implementation of Open Access, AboitizPower's Subsidiaries, AESI, AdventEnergy 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).

Trademarks	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.

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
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 5 th year Anniversary DAU was filed last December 27, 2011 with the IP Office. The 10 th 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"	Original Certificate of Registration No. 4-2002-06293 was issued on July 16, 2007. The 5 th year Anniversary DAU was filed last July 15, 2013 with the IP Office. The 10 th year Anniversary DAU and application for

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
				diamond logo below it.	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 BetterFuture" 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

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
					<p>was filed on May 20, 2014 with the IP Office.</p> <p>The 5th year Anniversary DAU is due for filing on or before February 24, 2018 with the IP Office.</p>
Alterspace and Device (Class 9, 39 and 40)	Aboitiz Power Corporation	May 31, 2011	4-2011-006291 December 22, 2011	<p>Application for trademark "Alterspace and Device".</p> <p>A globe with the words "alter" and "space" inside an arrow circling the globe and separating the words. The globe is rendered in forest green, while the words and arrow are rendered in lime green.</p>	<p>Original Certificate of Registration was issued on December 22, 2011.</p> <p>The 3rd year Anniversary DAU was filed on May 20, 2014 with the IP Office.</p> <p>The 5th year Anniversary DAU is due for filing on or before December 22, 2017 with the IP Office.</p>
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 ENERGY SOLUTIONS and Device with color claim.	<p>Original Certificate of Registration was issued on September 3, 2007.</p> <p>The 3rd year Anniversary DAU was filed with the IP Office on February 4, 2010.</p> <p>The 5th year DAU was filed with the IP Office on August 30, 2013.</p> <p>The 10th year DAU and application for renewal of registration are due for filing on or before September 3, 2017 with the IP Office.</p>
iEngage (Class No. 39, 40 and 42)	Aboitiz Power Corporation	February 7, 2014	04-2014-001638 August 28, 2014	Application for "iEngage" word mark.	<p>Original Certificate of Registration was issued on August 28, 2014.</p> <p>The 3rd year Anniversary DAU was due for filing on or before February 7, 2017 with the IP Office.</p> <p>For abandonment due to non-use and plans to dissolve the system.</p>
iEngage My Portal (Class No. 39, 40 and 42)	Aboitiz Power Corporation	February 7, 2014	04-2014-001637 August 28, 2014	Application for "iEngage MyPortal" word mark.	<p>Original Certificate of Registration was issued on August 28, 2014.</p> <p>The 3rd year Anniversary DAU was due for filing on or before February 7, 2017 with the IP</p>

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
					Office. For abandonment due to non-use and plans to dissolve the system.
iEngage MyBill (Class No. 39, 40 and 42)	Aboitiz Power Corporation	February 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 was 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	February 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 was 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 Corporation and Logo (with color claim) (Class No. 39)	Subic EnerZone Corporation	July 6, 2006	4-2006-007306 August 20, 2007	Trademark application for Subic EnerZone Corporation and Logo (blue and yellow). The mark consists of the words "SUBIC ENERZONE" in fujiyama extra bold font with the word "CORPORATION" below it, also in fujiyama font, rendered in cobalt medium blue color, and a representation of the letter "S" taking the shape of a flame (the company logo) above the words. The logo is likewise rendered in the cobalt medium blue color in a yellow background.	Original Certificate of Registration was issued on August 20, 2007. The 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.	Subic EnerZone Corporation	July 6, 2006	4-2006-007305 August 20, 2007	Trademark Application for Subic EnerZone Corporation	Original Certificate of Registration was issued on August 20, 2007.

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
39)				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.	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.

(x) Government Approvals

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

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

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 which 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 December 27, 2013 adjusting the WESM Offer Price Cap. In this resolution, the Offer Price Ceiling of ₱62,000.00 per MWh as set by the WESM Tripartite Committee was reduced to ₱32,000.00 per MWh. This price cap is provisional in nature and shall be subject to public consultations and review by the WESM Tripartite Committee.

In May 2014, the ERC issued an urgent resolution which established a mechanism to impose an interim secondary price cap of ₱6,245.00 per MWh in the WESM. In December 2014, the ERC adopted a permanent pre-emptive mitigation measure, where the price cap of ₱6,245.00 per MWh would be imposed in the event the average spot price in WESM would exceed ₱9,000.00 per MWh over a rolling seven-day period.

The Philippine Independent Power Producers Association, Inc. (PIPPA) filed a petition for declaratory relief with the Regional Trial Court (RTC) of Pasig City on the ground that the resolutions establishing the interim secondary price cap and the permanent pre-emptive mitigation measure are invalid and void.

In 2015, DOE Circular 2015-10-0015 entitled “Providing Policies for Further Enhancement of the Wholesale Electricity Spot Market (WESM) Design and Operations” was issued. The enhancements to the WESM Design are summarized below:

- (a) Removal of Pmin constraint in the Market Dispatch Optimization Model (MDOM);
- (b) Five minutes dispatch intervals from one hour;
- (c) Ex-ante pricing only;
- (d) Maintaining the one hour settlement interval for settlement purposes;
- (e) Automated pricing corrections;
- (f) Mandatory integration of distribution utilities’ sub-transmission network (with material effect) into the Market Network Model (MNM);
- (g) Changing the values and priorities of some of the Constraint Violation Coefficients (CVCs);
- (h) Imposition of WESM offer cap and floor for energy and reserve as determined through joint study by the DOE, ERC and PEMC;
- (i) Implementation of hourly Day-Ahead Projection (DAP) with sensitivities and Hour-Ahead Dispatch (HAD);
- (j) Implementation of nodal-based short-term demand forecasting;
- (k) Enhanced training of WESM participants; and
- (l) Any other enhancements as may be deemed necessary and issued by the DOE.

Changes to the WESM Rules and Manuals to comply with the above guidelines are currently being made by PEMC and the DOE, in consultation with the market participants. Afterwards, the new Price Determination Methodology shall be submitted to the ERC for its approval.

The tentative implementation of the new Market Management System (MMS) of the WESM is on June 26, 2017.

Interim Mindanao Electricity Market (IMEM)

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

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:

- (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 IPPAs.

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

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

In 2012, the ERC, together with the DOE and PEMC, worked on the development of the Transitory Rules to govern the initial implementation of Open Access, which rules were finalized and issued by the ERC in December 2012. Under the said rules, the ERC declared December 26, 2012 as the Open Access Date, while the period from December 26, 2012 to June 25, 2013 was declared as the transition period during which the required systems, processes and information technology structure relating to Open Access would be developed and finalized, and registration of retail electricity suppliers and Contestable Customers into the WESM database would be instituted. The period from June 26, 2013 to December 25, 2013 would cover the initial commercial operation of Open Access. From December 26, 2013 onwards, full retail competition was implemented, with PEMC assigned to perform the functions of the Central Registration Body tasked to undertake the development and management of the required systems, processes 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 October 22, 2014, the ERC issued Resolution No. 17, Series of 2014, which holds in abeyance the evaluation of RES license applications and suspends the issuance of RES licenses pending the ERC's promulgation of the amended RES License Rules. Currently, ERC is reviewing the RES Licensing Rules and Rules for Contestability.

On May 12, 2016, the ERC issued Resolution No. 11, Series of 2016 (ERC Resolution No. 11-16), which disallows distribution utilities from engaging in the supply of electricity to end-users in the contestable market unless it is a Supplier of Last Resort. Local RES are also mandated to wind down business within three years from the effectivity of ERC Resolution No. 11-16. Retail Supply Contracts (RSC) executed by Local RES shall

remain valid until their expiration, but no new RSCs can be signed or executed. ERC Resolution No. 11-16 further provides that no RES are allowed to supply more than 30% of the total average monthly peak demand of all Contestable Customers in the CREM. Further, RES are not allowed to transact more than 50% of the total energy transactions of its supply business with its affiliate Contestable Customers.

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

On May 27, 2016, MERALCO filed a Petition for Declaratory Relief, docketed as SCA No. 4149-PSG, with a prayer for the issuance of a Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction to (a) enjoin the DOE and the ERC from enforcing and implementing: (i) DOE Circular No. DC2015-06-0010 in connection with the full implementation of RCOA, (ii) Article 1, Sections 2 and 3 of ERC Resolution No. 5, Series of 2016, (iii) ERC Resolution No. 10, Series of 2016 on the revised rules for contestability, and (iv) ERC Resolution No. 11, Series of 2016 regarding restrictions imposed on the operations of DUs and RES in the CREM; and (b) declare the said DOE Circular and ERC Resolutions void. On July 13, 2016, a Writ of Preliminary Injunction enjoining the implementation of the issuances of the ERC was granted by Branch 157, RTC of Pasig City. The ERC and the DOE, assailing the jurisdiction of the RTC, separately filed Petitions for Certiorari and Prohibition before the Supreme Court on July 5, 2016 (G.R. No. 225141) and on September 27, 2016 (G.R. No. 226800), respectively.

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

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

On February 21, 2017, the Supreme Court issued a TRO, effective immediately, enjoining the DOE and the ERC from implementing DOE Circular No. DC2015-06-0010, Series of 2015, ERC Resolution No. 5, Series of 2016, ERC Resolution No. 10, Series of 2016, ERC No. 11, Series of 2016, and ERC Resolution No. 28, Series of 2016.

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 Rate-setting Regulation (PBR)

On December 13, 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 June 30, 2014. In addition, the second regulatory period of SEZ and SFELAPCO ended on September 30, 2015. A reset process should have been initiated 18 months prior to the start of the third regulatory period of April 1, 2013 to March 31, 2017 for Cotabato Light, July 1, 2014 to June 30, 2018 for VECO and Davao Light, and October 1, 2015 to September 30, 2019 for SEZ and SFELAPCO. The reset process, however, has been delayed due to the issuance by the ERC in 2013 of an Issues Paper on the Implementation of PBR for distribution utilities under RSDWR. Said paper aims to revisit various matters relating to the reset process. The ERC has solicited comments from industry participants and has been holding public consultations on the Issues Paper.

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

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

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

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 scheduled on January 23, 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 October 5, 2016, the ERC approved the 2016 Edition of the Philippine Grid Code in Resolution No. 22, Series of 2016. Pertinent revisions are as follows:

- (a) Redefinition of various reserves;
- (b) Inclusion of Run-of-River power plants requirements;
- (c) Amendments to Variable Renewable Energy (VRE) requirements;
- (d) Changes on definition of Large Generating Plant; and
- (e) Inclusion of Must-Run Unit (MRU), Constrained Off and Constrained On.

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:

- (a) Classification of power projects as one of national significance and imbued with public interest;
- (b) Exemption from Value Added Tax (VAT) of the sale of electricity by generation companies;
- (c) 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;
- (d) 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;
- (e) Grant of access to electric cooperatives over the missionary electrification fund collected through universal charges;
- (f) 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;
- (g) Regulation of generation, transmission, distribution, and supply rates to allow RORB up to 12%;
- (h) Classification of power generation and supply sectors as public utilities, which would be required to secure legislative franchises;
- (i) 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;
- (j) 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;
- (k) 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;
- (l) 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;
- (m) 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;
- (n) Prohibition on distribution utilities, except rural electric cooperatives to recover systems losses and placing a 5% cap on recoverable system loss;
- (o) Imposition of a uniform franchise tax for distribution utilities equivalent to 3% of gross income in lieu of all taxes;
- (p) Grant of authority for NPC to generate and sell electricity from remaining assets;
- (q) 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
- (r) Creation of a consumer advocacy office under the organizational structure of the ERC.

The Renewable Energy Act of 2008

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 May 25, 2009 (Rules and Regulations Implementing the Renewable Energy Act of 2008), the DOE, the BIR and the Department of Finance shall, within six 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 August 6, 2010 a request before the BIR Law Division for a ruling on the application of zero-rated VAT on all its local purchases of goods and services needed for the development of RE plant facilities, exploration and development of RE sources and their conversion into power. To date, the said request is still pending with the BIR Law Division.

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

	FIT Rate (PhP/kWh)	Degression Rate
Wind	8.53	0.5% after year 2 from effectivity of FIT
Biomass	6.63	0.5% after year 2 from effectivity of FIT
Solar	9.68	6% after year 1 from effectivity of FIT
Hydro	5.90	0.5% after year 2 from effectivity of FIT

In line with the increase in installation target for solar energy from 50 MW to 500 MW and wind energy from 200 MW to 400 MW, the ERC issued Resolution No. 6 Series of 2015 approving the Solar FIT2 rate of ₱8.69/kWh for the second set of installation target. On October 6, 2015, the ERC issued Resolution No. 14, Series of 2015 adopting the Wind FIT2 rate of ₱7.40/kWh. On September 29, 2016, a Petition for Rule Making was filed by Alternergy Wind One Corporation, Petrowind Energy, Inc. and Trans-Asia Renewable Energy Corporation seeking to amend Resolution No. 14, Series of 2015, and praying to increase the Wind FIT2 rate of ₱7.40/kWh to ₱7.93/kWh. A public consultation was held on the Petition for Rule Making on January 6, 2017.

Acting upon the application of Transco as Fund Administrator of the FIT Allowance (FIT-All), the ERC issued its final approval for the FIT-All of ₱0.0406 per kWh, for calendar years 2014 and 2015. Subsequently, Transco

filed an application for approval of the FIT-All for calendar year 2016. In an Order dated February 16, 2016, the ERC provisionally approved a FIT-All of ₱0.1240 per kWh.

In 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.

ERC Regulation on Systems Loss Cap Reduction

Under ERC Resolution No. 17, Series of 2008, the actual recoverable systems losses of distribution utilities was reduced from 9.50% to 8.50%. The new systems loss cap was implemented in January 2010.

Under this regulation, actual company use of electricity shall be treated as an expense of the distribution utilities, particularly, as an operations and maintenance (O&M) expense in the PBR applications.

In December 2009, VECO and Cotabato Light filed separate petitions in the ERC for the deferment of the implementation of the systems loss cap of 8.50%, citing circumstances peculiar to their respective franchises and beyond the control of VECO and Cotabato Light that affect the systems loss incidence in their areas. Although these petitions remain pending before the ERC, unaccounted systems losses of VECO and Cotabato Light as of the end of 2014 stood at 7.83% and 8.26%, respectively.

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 October 20, 2015, ERC issued Resolution No. 13, Series of 2015, entitled, “A Resolution Directing All Distribution Utilities (DUs) to Conduct a Competitive Selection Process (CSP) in the Procurement of their Supply to the Captive Market.” This resolution provides that a PSA shall be awarded to a winning Generation Company following a competitive selection process or by direct negotiation, after at least two failed 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 December 2, 2014, DOE Circular No. 2014-12-0022, otherwise known as the Central Scheduling and Dispatch of Energy and Contracted Reserves, was issued. The Circular aims to prepare the market participants in the integration of ancillary reserves into the WESM. The ancillary service providers will be paid based on their respective ASPAs with NGCP, while the scheduling of capacity and energy will be based on market results.

Proposed Joint Resolution for the Establishment of Additional Generating Capacity

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

After due deliberation, the Philippine House of Representatives ("House") approved House Joint Resolution No. 21, entitled "A Joint Resolution Authorizing the President of the Philippines, His Excellency Benigno S. Aquino III, to Provide for the Establishment of Additional Generating Capacity as Mandated by Republic Act No. 9136, also known as the 'Electric Power Industry Reform Act (EPIRA)', to Effectively Address the Projected Electricity Shortage in the Luzon Grid from March 1, 2015 to July 31, 2015." On the other hand, the Philippine Senate ("Senate") approved Senate Joint Resolution No.12, entitled "A Joint Resolution Authorizing the President of the Philippines, his Excellency Benigno S. Aquino III, to Address the Projected Electricity Imbalance in the Luzon Grid and Providing the Terms and Conditions Therefore." 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 February 26, 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:

- (a) 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;
- (b) 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;
- (c) Coal power plants shall ensure the required 30-day coal running inventory which includes shipments in transit;
- (d) 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;
- (e) 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;
- (f) All generation companies must notify and coordinate with the system operator of any planned activity such as the shutdown of its equipment;
- (g) All generation companies must immediately inform the DOE of any unexpected shutdown or de-rating of the generating facility or unit thereof; and
- (h) Generation companies shall seek prior clearance from the DOE regarding any plans for deactivation or mothballing of existing generating units or facilities critical to the reliable operation of the grid.

(xii) Amount Spent on Research and Development Activities

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

(xiii) Costs and Effects of Compliance with Environmental Laws

AboitizPower's generation and distribution operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations address concerns relating to, among other things, air emissions; wastewater discharges; the generation, handling, storage, transportation, treatment, and disposal of toxic or hazardous chemicals, materials and waste; workplace conditions; and employee's exposure to hazardous substances. 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 and 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. Energy Regulation 1-94 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 ₱2.6 mn for its environmental management programs in 2016, ₱1.4 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, and SN Aboitiz Power–Magat and SN Aboitiz Power–Benguet allocated ₱13,982,808.00, ₱5,203,132.00 and ₱335,480.00, 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 ₱4,248,828.00 for environmental management for 2016. This is a ₱2 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.

(xiv) Employees

On the parent company level, AboitizPower has a total of 342 employees as of March 31, 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 March 31, 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

Business Unit	Number of Employees						Unionized Employee	Expiry of Collective Bargaining Agreement (CBA)
	Total	Executives	Managers	Supervisors	Rank & File	Contractual		
CPPC**	118	1	2	14	34	67	N/A	N/A
EAUC	94	1	2	11	27	53	N/A	N/A
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	55	187	55	May 9, 2019
TOTAL NO. OF EMPLOYEES	2,944	121	213	452	1,755	403	568	

*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.

On October 28, 2010, the Visayan Electric Company Employees Union-ALU-TUCP (the Union) filed a Notice of Strike against VECO on grounds of unfair labor practice for alleged illegal dismissal of the union president and officers and alleged failure to observe the grievance procedure in the CBA. The Secretary of Labor assumed jurisdiction over the strike and remanded the illegal dismissal case of the union president to the National Labor Relations Commission (NLRC) for compulsory arbitration.

On June 30, 2011, the NLRC dismissed the charge of unfair labor practice against VECO for lack of merit, and declared legal the dismissal from employment of the union president. The Union moved to reconsider the adverse decision of the NLRC, but the motion was denied. Consequently, on October 18, 2011, the Union filed a petition for certiorari, which was dismissed by the Court of Appeals (CA) for being filed out of time. On March 14, 2013, the Union filed a petition for certiorari before the Supreme Court questioning the decision of the CA.

VECO filed its comments to the petition last July 1, 2013. The Union was ordered to file its reply pursuant to a resolution by the Supreme Court dated September 16, 2013. Despite the aforementioned Supreme Court resolution, no reply has been filed by the Union.

On July 22, 2015, the Supreme Court denied the petition for certiorari filed by the Union. In a Resolution dated October 12, 2015, the Supreme Court likewise denied the Union's Motion for Reconsideration and directed that an entry of judgment be made.

(xv) Major Risk/s Involved in the Business

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

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 that 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 LGUs.

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

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

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

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 risks, projected capacities from these investments as well as expiring contracts of the Company's existing capacities are marketed and contracted ahead 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 its customer relationship and selling activities.

Retail Competition and Open Access

Open Access has opened the door to a more competitive retail environment. Eligible Contestable Customers - 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: those with average demand from 750kW to less than 1000kW, and then those from 500kW to less than 750kW.

Open Access may adversely affect 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. The Distribution Utilities will adjust the levels from these suppliers at a minimal cost impact to customers. AboitizPower has two wholly-owned Subsidiaries, AESI and AdventEnergy, that are licensed RES. 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 Risks

Due to increased supply, electricity market prices are expected to decrease substantially both long-term and short-term.

Furthermore, shorter trading and dispatch interval of five minutes are expected to be implemented by mid-2017. This enhancement could result to additional operational workload due to increased trading transactions. WESM is targeted to take off in Mindanao in June 2017.

With these significant changes in its 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 who works very closely with the Company's Generation Companies and Distribution Utilities, while maintaining open lines of communication with regulatory agencies.

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

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

Business Interruption due to Natural Calamities and Critical Equipment Breakdown

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

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

Regular preventive maintenance of AboitizPower's facilities, technological infrastructure and systems is being strictly done. Loss prevention controls are continually being evaluated and strengthened as well. 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 system (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, and will continue until 2017. The 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 achieve the optimal balance between retaining and transferring risks and lowering the Total Cost of Insurable Risk (TCOIR).

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

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

Financial Risks

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

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

Fuel Supply and Price Risk

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

In 2016, coal prices in the global market temporarily spiked due to policy changes 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 of entering into or renewing their medium-term supply contracts with the leading oil companies in the country.

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

Project Risks

AboitizPower has ongoing Greenfield and Brownfield projects, as well as mergers and acquisitions, in various technologies such as solar, coal, hydro, and geothermal, which are under development or execution phase, in order to increase its generation portfolio. 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 of the TSI plant and the 59-MW solar power plant project of Sacasun in San Carlos City, Negros Occidental started commercial operations. The PCC and BOI approved the acquisition by the Company, through its wholly-owned Subsidiary, TPI, of an 82.8% beneficial ownership interest in GNPowder-Mariveles and 50% beneficial ownership interest in GNPowder-Dingin. AboitizPower's ownership interest in GN Power-Mariveles will ultimately be reduced to 66.1% and in GN Power-Dingin to 40%, post return of capital.

AboitizPower also made significant construction progress in its power plant projects in TVI, Pagbilao 3, Aseagas and Hedcor Manolo Fortich, all of which are expected to begin commercial operations in 2017 and 2018.

The Company takes 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.

(b) Requirements as to Certain Issues or Issuers

(i) Debt Issues

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

The Bonds were issued in two series, the seven-year bonds with a fixed interest rate of 5.205% per annum, and the 12-year bonds with a fixed interest rate of 6.10% per annum. Interest rate is calculated on a 30/360-day count basis and is paid quarterly in arrears every March 10, June 10, September 10, and December 10 of each year at which the bonds are outstanding, or the subsequent banking day without adjustment if such interest payment date is not a banking day.

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

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

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

Use of Proceeds

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

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

- (a) 400 MW (net) Pulverised Coal-Fired Expansion Unit 3 in Pagbilao, Quezon;
- (b) 68 MW Manolo Fortich Hydropower Plant Project;
- (c) 300 MW Cebu Coal Project;
- (d) 300 MW Davao Coal Project; and
- (e) 14 MW Sabangan Hydropower Plant Project.

Item 2. Properties

The Company's head office is located at the 32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines. The office space occupied by the Company is leased from a third party.

The Company plans to continually participate in future biddings and projects that will be available to it.

On a consolidated basis, AboitizPower's Property, Plant and Equipment were valued at around ₱192.63 bn in 2016 as compared to ₱134.81 bn in 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	₱1,436,461	₱1,340,282
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	37,234,106	27,234,635
TOTAL	₱192,633,546	₱134,810,627

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, Beineng, La Trinidad, Benguet; Salangan, Ampucao, Itogon, Benguet; and Bakun, Benguet	In use for operations
Hedcor Sibulan	Hydropower plants	Santa Cruz, Davao del Sur	In use for operations
Hedcor Tudaya	Hydropower plant	Santa Cruz, Davao del Sur	In use for operations
Hedcor Sabangan	Hydropower plant	Namatec, Sabangan, Mountain Province	In use for operations
CPPC	Bunker-C thermal power plant	Cebu City, Cebu	In use for operations
EAUC	Bunker-C thermal power plant	Lapu-Lapu City, Cebu	In use for operations
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

Item 3. Legal Proceedings

Material Pending Legal Proceedings

AboitizPower and its Subsidiaries are currently involved in various legal proceedings in the ordinary conduct in their businesses. The Company believes that the results of these actions will not have a material effect on the Company's financial position and results of operations.

VECO, in particular, received several assessments of real property taxes (RPT) on its electric posts, transformers, wires, machineries, air-conditioning units, and water pumps. VECO consistently maintains that the electric posts, transformers, wires, machineries, air-conditioning units, water pumps and their appurtenances are not considered real properties under the Civil Code and therefore, are not lawful objects of RPT. To date, VECO has similar RPT cases in amounts ranging from ₱14mn to ₱67 mn pending before different City Assessors Offices or the LBAA. In the event that a case is decided against VECO, the company can file an appeal with the Central Board of Assessment Appeals (CBAA), without prejudice to subsequent appeals allowed under existing rules governing the appeals process.

Other cases involving the Company and its Subsidiaries are as follows:

Civil Case No. 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 under Judicial Dispute Resolution Proceeding.

**Civil Case No. 08-CV-2414 entitled "Luzon Hydro Corporation vs. The Province of Benguet, The Provincial Treasurer of Benguet and Hon. Imelda I. Macanes in her Capacity as Provincial Treasurer of La Trinidad, Province of Benguet", RTC Branch 10, La Trinidad, Benguet
March 7, 2008**

On October 11, 2007, the Provincial Treasurer of Benguet issued an assessment against LHC, requiring LHC to pay franchise tax for the years 2002 to 2007 in the approximate amount of ₱40.40 mn, inclusive of surcharges and penalties. LHC filed a protest letter with the Provincial Treasurer on December 2007 on the ground that LHC is not a grantee of any legislative franchise on which the franchise taxes may be imposed. On February 8, 2008, the Provincial Treasurer, through the Provincial Legal Officer, denied LHC's protest. On March 7, 2008, LHC filed a petition for the annulment of the franchise tax assessment, based primarily on the fact that LHC is not liable for Franchise Tax because it does not have a franchise to operate its business.

On February 18, 2014, the RTC rendered a Decision in favor of LHC declaring the franchise tax assessment ineffective for lack of sufficient evidence that LHC is holding a special or secondary franchise to operate its plant in Benguet. The Province of Benguet filed a Motion for Reconsideration of the RTC's Decision.

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 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) entitled "National

Power Corporation vs. Luzon Hydro Corporation (LHC), Banggay T. Alwis, Municipal Assessor, Manuel C. Bagayao, Municipal Treasurer of Bakun, Benguet, Erlinda Estepa, Provincial Assessor and Mauricio B. Ambanloc, Provincial Treasurer of the Province of Benguet”

May 24, 2013

The Municipality of Bakun, Province of Benguet issued an assessment against LHC for deficiency RPT for the year 2002 on its machineries in the amount of approximately ₱11 mn, inclusive of interests and penalties. LHC appealed the assessment to the LBAA. The NPC intervened in the proceedings before the LBAA arguing that: (i) the liability for the payment of RPT over the machineries is assumed by the NPC under Section 8.6(b) of the Bakun PPA dated November 24, 1996; and (ii) the NPC is exempted from the payment of RPT under Section 234 of the 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) entitled "Luzon Hydro Corporation and the National Power Corporation vs. The Local Board of Assessment Appeals of the Province of Ilocos Sur, Fatima Tenorio, in her official capacity as the Provincial Assessor of the Province of Ilocos Sur, Antonio A. Gundran, in his capacity as the Provincial Treasurer of the Province of Ilocos Sur"
July 2, 2003

On July 2, 2003, the Municipal Assessor of Alilem sent LHC two notices of assessment for RPT. The first notice required LHC to pay RPT in the amount of ₱4.3 mn for the fourth quarter of 2002, while the second notice required LHC to pay ₱17.2 mn for 2003. The notices of assessment also contained an additional imposition of 40% of the acquisition cost, which allegedly represented installation costs, and a further imposition of 15%, which allegedly represented freight costs.

LHC filed a Protest before the LBAA which ruled against LHC by upholding the notices of assessment. LHC appealed directly to the CBAA.

On September 26, 2012, the CBAA rendered a decision denying LHC's appeal. On November 14, 2012, LHC filed its Motion for Reconsideration. On March 21, 2013, the CBAA issued a resolution denying LHC's Motion for Reconsideration, a copy of which was received by LHC only on November 6, 2013. LHC filed its Petition for Review with the CTA En Banc on December 6, 2013. The CTA En Banc consolidated the instant case with CTA EB Case No. 1024.

On January 26, 2015, the CTA En Banc denied the Petition, prompting LHC to file a Motion for Reconsideration on February 10, 2015.

On May 13, 2015, LHC filed a Motion to take Judicial Notice of Executive Order No. 173 and suspend proceedings.

On March 18, 2016, LHC received a copy of the CTA En Banc's resolution wherein the court took judicial notice of the 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.

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 ₱234.9 mn.

TMO filed its letter request for reconsideration on September 5, 2014, contending that it did not violate the Must- Offer-Rule because its maximum available capacity was limited to 100 MW due to: (i) the thermal limitations of the old TMO 115-kV transmission line, and (ii) the technical and mechanical constraints of the old generating units and the component engines of the TMO power plants which were under various stages of rehabilitation.

In its letter dated January 30, 2015, the PEMC Board of Directors (PEMC Board) denied TMO's request for reconsideration and confirmed its earlier findings of breach of 3,578 counts under the Must-Offer-Rule and sustained the imposition of financial penalties amounting to ₱234.9 mn on TMO. According to the PEMC Board, the penalties will be collected from TMO through the WESM settlement process.

TMO maintains that there is no basis for the PEMC decision. TMO did not withhold any capacity for the period covered, as it was physically impossible for TMO to transmit more than 100 MW to MERALCO. Although TMO's rated capacity is 234 MW (net), it could only safely and reliably deliver 100 MW during the November and December 2013 supply period because of limitations of its engines and the 115-kV transmission line. This temporary limitation of TMO's plant was confirmed during a dependable capacity testing conducted on November 21, 2013. At this period, TMO's engines and transmission lines were still undergoing rehabilitation after having been non-operational for the 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 ₱234.9 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 ₱234.9 mn to answer for any damage that PEMC may suffer as a result of the Order. On April 1, 2015, the RTC rendered a Decision in favor of TMO. PEMC filed a Petition for Review with Prayer for Temporary Restraining Order and/or Writ of Preliminary Injunction before the 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 clarification on matters pertaining to offers per trading interval involving the November to December 2013 supply months and provisions on the PSA between MERALCO and TMO. The representative was likewise directed to bring relevant documents.

On January 29, 2014, TMO filed its Compliance and Submission to the Subpoena Duces Tecum. Further, on March 11, 2014, TMO filed its Memorandum arguing that it did not commit any act constituting anti-competitive behavior and/or misuse of market power. TMO then requested the ERC IU to terminate and close the investigation.

On May 20, 2015, the ERC IU issued its report and found that in bidding the way they did for the November and December 2013 supply months, TMO and MERALCO 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 jurisdiction. 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, 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 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 Judgement dated January 9, 2017, which states that the September 28, 2015 Decision and October 5, 2016 Resolution have become final and executory on November 28, 2016 and been recorded in the Book of Entries of Judgement.

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

(1) Market Information

AboitizPower's common shares are traded on the PSE.

The high and low stock prices of AboitizPower's common shares for each quarter of the past two years and first quarter of 2017 were as follows:

	2017		2016		2015	
	High	Low	High	Low	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 ₱41.75 per share.

(2) Holder

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%
14) 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) Tinkerbelle Management Corporation	2,869,506	0.04%
20) Gitana Management & Dev't. 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%

(3) 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)	₱1.36	₱10.00 bn	3/7/2017	3/21/2017	4/10/2017
2016 (regular)	₱1.20	₱8.83 bn	3/8/2016	3/22/2016	4/19/2016
2016 (special)	₱0.46	₱3.38 bn	3/8/2016	3/22/2016	4/19/2016
2015 (regular)	₱1.14	₱8.39 bn	3/10/2015	3/24/2015	4/20/2015
2015 (special)	₱0.52	₱3.83 bn	3/10/2015	3/24/2015	4/20/2015

During the regular board meeting of the Company held on November 28, 2012, the Board approved a revised dividend policy consisting of an annual cash dividend payment ratio of 50% of its consolidated net income from the previous fiscal year based on the audited financial statements of the Company. The new policy changes the previous cash dividend payment ratio of 33% of previous year's net profits. The Company's new dividend policy was effective starting 2013.

(4) Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction

AboitizPower does not have any recent sales of unregistered or exempt securities including recent issuances of securities constituting an exempt transaction.

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

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

The following is a discussion and analysis of the Company's consolidated financial condition and results of operations and certain trends, risks and uncertainties that may affect its business. The critical accounting policies section discloses certain accounting policies and management judgments that are material to the Company's results of operations and financial condition for the periods presented in this report. The discussion and analysis of the Company's results of operations is presented in three comparative sections: the year ended December 31, 2016 compared with the year ended December 31, 2015, the year ended December 31, 2015 compared with the year ended December 31, 2014, the year ended December 31, 2014 compared with the year ended December 31, 2013.

Prospective investors should read this discussion and analysis of the Company's consolidated financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto set forth elsewhere in this report.

Top Five Key Performance Indicators

Management uses the following indicators to evaluate the performance of the Company and its Subsidiaries (the Company and its Subsidiaries are hereinafter collectively referred to as the "Group"):

1. **Share in Net Earnings of Associates and Joint Ventures.** This represents the Group's share in the undistributed earnings or losses of its investees for each reporting period subsequent to acquisition of said investment, net of goodwill impairment cost, if any. Goodwill is the difference between the purchase price of an investment and the investor's share in the value of the net identifiable assets of the investee at the date of acquisition. Share in Net Earnings of Associates and Joint Ventures indicates profitability of the investment and investees' contribution to the Group's net income.

Manner of Computation: Investee's Net Income (Loss) x Investor's % ownership - Goodwill Impairment Cost

2. **Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA).** The Company computes EBITDA as earnings before 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 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 liabilities by total equity.

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

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

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

Share in net earnings in associates and joint ventures declined by 9% in 2016, as contributions from WMPC, SPPC, STEAG Power and the large hydroelectric power plant, SN Aboitiz Power-Magat, decreased this year versus 2015.

The main driver of the 12% increase in consolidated EBITDA is from the full year EBITDA contributions of TSI, which started commercial operations for its first coal-fired unit on September 2015, and its second unit on February 2016.

During the year, cash and cash equivalents decreased by 4.01 bn, as cash was used in investing activities, mainly, the acquisition of partnership interests in GNPowder-Mariveles and GNPowder-Dingin. 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 ₱17.60 bn to ₱20.00 bn, improving by 14% year on year (YoY). This translates to earnings per share of ₱2.72. During the year, the Company recognized non-recurring losses of ₱612 mn (versus last year's loss of ₱762 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 ₱20.6 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 ₱16.26 bn up 17% YoY. The growth was largely driven by TSI's full year contribution. Netting out one-off items, AboitizPower's generation business generated ₱17.16 bn for the period, which was 16% higher than 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 PCC granted its approval of the acquisition of GNPowder-Mariveles (604-MW) and GNPowder-Dingin (2x668-MW).

Power Distribution

The power distribution group's earnings share for 2016 decreased by 4%, from ₱3.81 bn to ₱3.67 bn. This is equivalent to 18% of earnings contributions from the Company's business segments. Total attributable electricity sales increased by 7% YoY, from 4,759 GWh to 5,105 GWh as energy sales grew across all customer segments. Meanwhile, the group's gross margin on a per kWh basis in 2016 decreased to ₱1.59 from ₱1.61 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 2015	₱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 VECO and 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 depreciation 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, ARI and 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 APRI availed of in the first quarter of 2016.

Share in Net Earnings of Associates and Joint Ventures

(9% decrease from ₱3.98 bn to ₱3.64 bn)

Share in net earnings of associates and joint ventures declined by 9% in 2016 as lower contracted capacities at two associate oil companies operating in Mindanao, WMPC and SPPC, led to lower contributions. STEAG Power also saw a decline in net profits during the year. The effects of the El Niño led to lower water levels affecting the income contributions from SN AboitizPower-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 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 TLI in 2016.

Net Income Attributable to Non-controlling Interests

(11% increase from ₱1.35 bn to ₱1.50 bn)

Minority shareholders of VECO took up higher attributed income during the year. The balance of the increase is due to the take up of the minority shareholder's participation in the income of CEDC and CPPC's 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 ongoing greenfield projects, the consolidated cash position of the Company decreased by ₱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 GNPowder-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 GNPowder-Mariveles 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 ₱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 GNPowder-Mariveles.
- e) Investments and advances increased mainly as a result of the acquisition of a minority interest in GNPowder-Dingin. The account increased from ₱22.55 bn at the end of 2015 to ₱30.60 Bn at the end of 2016.
- f) After the acquisition of a majority interest in GNPowder-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 TVI and PEC.
- g) Intangible assets increased by ₱36.05 bn as the Company recognized 36.27 bn of provisional goodwill resulting from the acquisition of GNPowder-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 GNPowder-

Mariveles) led to derivative assets net of derivative liabilities (current and non-current) to increase.

- i) Available for sale (AFS) investments went up by ₱97 mn mainly from the consolidation of AFS investments at GNPowder-Mariveles.
- j) Net pension assets went up by ₱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 GNPowder-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.

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 ₱1.59 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 GNPowder-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.

This increase is attributable to the following:

- 1. TPI's ₱30.49 bn bridge financing to fund the acquisition of GNPowder-Mariveles and GNPowder-Dingin;
 - 2. New loans during the year for APRI (₱11.61 bn) and Hedcor Sibulan (₱4.05 bn) ;
 - 3. Increase in long-term debt relating to the drawdowns on various financing facilities for TVI, PEC and Hedcor Bukidnon; and
 - 4. Consolidation of GNPowder-Mariveles' project debt of ₱26.43 bn.
- e) Long term obligation on 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 electricity 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 ₱334 mn at the end of 2016 due to retention payables at PEC as provided for under their 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 ₱29.89 bn continued to provide a source of liquidity during the year, growing by ₱4.69 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 ₱81.38 bn cash for investing activities. This is ₱72.48 bn more compared to 2015, in which the largest portion was used to acquire indirect, majority interests in GNPow's plants in Mariveles, and a minority interest in GNPow-Dingin, which is set to construct a coal plant in Dingin, 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 ₱12.22 bn in dividends to its shareholders. These activities led to cash flow from financing activities of ₱47.48 bn during the year.

As of December 31, 2016, the Group's cash and cash equivalents decreased 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.

Outlook for the Upcoming Year/ Known Trends, Events, Uncertainties which may have Material Impact on Registrant

AboitizPower is well-positioned to take advantage of opportunities arising from developments in the power industry. Its sound financial condition will give it the agility to create or acquire additional generating capacity over the next few years.

I. Generation Business

1. Expiration of Income Tax Holiday

Several of the AboitizPower's plants were eligible for an ITH during acquisition by the Company. Upon the expiration of the ITH, the respective plants will now be assessed a corporate income tax in accordance with the relevant laws.

SN Aboitiz Power-Benguet's Ambuklao plant obtained an ITH extension on February 26, 2013, which is valid until June 30, 2018.

2. Increase in Attributable Generating Capacity

Notwithstanding the challenges over the short-term, AboitizPower has built the necessary foundation to sustain its growth trajectory over the long term. In line with its robust growth target of building 4,000 MW by 2020, AboitizPower looks to expanding its portfolio of generation assets by implementing the following projects.

Greenfield and Brownfield Developments

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

420-MW Pulverized Coal-Fired Expansion Unit 3 in Pagbilao, Quezon. This project is undertaken by PEC, a partnership between AboitizPower Subsidiary TPI, and TeaM (Philippines) Energy Corporation (TEPEC). On 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 on September 2014 and the target commercial operation is on year-end of 2017.

340-MW CFB Coal-Fired Project in Toledo City, Cebu. This project is undertaken by TVI, a partnership between AboitizPower and the Garcia Group, through VIGC and VEC. The project involves the construction of a 2x170-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. Target commercial operation is first quarter of 2018.

68.8-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 estimated project cost of ₱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 is expected to be completed by 2017. Aseagas has already amended the Biomass Renewable Energy Operating Contract with DOE. The DOE endorsement, which is one of the requirements for a point to point application with NGCP to secure certificate for FIT eligibility, has since been secured. At the moment, the FIT rate is expected to be at ₱6.63/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.

Other Greenfield and Brownfield Developments

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 1x668 MW supercritical coal-fired power plant (with a one-time expansion option for an additional 1x668 MW supercritical unit). Unit 1 is currently under construction and estimated completion is in 2019.

660-MW CFB Coal-Fired Power Plant in Subic. This project is undertaken by RP Energy, a joint venture among MPGC, Aboitiz Subsidiary TPI and TCIC. The project involves the construction and operation of a 2x300 MW (net) circulating-fluidized-bed (CFB) coal-fired power plant. Full implementation of the project is ongoing with expected commercial operation by 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 people, which 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 project pass the evaluation stage and once permits are secured, the construction period for the hydroelectric power plant facilities will commence.

Hydro in Indonesia. AboitizPower entered into an agreement with SN Power AS and PT Energi Infranasantara to participate in the feasibility studies for the exploration and development of a potential 127-MW hydropower generation project along the Lariang River in Central Sulawesi, Indonesia. The project

company, PT Auriga Energi, was awarded the basic license to develop the project. It is and is currently conducting pre-feasibility studies.

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

3. Participation in 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 IPPA contracts, which involves the transfer of the management and control of total energy output of power plants under contract with NPC to the IPP administrators.

4. 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.

SPC Power Corporation has a pending Motion for Leave to File and Admit Motion for Reconsideration dated December 9, 2016 with the Supreme Court. On January 12, 2017, Agabin Verzola & Layaoen Law Offices filed an Entry of Appearance as collaborating counsel for SPC. On February 14, 2017, TPVI received the Entry of Judgement dated January 9, 2017 issued by the Supreme Court.

II. Distribution Business

AboitizPower remains optimistic that it will realize modest growth on its existing Distribution Utilities. It continually seeks efficiency and improvements in its operations to maintain healthy margins.

PBR replaced the RORB mechanism which has historically determined the distribution charges paid by customers. Under PBR, distribution utilities can collect from customers over a four-year regulatory period.

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

In April 2016, the ERC posted on its website the following documents: (1) "Draft Rules for Setting Distribution Wheeling Rates or "RDWR" for Privately Owned Distribution Utilities Operating under Performance Based Regulation, First Entry Group, Fourth Regulatory Period"; (2) "Draft Position Paper: Regulatory Reset for the July 1, 2015 to June 30, 2019, Fourth Regulatory Period for the First Entry Group of Privately-Owned Distribution Utilities Subject to Performance Based Regulation"; and (3) "Draft Commission Resolution on the Issues on the Implementation of PBR for Privately Owned DUs under the RDWR". Comments on the said draft documents were submitted to the ERC on May 13, 2016.

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

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

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

There was a Petition filed by MSK wherein it proposed a modified RORB methodology or even a modified PBR

methodology, in which the distribution utilities' capital expenditures and rate recovery thereon are approved in advance but the charges to the customers will only start after the investments have actually been made and validated by ERC auditors. Public consultations were set by the ERC on March 17 and April 10 in its main office, and on March 22 and 24 in its field offices in Cebu and Davao, respectively.

III. Market and Industry Developments

1. Retail Competition and Open Access (Open Access)

The implementation of Open Access starting June 26, 2013 enabled AboitizPower to increase its contracted capacity through the delivery of power to affiliate and non-affiliate RES companies. AboitizPower has two wholly owned Subsidiaries, AESI and AdventEnergy, which are licensed RES.

In 2015, the DOE released Circular No. 2015-06-0010 with the following pertinent provisions:

- (a) All Contestable Customers with an average demand of 1 MW and above, which are currently being served by their franchised Distribution Utilities, are mandated to secure their respective RSCs no later than June 25, 2016 with any licensed RES. After which, the Contestable Customer and its counterparty shall submit to the DOE and ERC their signed RSC for assessment, monitoring, policy, and rule-making purposes.
- (b) All Contestable Customers with an average demand ranging from 750 kW and 999 kW for the preceding 12-month period are mandated to secure their RSCs with a RES no later than June 25, 2016. Effective June 26, 2016, aggregators shall be allowed to compete with RES, generation companies, and prospective generation companies.
- (c) Lowering Contestability Threshold Below 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 June 26, 2018.

The lowering of the contestability threshold will open a new market, hence, an opportunity to expand and diversify AboitizPower's customer base.

In 2016, the ERC promulgated Resolution No. 5, Series of 2016 entitled "A Resolution Adopting the 2016 Rules Governing the Issuance of Licenses to Retail Electricity Suppliers and Prescribing the Requirements and Conditions Therefor", with the following pertinent provisions:

- (a) A Generation Company or affiliate, Distribution Utility affiliate (with restrictions on market share and conduct of business activity), Retail Aggregators and IPPAs are allowed entities to become RES.
- (c) There is a stipulation that ERC shall be precluded from imposing additional restrictions on the current issuance, separate guidelines issued or any future issuance.
- (d) Resolution No. 22 shall continue to have full force and effect except as insofar that it is inconsistent with Resolution No. 5, Series of 2016.
- (d) Resolution No. 5, Series of 2016 enumerates the qualifications for becoming a RES, including financial standards, B2B system, ability and knowledge, and treatment of cash deposits.
- (e) It also enumerates the obligations of RES entities, including reportorial requirements, website, unbundling, compliance with qualifications stated above and other pertinent rules, laws, and compliance with limitation requirements.
- (f) It also contains the process of obtaining a RES license, including the fee, and other reportorial requirements by ERC.

ERC further issued Resolution No. 10 Series of 2016, entitled "A Resolution Adopting the Revised Rules for Contestability". It generally discusses the mandatory contestability dates, further limitations on contract terms and other provisions found in DC2015-06-0010. Among the pertinent provisions of this Resolution are the following:

- (a) Setting of Threshold Reduction Date for end-user with at least 750kW demand on June 26, 2016;
- (b) Lowering of threshold to 500kW and start of retail aggregation on June 26, 2018;
- (c) Start of the mandatory contestability for end-users:
 - (i) with at least 1 MW average monthly peak demand on December 26, 2016
 - (ii) with at least 750 kW average monthly peak demand on June 26, 2017
- (d) Issuance of provisional RES licenses for Prospective Generation Companies, with guidelines;

- (e) Options for Distribution Utilities with Displaced Contract Capacities with Generators due to migration of Contestable Customers as follows:
 - (i) Renegotiate contracts
 - (ii) Auction off contracted capacities
 - (iii) Declare in WESM as capacities for sale
- (f) Eligibility of end-users to be part of the contestable market; and
- (g) Limitation of Retail Supply Contract term from one billing period to two years only.

Another resolution issued by the ERC is Resolution No. 11, Series of 2016 entitled “A Resolution Imposing Restrictions on the Operations of Distribution Utilities and Retail Electricity Suppliers in the Competitive Retail Electricity Market”. From the title itself, the Resolution contains restrictions on RES entities, as follows:

- (a) Prohibition of Local RES, in which Distribution Utilities can only supply to end-users in the Contestable Market as Supplier of Last Resort (SOLR) and Local RES to wind down business within three years;
- (b) Market cap of each RES to supply no more than 30% of the total average monthly peak demand of all contestable customers in the Competitive Retail Electricity Market;
- (c) Prohibition of RES to transact not more than 50% of the total energy transactions of its supply business with its affiliate Contestable Customers; and
- (d) Repeal of Resolution No. 22, Series of 2013.

DC 2015-06-0010, Resolutions No. 5, 10, and 11, Series of 2016 are all subject of a case for Declaratory Relief with the Pasig RTC filed by Meralco. On July 13, 2016, the Pasig RTC has issued a preliminary injunction enjoining DOE from implementing its Circular and ERC from implementing Resolutions, insofar as they prohibit Distribution Utilities from engaging in supply business, impose restrictions, contract term limits, mandatory contestability, and market caps.

On September 21, 2016, the DOE filed a Petition for Certiorari and Prohibition to the Supreme Court praying, among others, for the nullification of all Orders and Decision of the Pasig RTC. The Supreme Court issued a Resolution on October 10, 2016 granting a Temporary Restraining Order to the Pasig RTC from enforcing its decisions, orders and resolutions regarding the abovementioned case until the instant petition is finally resolved.

The ERC issued Resolution No. 28, Series of 2016 dated November 15, 2016 to revise the timeframe of mandatory contestability from December 26, 2016 to February 26, 2017.

On February 21, 2017, the Supreme Court issued a Temporary Restraining Order from the case filed by Philippine Chamber of Commerce and Industry, San Beda College Alabang Inc., Ateneo de Manila University, and Riverbanks Development Corporation. The TRO enjoined ERC and DOE from implementing Resolution No. 5, Series of 2016, Resolution No. 10, Series of 2016, Resolution No. 11, Series of 2016, Resolution No. 28, Series of 2016, and DOE Circular 2015-06-0010.

2. Possibility of Mindanao Wholesale Electricity Spot Market (WESM)

The DOE issued a draft Circular entitled “Declaring the Launch of the Wholesale Electricity Spot Market (WESM) in Mindanao and Providing for Transition Arrangements”. The DOE held a series of public consultations from February to March 2017 to solicit comments on the draft circular from the Mindanao power industry participants. The DOE is already in the process of finalizing the circular and interim dispatch protocol.

3. 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 December 2, 2013. The said Department Circular sets the responsibility of the PEMC, NGCP, NEA and all WESM Members with regards to the operation of the Reserve Market.

The trial operations started on February 26, 2014, and PEMC is still reviewing its results before certifying for market readiness. The Pricing and Cost Recovery Mechanism of the Reserve Market is still under review

by the ERC under ERC Case No. 2007-004RC. The last hearing was on March 13, 2014.

The Reserve Market will cover three reserve categories, namely: Frequency Regulation, Contingency Reserve, and Dispatchable Reserve. The Reserve Market will also include the scheduling of the ancillary services under ASPA with NGCP. No date has been set for the launch of the Reserve Market.

Since ERC has yet to issue the approval for the Price Determination Methodology of the Reserve Market, the DOE and PEMC implemented the Central Dispatch and Scheduling of Energy and Reserves in the WESM, starting January 2016. The protocol follows that of the Reserve Market, however, participants will only be those contracted with NGCP and that no settlement amount will come from WESM.

AboitizPower, through SN Aboitiz Power-Benguet, SN Aboitiz Power-Magat, and TLI, is well-positioned to take advantage of this opportunity.

The categories of reserves may have to be revised due to new types of ancillary services under the 2016 version of the Philippine Grid Code.

4. Feed-in-Tariff (FIT) Scheme

The RE Law was signed into law by former President Gloria Macapagal-Arroyo on December 16, 2008 and took effect on January 2009. The RE Law offered fiscal and non-fiscal incentives to RE developers, including the feed-in-tariff scheme which gives preferential rates.

In Resolution No. 10, Series of 2012 (as amended by ERC Case No. 2014-00 4RM), the ERC adopted the following FIT and degression rates for electricity generated from biomass, run-of-river hydropower, solar and wind resources.

	FIT Rate (₱/kWh)	Degression Rate
Wind	8.53 and 7.40**	0.5% after year 2 from effectivity of FIT
Biomass	6.63	0.5% after year 2 from effectivity of FIT
Solar	9.68 and 8.69*	6% after year 1 from effectivity of FIT
Hydro	5.90	0.5% after year 2 from effectivity of FIT

**New solar FIT rate as per ERC Case No. 2014-004RM, as necessitated by the new installation target for Solar Energy Generation set by the Department of Energy (DOE).*

***New wind FIT rate as per ERC Case No. 2015-002RM, as necessitated by the new installation target for Solar Energy Generation set by the Department of Energy (DOE).*

On July 23, 2012, the ERC promulgated ERC Resolution No. 10, Series of 2012, with approved solar FIT rate of ₱9.68/kWh and installation target of 50 MW. After the DOE increased the installation target of solar to 500 MW, a new FIT rate of ₱8.69/kWh was approved by the ERC to apply after the earlier of full subscription of the revised solar installation target of 500 MW or March 15, 2016. For the Solar Plants that have been commissioned prior to the effectivity of the ERC (up to 50MW) decision, the original Solar FIT of ₱9.68/kWh shall apply.

For wind, DOE endorsed the increase of wind installation target from 200 MW to 400 MW.

The ERC approved on February 2016, the new FIT-All rate for 2016 at ₱0.1240/kWh. The ERC used, in the interim, the existing unadjusted FIT rates so as not to pre-empt whatever decision the ERC may make on the adjustment of the FITs. The rate is effective in the succeeding billing period following the receipt by Transco of the Order, which was on April 2016.

On March 2017, ERC issued Resolution No. 01, Series of 2017 entitled "Resolution Setting the Degressed Feed- In Tariff Rates for Run-Of-River Hydro and Biomass, as Provided in Section 2.11 of the Feed-In Tariff Rules (FIT Rules)". The degressed rates will be applied for run-of-river hydro and biomass plants which will be on commercial operation from January to December 2017. The degressed rate for hydro is ₱5.8705/kWh and for biomass is ₱6.5969/kWh.

5. Competitive Selection Process in Securing Power Supply Agreements

The DOE issued Department Circular No. DC2015-06-0008, entitled "Mandating All Distribution Utilities

to Undergo Competitive Selection Process (CSP) in Securing Power Supply Agreements (PSA)". The DOE recognizes that CSP in the procurement of PSAs by the distribution utilities ensures long term security and certainty of electricity prices of electric power to end-users. The following are principles that will guide the Distribution Utilities in undertaking CSPs:

- (a) Increase the transparency needed in the procurement process in order to reduce risks;
- (b) Promote and instill competition in the procurement and supply of electric power to all electricity end-users;
- (c) Ascertain least-cost outcomes that are unlikely to be challenged in the future as the political and institutional scenarios should change; and
- (d) Protect the interest of the general public.

This Circular shall apply to any entity that owns, operates, or controls one or more distribution systems in the main grid and off-grid areas, such as but not limited to:

- (a) Electric Cooperatives;
- (b) Private Investor-Owned Distribution Utilities;
- (c) Local Government Unit Owned-and-Operated Distribution Systems/Utility;
- (d) Multi-Purpose Cooperatives duly authorized by appropriate Government agencies to operate electric power system;
- (e) Entities duly authorized to operate within economic zones; and
- (f) Other duly authorized entities engaged in the distribution of electricity.

The ERC issued Resolution No. 13, Series of 2015, entitled "A Resolution Directing All Distribution Utilities to Conduct a Competitive Selection Process in the Procurement of their Supply in the Captive Market" on November 4, 2015. The pertinent provisions are as follows:

- (a) A Distribution Utility may adopt any accepted form of CSP pending the issuance by ERC of prescribed CSP as per DOE Circular;
- (b) Minimum terms were identified by ERC;
- (c) A CSP is considered successful if the Distribution Utility received at least two qualified bids from entities which the Distribution Utility is not prohibited from entering into a contract for power supply; and
- (d) For two unsuccessful CSPs, the Distribution Utility is allowed to enter into direct negotiations.

This development will increase transparency and competition. This is prospective, hence, will not affect AboitizPower's existing contracts.

6. Maintaining the Share of RE in the Installed Capacity

The DOE released Department Circular No. DC2015-07-0014, entitled "Prescribing the Policy for Maintaining the Share of Renewable Energy (RE) Resources in the Country's Installed Capacity Through the Wholistic Implementation of the Pertinent Provisions of Republic Act No. 9513 or the RE Act on Feed-In Tariff (FIT) System, Priority and Must Dispatch, Among Others", in August 2015. The pertinent provisions are as follows:

- (a) In order to maintain the share of RE in power generation, the DOE had set a policy of adopting at least 30% share of RE in the country's total power generation capacity through the wholistic implementation of the FIT system and other pertinent provisions under the RE Act and Implementing Rules and Regulation;
- (b) The succeeding rounds for the installation targets for FIT-eligible resources shall be made through an auction system to be adopted by the DOE upon the full subscription of the existing FIT installation targets; and
- (c) Compliance with the provisions stated in the Circular shall be deemed compliance with the RPS.

AboitizPower's current net sellable capacity mix is roughly 68% thermal and 32% renewable. Even with all the new capacity additions, AboitizPower will remain within the said capacity mix. Additionally, the above mentioned auction system has not yet been adopted.

IV. Capital Expenditure

AboitizPower is allotting ₱59 bn in capital expenditure this year, of which 74% is for new thermal projects, 8% for new renewable projects and 18% for exploratory and operating activities.

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

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

Key Performance Indicators	2015	2014
Amounts in thousands of ₱s, except for financial ratios		
SHARE IN NET EARNINGS OF ASSOCIATES	3,979,947	4,009,488
EBITDA	33,664,121	31,765,156
CASH FLOW GENERATED:		
Net cash flows from operating activities	25,199,597	23,437,979
Net cash flows used in investing activities	(8,902,646)	(12,979,595)
Net cash flows used in financing activities	(5,448,755)	(1,618,932)
Net Increase in Cash & Cash Equivalents	31,765,156	8,839,452
Cash & Cash Equivalents, Beginning	40,231,875	31,383,499
Cash & Cash Equivalents, End	51,098,269	40,231,875
CURRENT RATIO	3.12	2.87
DEBT-TO-EQUITY RATIO	1.39	1.13

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 due to the full year consolidation of VECO, which started to be consolidated towards the end of 2nd quarter 2013.

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

The Group generated an additional ₱1.76 bn in cash from operations 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 from 3.36x 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 ₱16.71 bn in 2014 to ₱17.60 bn in 2015. A non-recurring loss of ₱762 mn was recognized this year versus last year's loss of ₱136 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 ₱18.37 bn, up by 9% year-on-year (YoY).

Power Generation

The generation business continues to contribute significantly to the Company's bottom line. This year they represent 79% of earning contributions from business segments, recording an income share of ₱13.92 bn, up 3%

YoY. Netting out the effects of non-recurring foreign exchange losses, the business generated ₱14.81 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 ₱3.20 bn to ₱3.81 bn. This accounts for 21% of earnings contribution from business segments.

The gross margin on a per kWh basis in 2015 declined from ₱1.71 to ₱1.61. 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 ₱16.71 bn in 2014 to ₱17.60 bn in 2015. The movements in line items are shown below to account for the increase:

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

Operating Revenues

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

Operating revenues from the Generation segment decreased by 10% from ₱36.88 bn in 2014 to ₱33.37 bn. The lower passed on fuel costs on the selling prices from the thermal and geothermal power plants 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 ₱39.98 bn in 2014 to ₱41.38 bn in 2015. The 4% increase in operating revenues from the sale of power from the distribution group, 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 ₱64.41 bn to ₱60.49 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 ₱472 mn to ₱846 mn)

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

Interest Expense and Other Financing Costs

(11% increase from ₱5.99 bn to ₱6.63 bn)

The increase 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 ₱4.01 bn to ₱3.98 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 ₱592 mn other income to ₱337 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 ₱3.42 bn to ₱3.59 bn)

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

Net Income Attributable to Non-controlling Interests

(4% increase from ₱1.30 bn to ₱ 1.35 bn)

The increase is mainly due to higher income attributable to non-controlling interests of Aboitiz 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 ₱226 mn (versus ₱260 mn in the previous year). This brought total consolidated comprehensive income to ₱19.18 bn for the year.

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

Assets

Total assets (as of December 31, 2015 vs. December 31, 2014) increased by ₱25.73 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 ₱40.23 bn in 2014 to ₱51.10 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 ₱12.33 bn in 2014 to ₱13.69 bn in 2015) primarily due 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\$ denominated payments under the EPC contract related to the construction of a power plant.
- d) Inventories decreased by 6% (from ₱2.17 bn in 2014 to ₱2.04 bn in 2015) due to lower cost of purchased fuel for the Company's thermal plants.
- e) Other current assets is higher by 75% (from ₱1.94 bn in 2014 to ₱3.39 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 ₱2.65 bn.
- g) Property, plant and equipment (PPE) increased by 13% (from ₱119.65 bn in 2014 to ₱134.81 bn in 2015) as the Group continued the construction of its coal plants in Davao under TSI, Pagbilao 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 asset – service concession rights decreased by 5% mainly due to amortization expense charged during the year.
- i) Investment properties decreased by ₱25 mn after a sale made by the Company
- j) Net pension assets decrease of ₱44 mn is mainly due to actuarial losses recognized by the group during the period.
- k) Deferred income tax assets (DTA) increased by 140% (from ₱244 mn in 2014 to ₱585 mn in 2015) mainly due to the corresponding deferred tax benefits recognized on the unrealized foreign exchange losses, actuarial losses on defined benefit plans, impairment provisions and net operating loss carry-over (NOLCO) generated by the Group during the current year.
- l) Other noncurrent assets decreased by 12% (from ₱10.66 bn in 2014 to ₱9.39 bn in 2015) mainly due to the reclassification of Input VAT from noncurrent to current assets.

Liabilities

Consolidated liabilities increased by 17% from ₱120.68 bn as of December 31, 2014 to ₱140.88 bn as of December 31, 2015.

- a) Bank loan balances increased by ₱2.47 bn mainly due to new loans availed by TSI, TMO, Hedcor, Inc., Davao Light, and VECO.
- b) Trade and other payables increased by 11% (from ₱12.78 bn in 2014 to ₱14.14 bn in 2015) mainly on account of higher payables to contractors for on-going construction.
- c) Income tax payable increased by 41% (from ₱604 mn in 2014 to ₱853 mn in 2015) primarily due to higher tax payables of the Group.
- d) Total long-term debt increased by 36% (from ₱42.78 bn in 2014 to ₱58.38 bn in 2015). The increase 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% (₱5.69 bn in 2014 to ₱6.38 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% (₱2.35 bn in 2014 to ₱3.02 bn in 2015). Increase is due to additional provision and interest accreted during the year.

- g) Pension liability increased by 21% (₱406 mn in 2014 to ₱493 mn in 2015) on account of additional retirement costs net of retirement contributions made by certain subsidiaries during the year.
- h) Deferred income tax liabilities (DTL) decreased by 10% (₱1.25 bn in 2014 to ₱1.13 bn in 2015) mainly due to the reversal of deferred tax provisions on unrealized forex gains recognized during the year.

Equity

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

Material Changes in Liquidity and Cash Reserves of Registrant

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

The Group utilized less cash for investing activities during the year which totalled ₱8.90 bn versus ₱12.98 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 ₱5.45 bn is due to dividend payments to shareholders of ₱12.22 bn, payments made by TLI to PSALM on its finance lease obligations and interest payments net of proceeds from project financing facilities.

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

Financial Ratios

On a consolidated basis, current ratio moved from 3.36x to 3.12x. 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.

Year Ended December 31, 2014 versus Year Ended December 31, 2013

The table below shows the comparative figures of the top five key performance indicators for 2014 and 2013.

Key Performance Indicators	2014	2013
<i>Amounts in thousands of ₱s, except for financial ratios</i>		
SHARE IN NET EARNINGS OF ASSOCIATES	4,009,488	6,474,370
EBITDA	31,765,156	29,899,736
CASH FLOW GENERATED:		
Net cash flows from operating activities	23,437,979	24,413,143
Net cash flows (used in) investing activities	(12,979,595)	(11,502,024)
Net cash flows from used in financing activities	(1,618,932)	(12,245,816)
Net Increase in Cash & Cash Equivalents	8,839,452	665,303
Cash & Cash Equivalents, Beginning	31,383,499	30,678,493
Cash & Cash Equivalents, End	40,231,875	31,383,499
CURRENT RATIO	3.36	2.87
DEBT-TO-EQUITY RATIO	1.26	1.13

Share in net earnings of associates decreased by 38% or by ₱2.46 bn. The decrease came as result of the step-acquisition of the VECO as well as lower contributions from SN Aboitiz Power-Magat, SN Aboitiz Power-Benguet and STEAG Power.

Consolidated EBITDA increased due to the full year consolidation of VECO, which started to be consolidated towards the end of 2nd quarter 2013.

Cash was generated from the Group's operations and dividends received from associates. Proceeds from the bonds offering and new borrowings also augmented cash flows for the year and was used to fund ongoing projects and working capital requirements of subsidiaries.

Current ratio improved to 3.36x at the end of 2014 from 2.87x by year end 2013 due mainly to an increase in current assets.

Debt-to-equity ratio as of December 31, 2014 was at 1.26, higher than 1.13 as of December 31, 2012. This is mainly due to the increase in the Group's total liabilities.

Results of Operations

The Company's net income for the year 2014 recorded a 10% YoY decrease, from ₱18.58 bn to ₱16.71 bn. This translated to earnings per share of ₱2.27. The Company registered a non-recurring loss of ₱136 mn (versus last year's loss of ₱1.55 bn) during the year. This was mostly due to the revaluation of consolidated dollar-denominated loans and placements. Adjusting for these one-offs, the Company's core net income for 2014 amounted to ₱16.84 bn, down by 16% YoY.

Power Generation

The generation business accounted for 81% of earnings contributions, recording an income share of ₱13.48 bn for 2014, down 11% YoY. The decline is attributed to the full-year impact of the implementation of the Geothermal Resource Supply Contract of the Tiwi-MakBan plants, limited operations of Magat plant due to low water levels, and the expiration of the Pagbilao and Magat plants' income tax holiday during the year. The large hydros were also adversely impacted by lower average prices for both its spot and ancillary sales. Netting out one-off items, the generation business generated ₱13.64 bn for the period, which was 21% lower than last year.

The attributable net generation for the year rose by 3% YoY, from 10,949 GWh to 11,272 GWh as electricity sold through bilateral contracts, which made up 86% of total energy sold during the period, expanded by 7% to 9,661 GWh. On the other hand, spot market sales decreased by 16% from 1,914 GWh to 1,612 GWh as low water levels during the dry season constrained the operations of the Magat, Ambuklao, and Binga plants.

In terms of capacity, higher sales through bilateral contracts and ancillary services resulted to a 13% YoY increase in AboitizPower's attributable sales to 1,800 MW. The growth was partly driven by TMO, which was only able to offer its full capacity of 200 MW in the second quarter of 2014. While ancillary sales were weak in the second quarter due to the dry season, the increase in water levels in the second half of 2014 as a result of the typhoons has led to a strong recovery in ancillary sales during the last six months of the year. The Group's average price for its energy sales decreased by 3% YoY in 2014. This was mainly due to the 21% YoY decrease in the average selling price of the Group's spot sales. Notwithstanding the increase in ancillary volume sales, revenues were also down as a result of a 39% decrease in average ancillary rates.

Power Distribution

The power distribution group's earnings share for 2014 remained flat from a year ago at ₱3.2 bn. This is equivalent to 19% of earnings contributions from AboitizPower's business segments. Total attributable electricity sales increased by 10% YoY, from 4,076 GWh to 4,480 GWh as energy sales to industrial customers grew by 15% YoY. The acquisition of Lima Utilities Corporation (now Lima Enerzone Corporation) last June 2014 also provided a modest contribution to the improvement in sales. On the other hand, the group's gross margin on a per kwh basis in 2014 decreased to ₱1.71 from ₱1.77 a year ago. The unfavorable variance was brought about by the higher direct costs incurred by Davao Light Cotabato Light due to the running of their embedded plants to cover for the energy shortfall in the Mindanao grid.

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 decreased by 10% from ₱18.58 bn in 2013 to ₱16.71 bn in 2014. The various movements in line items are shown below to account for the decrease:

Consolidated Net Income Attributable to the Equity Holders of the Parent for 2013	₱18,576,845
Increase in operating revenues	14,704,219
Increase in operating expenses	(11,830,749)
Decrease in share in net earnings of associates	(2,464,882)
Increase in interest income	58,120
Increase in interest expense	(650,369)
Increase in other income	1,675,689
Higher provision for taxes	(2,897,464)
Increase in income attributable to non-controlling interests	(466,225)
Total	(1,871,661)
Consolidated Net Income Attributable to Equity Holders of the Parent for 2012	₱16,705,184

Operating Revenues

(20% increase from ₱72.06 bn to ₱86.76 bn)

Consolidated operating revenues from the Generation segment decreased by 6% from ₱39.44 bn in 2013 to ₱36.88 bn in 2014. The drop mainly came from lower revenues at APRI due to lower volumes sold to the WESM as well as a drop in its average selling prices during the year. TLI also saw a decrease in its operating revenues resulting from lower selling prices during the year.

The decrease in operating revenues from the generation segment was offset by full year revenues coming from the Group's Retail Electricity Supplier Licensed Companies - AESI and AdventEnergy which began their respective operations after Open Access started in June 2013.

The distribution segment also increased its operating revenues from ₱28.07 bn in 2013 to ₱39.98 bn in 2014. The 42% increase, is mainly a result of the full year consolidation of the operating revenues of VECO.

Operating Expenses

(23% increase from ₱52.58 bn to ₱64.41 bn)

The increase in the consolidated operating expenses is accounted for as follows:

- Cost of purchased power increased by 21% or ₱5.12 bn. The increase is mainly due to the full year consolidation of VECO's cost of purchased power.
- Cost of generated power increased by 19% or ₱3.40 bn. The increase is mainly due to full year fuel costs incurred by TMO which started operating in November 2013 and higher steam supply costs of APRI.
- General and administrative expenses increased by 34% or ₱1.38 bn. The increase is attributable to: a) the full year consolidation of VECO's expenses; b) TMO's full year recognition of general and administrative expenses; and c) the Group's higher provision for impairment of receivables.
- Depreciation and amortization expenses increased by 20% due to the full year consolidation of VECO's depreciation expense and full year depreciation charges for TMO.
- Operations and maintenance expenses increased by 51% or ₱1.16 bn. The increase is attributable to: a) full year consolidation of VECO's expenses; b) full year expenses incurred by TMO; c) higher costs of running the embedded plants of Davao Light and Cotabato Light; and d) higher expenses of APRI.

Interest Income

(14% increase from ₱414 mn to ₱472 mn)

Increase is mainly due to higher average cash and cash equivalent balances at the Parent Company in 2014.

Interest Expense and Other Financing Cost

(12% increase from ₱5.34 bn to ₱5.99 bn)

The increase is mainly due to higher long-term debt balances as a result of debt raising activities in 2013 and a bond offering of the Parent Company in 2014.

Share in Net Earnings of Associates

(38% decrease from ₱6.47 bn to ₱4.01 bn)

The decline in the share in net earnings of associates is due to the lower contributions from the following Associates:

- SN Aboitiz Power-Magat's contribution declined due to lower revenues and higher tax provisions (expiration of income tax holiday). Revenues were limited by lower water levels and lower selling prices during the year.
- The income contribution from SN Aboitiz Power-Benguet likewise decreased due to lower revenues as a result of lower selling prices during the year.
- A decrease in STEAG Power's registered income due to an extended unplanned plant outage in the first half of the year leading to lower revenues and higher repairs and maintenance cost.
- The effects of the full year consolidation of VECO in 2014.

Other Income (Expenses)-net

(Increase from ₱1.08 bn other expense to ₱592 mn other income)

The increase is mainly due to lower net unrealized foreign exchange loss in 2014 resulting from the restatement of TLI's dollar-denominated debt on its monthly obligations to the PSALM (accounted as a finance lease obligation).

Provision for Taxes

(550% increase from ₱527 mn to ₱3.42 bn)

The increase is mainly due to the expiry of TLI's income tax holiday at the end of 2013.

Net Income Attributable to Noncontrolling Interests

(56% increase from ₱834 mn to ₱1.30 bn)

The increase is mainly due to the full year consolidation of VECO.

Consolidated Statements of Comprehensive Income

Consolidated comprehensive income attributable to equity holders of the parent decreased from ₱18.95 bn in 2013 to ₱16.97 bn in 2014. The increase is mainly due to the decrease in consolidated net income recognized during the period.

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

Total assets (as of December 31, 2014 vs. December 31, 2013) increased by ₱22.82 bn or 12% due to the following:

- a) Cash and cash equivalents grew by 28% (from ₱31.38 bn in 2013 to ₱40.23 bn in 2014). The increase is mainly attributable to an increase in cash and cash equivalent balances at the Parent Company from the proceeds of its bond offering in 2014.
- b) Trade and other receivables decreased by 5% (from ₱13.04 bn in 2013 to ₱12.33 bn in 2014). The lower revenues at APRI led to a corresponding decrease in trade receivables. During the year higher impairment provisions on trade receivables were recognized.

- c) Inventories decreased by 24% (from ₱2.84 bn in 2013 to ₱2.17 bn in 2014). The decrease is mainly due to lower coal inventory of TLI and the decrease in transmission and distribution supplies inventory of VECO
- d) Other current assets increased by 12% (from ₱1.74 bn in 2013 to ₱1.94 bn in 2014). The increase is mainly due to higher prepaid tax of Parent Company and AESI.
- e) Property, plant and equipment (PPE) increased by 12% (from ₱106.75 bn in 2013 to ₱119.65 bn in 2014) mainly attributable to ₱16.3 bn additions to PPE from: 1) ₱13.06 bn construction costs of Davao, Pagbilao 3 and Cebu coal-fired plants, and Sabangan and Tudaya hydroelectric plants; and 2) ₱3.24 bn for distribution segment projects and other capital expenditures.
- f) Intangible asset – service concession rights decreased by 7% mainly due to amortization expense charged during the year.
- g) Investment properties went up by ₱15 mn attributable to the fair valuation gain recognized on the Company's investment property.
- h) Derivative assets (current and noncurrent portions) increased by 264% (from ₱30.9 mn in 2013 to ₱112.5 mn in 2014) primarily due to unrealized mark-to-market gains recognized on outstanding hedge instruments during the current period.

Available for sale investments decrease of ₱3 mn is mainly on account of the impairment of an investment held by Cotabato Light.

- j) Goodwill increased by 36% (from ₱806 mn in 2013 to ₱1.09 bn in 2014) mainly due to the ₱468 mn additional goodwill from the acquisition of Lima Enerzone. This was partly offset by the ₱179 mn reduction of the provisional goodwill on VECO investment upon finalization of the fair values related to the step acquisition done in 2013.
- k) Net pension assets increase of ₱69 mn is mainly due to actuarial gains recognized by the Parent Company during the period.
- l) Deferred income tax assets (DTA) decreased by 53% (from ₱520 mn in 2013 to ₱244 mn in 2014). The decrease is due to the following: 1) ₱577 mn reversal in 2014 of the deferred tax benefit on NOLCO that was set up in December 2013, as the NOLCO was applied against the generated taxable income in 2014; and 2) ₱193 mn recognized deferred tax benefits on actuarial gains and other comprehensive income during the period. The decrease was partly offset by the ₱397 mn reclassification of deferred tax liability on accumulated FX gain from DTA to Deferred Income Tax Liability (DTL) to reflect the shift of the subsidiary's tax position from net DTA in December 2013 to net DTL in December 2014.
- m) Other noncurrent assets increased by 37% (from ₱7.80 bn in 2013 to ₱10.66 bn in 2014) mainly due to the build-up of deferred input VAT arising from the Group's construction of power plants.

Liabilities

Consolidated liabilities increased by 18% from ₱102.69 bn as of December 31, 2013 to ₱120.68 bn as of December 31, 2014.

- a) The bank loans outstanding as of December 31, 2014 represent new loans availed by Davao Light.
- b) Trade and other payables decreased by 15% (from ₱15.08 bn in 2013 to ₱12.78 bn in 2014) mainly on account of net settlement of trade payables of TLI.
- c) Income tax payable increased by 74% (from ₱348 mn in 2013 to ₱604 mn in 2014) primarily due to higher tax payable of TLI.
- d) Long-term debts increased by 84% (from ₱23.29 bn in 2013 to ₱42.78 bn in 2014). The increase is mainly attributable to the following:
 - i. Parent Company's ₱10 bn retail bond issuance in 2014.

- ii. Additional loans from the project debt facility of TSI (₱7.56 bn) and PEC (a joint operation, ₱3.17 bn) to fund its ongoing power plant construction.
- e) Customers' deposits increased by 11% (₱5.14 bn in 2013 to ₱5.69 bn in 2014) mainly due to: 1) consolidation of new subsidiary (Lima Enerzone); 2) increase in deposits for Davao Light and VECO as it continues to see growth in its customer base during the year; and 3) additional deposits from retail supply customers in 2014.
- f) Asset retirement obligation increased by 17% (₱2.00 bn in 2013 to ₱2.35 bn in 2014). Increase is due to additional provision and interest accreted during the year.
- g) Pension liability decreased by 10% (₱453 mn in 2013 to ₱406 mn in 2014) on account of retirement contributions made by certain subsidiaries during the year.
- h) DTL increased by 37% (₱910 mn in 2013 to ₱1.25 bn in 2014) is mainly due to the ₱397 mn reclassification of deferred tax liability on accumulated FX gain from DTA to DTL.

Equity

Equity attributable to equity shareholders of the parent increased by 5% (from ₱87.63 bn in 2013 to ₱91.96 bn in 2014) due to the following:

- a) Retained earnings increased by 7% or ₱4.49 bn after taking up this year's net income of ₱16.71 bn and after dividends declared and paid during the year of ₱12.22 bn. During the year, the Company also appropriated ₱20.90 bn of its unrestricted retained earnings for its various projects.
- b) Cumulative translation adjustments increased by ₱63 mn from the effects of translating a subsidiary's US\$ net assets and the Group's hedging transactions.
- c) The combined actuarial losses on defined benefit plans for the Group and its share in the actuarial losses of the associates decreased by ₱158 mn mainly due to recognized actuarial gains during the period.
- d) Share in the net unrealized valuation gains on available for sale investments of an associate increased by 35% or ₱31 mn on account of the movement in the market value of the investment held by an associate.

Material Changes in Liquidity and Cash Reserves of Registrant

Cash generated from the Group's operations continue to be the main cash generating activity as it brought in ₱23.44 bn for the year. The cash generated from operations has dropped by 4% versus last year mainly due to higher payments made to settle trade payables and income taxes.

The Group's net cash used in investing activities during the year amounted to ₱12.98 bn. A total of ₱16.22 bn was used for capital expenditures and acquisition of a subsidiary. This was partly offset by dividends received from associates amounting to ₱4.62 bn.

The significant cash flows relating to financing activities during the year were as follows: a) Cash inflows of ₱20.63 bn representing proceeds from the Group's debt raising activities during the year to finance ongoing projects; and b) Cash outflows for the following were incurred during the year:

- Dividend payments to shareholders of ₱12.22 bn.
- Payments made by TLI to PSALM on its finance lease obligations of ₱6.97 bn.
- Principal and interest payments amounting to ₱2.22 bn.

As of December 31, 2014, the Group's cash and cash equivalents increased from ₱31.38 bn in 2014 to ₱40.23 bn.

Financial Ratios

On a consolidated basis, current ratio increased to 3.36x from 2.87x at the start of the year. This improvement is mainly due to the 16% increase in current assets. The ₱7.70 bn increase in current assets is due to the higher cash and cash equivalents held by the company at the end of 2014.

Consolidated debt to equity ratio remains to be comfortable at 1.26x as of December 31, 2014 (versus year end 2013's 1.13x). The increase is mainly due to an increase in consolidated debt.

Item 7. Financial Statements

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

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

Information on Independent Public Accountant

External Audit Fees and Services

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

Fee Type	2016	2015
Audit Related Fees	₱403,000	₱383,670
Non Audit Fees	-	-
Total	-	-
Fees	₱403,000	₱383,670

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.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

(a) Directors and Officers for 2016-2017

(1) Directors for 2016-2017

Below is the list of AboitizPower's directors for 2016-2017 with their corresponding positions and offices held for the past five years. The directors assumed their directorship during AboitizPower's Annual Stockholders' Meeting in 2016 for a term of one year.

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), and Manila-Oslo Renewable Enterprise, Inc. (MORE). 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 Infraestructura, 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 the 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 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, 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 GNPowder Mariveles Coal Plant Ltd. Co. (GNPowder-Mariveles) and GNPowder Dinginin Ltd. Co. (GNPowder-Dingin) 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 Tudaya, Hedcor Bukidnon, Hijos de F. Escano, Inc. (Hijos) and Tsuneishi Heavy Industries Cebu, Inc. (THI). He is also a trustee of AFI. Mr. Aboitiz holds a degree in Mechanical Engineering from Loyola Marymount University in California, U.S.A. and a Master's degree in Management from the Asian Institute of Management. He is not connected with any government agency or instrumentality. He is also not a director of any other publicly-listed company.

CARLOS C. EJERCITO

Independent Director

Chairman – Board Audit Committee

Member – Board Corporate Governance Committee

– Board Risk and Reputation Management 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 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 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.

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 companies: Globe Telecom, RFM Corporation, and Bank of the Philippine Islands (BPI). He is likewise an Independent Director of several companies and organizations including BPI Capital Corporation, BPI/ MS Insurance Corporation, and BPI-Philam Life Assurance Corporation. He is currently affiliated in various capacities with the Foundation for Economic Freedom, World Bank Philippine Advisory Group, International Centre for Settlement of Investment Disputes and the Energy Policy and Development Program. Mr. Bernardo previously served as Undersecretary for International Finance of the Department of Finance and as Alternate Executive Director of the Asian Development Bank. He has held various positions in 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 Corporate Governance Committee

– Board Risk and Reputation Management 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. Mr. Uy has served in various capacities in government and non-government organizations, including being President of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. and Member of the City Council of Iloilo City. He is the recipient of various awards, including the Dr. Jose Rizal Award for Excellence in Business and Commerce, Outstanding Chemical Engineer Award by 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.

Nominations for Independent Directors and Procedure for Nomination

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

Nominations for Independent Directors were opened beginning January 1, 2017, in accordance with Section 2 of the Guidelines, and the table for nominations was closed on February 15, 2017, also in accordance with Section 3 of the Guidelines.

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

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

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

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

AboitizPower stockholders, Josephine Pabriga, Esmeralda C. Daño, and Glym S. Reuyan, have respectively nominated Messrs. Bernardo, Uy, and Ejercito as AboitizPower's Independent Directors. None of the nominating stockholders has any relation to Messrs. Bernardo, Uy, or Ejercito.

Other Nominees for Election as Members of the Board of Directors

As conveyed to the Corporate Secretary, the following have been nominated as members of the Board for the ensuing year 2017-2018:

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

Pursuant to Section 7, Article I of the Amended By-Laws of AboitizPower, nominations for members of the Board, other than Independent Directors, for the ensuing year must be received by the Corporate Secretary no less than 15 working days prior to the Annual Stockholders' Meeting on May 15, 2017 or not later than April 21, 2017.

All other information regarding the positions and offices by the abovementioned nominees are integrated in Item 5 (a) (1) above.

(2) Officers for 2016-2017

Below is the list of AboitizPower's officers for 2016-2017 with their corresponding positions and offices held for the past five years. Unless otherwise indicated, the officers assumed their positions during AboitizPower's annual organizational meeting in 2016 for a term of one year.

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 director and Chairman of the Board of Directors of AboitizPower since May 18, 2009. He was appointed Chairman of the Board Risk and Reputation Management Committee since May 16, 2011. Mr. Aboitiz is currently a director of AEV, a publicly-listed company, and ACO. He holds a degree in Bachelor of Science in Business Administration, Major in Economics from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.

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 UnionBank and a director of Bloomberry Resorts Corporation and ICTSI. 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. Mr. Aboitiz is the Chairman of the Board of Directors of ACO. He is a trustee and Vice President of RAFI, a trustee of 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

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, SFELAPCO, SEZ, SN Aboitiz Power-Magat, SN Aboitiz Power-Benguet, ARI, CRH Aboitiz, TPI, AboitizLand, Abovant, BEZ, LEZ and MORE. He is Vice Chairman of RCBM and director of Pilmico, Davao Light, Cotabato Light, AP International, AEV International, Archipelago Insurance, APRI, Apo Agua, Cebu Energy, PETNET, PANC, TSI and TLI. Mr. Aboitiz is the Chairman of the Board of Trustees of 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

President and Chief Operating Officer

Member – Board Risk and Reputation Management Committee

– Board Audit Committee

Mr. Antonio R. Moraza, 60 years old, Filipino, has been a director of AboitizPower since February 13, 1998 and President and Chief Operating Officer since May 19, 2014. He has been a member of the Board Audit Committee and the Board Risk and Reputation Management Committee since May 19, 2014. 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, TVI, TSI, TLI, LHC, Hedcor, Hedcor Sabangan, Hedcor Bukidnon, Hedcor Tudaya, Hedcor Sibulan, CPPC, APRI, Cotabato Light, Davao Light, PEC, Aseagas, and 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, SPPC, STEAG Power, WMPC, RP Energy, TMI, TMO, EAUC, and Aboitiz InfraCapital. Mr. Moraza holds directorship and management positions in GNPowder-Mariveles and GNPowder-Dingin 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.

JAIME JOSE Y. ABOITIZ

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 Advisors of ACO; and Chairman of the Boards of ACI and CPDC. He is also Vice Chairman and President of VECO; Director and President and Chief Executive Officer of Cotabato Light, Davao Light and SEZ; a director and President of MEZ, LEZ, and BEZ; a director of ARI, CPPC, SFELAPCO,

AboitizLand, Abovant, CIPDI, Hedcor, Hedcor Sibulan, Hedcor Sabangan, Hedcor Tudaya, Hedcor Bukidnon, and Hijos. He is also a trustee of AFI. Mr. Aboitiz holds a degree in Mechanical Engineering from Loyola Marymount University in California, U.S.A. and a Master's degree in Management from the Asian Institute of Management. He is not connected with any government agency or instrumentality. He is also 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, CPDC, Aseagas, APX, and Aboitiz InfraCapital. Mr. Aboitiz holds directorship and management positions in GNPowder-Mariveles and GNPowder-Dingin 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 GNPowder-Mariveles and GNPowder-Dingin 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 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 also 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, in 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 Senior Vice President-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. Ms. Valdez is a Certified Public Accountant, and graduated cum laude from St. Theresa's College with a degree of Bachelor of Science in Commerce, Major in Accounting. She earned her 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, APRI, and AP International. Ms. Montelibano holds directorship and management positions in GNPower-Mariveles and GNPower-Dingin 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 AboitizGroup, 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.

MANUEL M. ORIG

First Vice President – Mindanao Affairs

Mr. Manuel M. Orig, 75 years old, Filipino, was appointed AboitizPower's First Vice President for Mindanao Affairs on July 14, 2010 until his retirement on December 31, 2016, after being with the Aboitiz Group for 47 years. He currently serves as Director of Apo Agua and First Vice President for Government and Community Relations of TSI. He was the Executive Vice President of Davao Light prior to his appointment in AboitizPower. Mr. Orig was instrumental in transforming Davao Light into a professional and customer-oriented organization. In 2004, he was awarded the Don Ramon Aboitiz Award of Excellence, the highest recognition bestowed on Aboitiz Group team members and team leaders, for his outstanding contribution to the Aboitiz Group. He finished his Bachelor's degree in Commerce from the Colegio de San Jose - Recoletos and completed his Masters in Business Administration from the University of the Philippines. He is not connected with any government agency or instrumentality. He is also not a director of a publicly-listed company.

ALVIN S. ARCO

First Vice President – Regulatory Affairs

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

First Vice President – Trading and Sales

Mr. Rochel Donato R. Gloria, 51 years old, Filipino, was 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 of the Wholesale Electricity Spot Market for three years representing the power generators group. Mr. Crisologo graduated from the University of the Philippines-Diliman, with a Bachelor of Science degree in Electrical Engineering. He also finished 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.

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.

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 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 honours 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.

THOMAS J. SLIMAN, JR.

Executive Director – Projects

Mr. Thomas J. Sliman, Jr., 57 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 GNPowr- Mariveles and GNPowr-Dingin 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 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 Aboitiz Group 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 and Executive Officers 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.

(3) Significant Employees

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

(4) Family Relationships

Messrs. Jaime Jose and Luis Miguel Aboitiz are first cousins. Messrs. Jon Ramon and Mikel Aboitiz are brothers. Messrs. Erramon and Enrique Aboitiz are brothers as well. Other than these, no other officers or directors are related within the fourth degree of consanguinity.

(5) Involvement in Certain Legal Proceedings as of March 31, 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.

(6) 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.

(b) Resignation or Refusal to Stand for Re-election by Members of the Board of Directors

No director has resigned or declined to stand for re-election to the Board since the date of AboitizPower's last Annual Stockholders' Meeting because of a disagreement with AboitizPower on matters relating to its operations, policies and practices.

Item 10. Compensation of Directors and Executive Officers

(a) Summary of Compensation of Executive Officers

Information as to the aggregate compensation paid or accrued to AboitizPower's Chief Executive Officer and other highly compensated executive officers, as well as other officers and directors during the last two completed fiscal years and the ensuing fiscal year, is as follows:

Name of Officer and Principal Position	Year	Salary (in Pesos)	Bonus (in Pesos)	Other Annual Compensation (in Pesos)
Chief Executive Officer and the Four Most Highly Compensated Officers: 1. ERRAMON I. ABOITIZ - Chief Executive Officer 2. ANTONIO R. MORAZA - President and Chief Operating Officer 3. JAIME JOSE Y. ABOITIZ - Executive Vice President and 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	₱159,950,000.00	₱5,350,000.00	₱15,490,000.00
	Actual 2015*	₱122,780,000.00	₱4,630,000.00	₱21,760,000.00
	Projected 2017	₱175,950,000.00	₱5,880,000.00	₱17,040,000.00
All other unnamed officers and directors as a group	Actual 2016	₱76,650,000.00	₱5,150,000.00	₱38,780,000.00
	Actual 2015	₱57,460,000.00	₱2,950,000.00	₱23,410,000.00
	Projected 2017	₱84,310,000.00	₱5,660,000.00	₱42,660,000.00

*The four most highly compensated officers in 2015 were Messrs. Antonio R. Moraza, Jaime Jose Y. Aboitiz, Luis Miguel O. Aboitiz and Emmanuel V. Rubio.

The 2014 Amended By-Laws of the Company, as approved by the Securities and Exchange Commission (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.

(b) Compensation of Directors

(1) Standard Arrangements

Prior to the 2015 Annual Stockholders' Meeting, all of AboitizPower's directors received a monthly allowance of ₱100,000.00, except for the Chairman of the Board who received a monthly allowance of ₱150,000.00. On May 18, 2015, the stockholders approved an increase in the directors' monthly allowance to ₱120,000.00 for the members of the Board, and ₱180,000.00 for the Chairman of the Board.

In addition, each director and the Chairmen of the Board and the Board Committees received a per diem for every Board or Committee meeting attended as follows:

Type of Meeting	Directors	Chairman of the Board
Board Meeting	₱100,000	₱150,000

Type of Meeting	Directors	Chairman of the Board
Committee Meeting	₱80,000	₱100,000

(2) Other Arrangements

Other than payment of a director's allowance and the per diem as stated above, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

(c) Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There is no compensatory plan or arrangement between AboitizPower and any executive officer in case of resignation or any other termination of employment or from a change in the management or control of AboitizPower.

(d) Warrants and Options Outstanding

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

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

(1) Security Ownership of Certain Record and Beneficial Owners (more than 5%) as of March 31, 2017

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares and Nature of Ownership (Record or Beneficial)	Percent of Class
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%

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 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. As advised to the Company, none of the beneficial owners under a PCD participant owns more than 5% of the Company's common shares.

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%
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AEV is the public holding and management company of the Aboitiz Group, one of the largest conglomerates in the Philippines. As of March 31, 2017, the following entities own five per centum (5%) or more of AEV:

Title of Class	Name, Address of Stockholder and Beneficial Owner	Citizenship	No. of Shares and Nature of Ownership (Record or Beneficial)	Percent of Class
Common	1. Aboitiz & Company, Inc. Aboitiz Corporate Center Gov. Manuel A. Cuenca Avenue Kasambagan, Cebu City 6000	Filipino	2,735,600,915 (Record and Beneficial)	48.56%
Common	2. PCD Nominee Corporation (Filipino) G/F MSE Bldg. Ayala Avenue, Makati City (Stockholder)	Filipino	770,566,319 (Record)	13.68%
Common	3. PCD Nominee Corporation (Foreign) G/F MSE Bldg. Ayala Avenue, Makati City (Stockholder)	Non-Filipino	548,229,246 (Record)	9.73%
Common	4. Ramon Aboitiz Foundation, Inc. 35 Lopez Jaena St., Cebu City	Filipino	424,538,863 (Record and Beneficial)	7.54%

(2) Security Ownership of Management 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%
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%
		78,919,339	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%

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	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%
N/A	Liza Luv T. Montelibano Senior Vice 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%
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 for Regulatory	36,427	Direct	Filipino	0.00%
		0	Indirect		0.00%
N/A	Rochel Donato R. Gloria First Vice President – Trading and Sales	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
N/A	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/Assistant Corporate Secretary	62,527	Direct	Filipino	0.00%
		0	Indirect		0.00%
N/A	Robert McGregor Executive Director – Investments	0	Direct	British	0.00%
		0	Indirect		0.00%
N/A	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%
N/A	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	152,094,788			2.07%

(3) Voting Trust Holders of Five Per Centum (5%) or More of Common Equity

No person holds under a voting trust or similar agreement more than five per centum (5%) of AboitizPower's common equity.

(4) Changes in Control

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

Item 12. Certain Relationships and Related Transactions

AboitizPower and its Subsidiaries (the Group), in their regular conduct of business, have entered into related party transactions principally 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 22) 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.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Pursuant to Memorandum Circular No. 20, Series of 2016, issued by the Securities and Exchange Commission (SEC), the Company's Annual Corporate Governance Report is no longer required to be attached to the 2016 Annual Report and will be filed with SEC on or before May 30, 2017. The Company's Annual Corporate Governance Report and the full Corporate Governance Report are available at the Company's website at www.aboitzpower.com.

PART V – EXHIBITS AND SCHEDULES

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

(a) **Exhibits.** None

(b) **Reports on SEC Form 17-C**

Reports filed by AboitzPower on SEC Form 17-C from April 2016 to March 2017 are as follows:

Date Reported	Disclosure Details
April 7, 2016	Shutdown of Therma South, Inc. Unit 1
May 5, 2016	First Quarter 2016 Financial and Operating Results with Press Release
May 16, 2016	Results of the 2016 Annual Stockholders' Meeting
May 16, 2016	Results of the 2016 Organizational Board Meeting
June 15, 2016	Acquisition of Interest in East Asia Utilities Corporation
July 15, 2016	PEMC Filed a Petition for Review on Certiorari with the Supreme Court relative to the Court of Appeal's Decision Affirming the Writ of Preliminary Injunction Issued by the Regional Trial Court of Pasig City
July 15, 2016	Aboitz Renewables, Inc.'s Issuance of Notice of Default to SunEdison Philippines Helios BV
July 5, 2016	Acquisition of Interest in Aseagas Corporation
July 27, 2016	Second Quarter 2016 Financial and Operating Results with Press Release
August 22, 2016	Press Release: Maintenance Outage of Therma South, Inc. Unit 1
September 26, 2016	Philippine Ratings Services Corporation's Press Release re Proposed Debt Issuance of Hedcor Sibulan, Inc.
October 3, 2016	Therma Power, Inc. as Preferred Bidder for Acquisition of Partnership Interests in GNPowder Mariveles Coal Plant Ltd. Co. and GNPowder Dinginin Ltd. Co.
October 4, 2016	Therma Power, Inc. Acquisition of Partnership Interests in GNPowder Mariveles Coal Plant Ltd. Co. and GNPowder Dinginin Ltd. Co.
October 4, 2016	Signing of Facility Agreement with Various Banks
October 4, 2016	Therma Power, Inc.'s Signing of Purchase and Sale Agreements for the Acquisition of Partnership Interests in GNPowder Mariveles Coal Plant Ltd. Co. and GNPowder Dinginin Ltd. Co.
October 7, 2016	SN Aboitz Power – Magat, Inc.'s Signing of Notes Facility Agreement
October 12, 2016	Supreme Court Notice of Judgement on Therma Power Visayas, Inc.'s Naga Power Plant Bid Case
October 17, 2016	Redondo Peninsula Energy, Inc.'s Signing of Construction and Supply Contracts for its 2x300 MW (net) coal-fired plant
October 21, 2016	Supreme Court Issuance of Notice of Judgement for Naga Power Plant Bid Case
October 25, 2016	Press Release: SN Aboitz Power – Benguet, Inc. and Benguet Province Settle its Real Property Tax Dispute
October 26, 2016	Third Quarter 2016 Financial and Operating Results with Press Release
November 2, 2016	Salcon Power Corporation's Filing of Urgent Motion for Reconsideration in relation to Naga Power Plant Bid Case
November 17, 2016	Hedcor Sibulan, Inc.'s Signing of Notes Facility Agreement
November 24, 2016	Appointment of Officer
December 7, 2016	Supreme Court Deny Salcon Power Corporation Urgent Motion in relation to Naga Power Plant Bid Case

Date Reported	Disclosure Details
December 19, 2016	Retirement of Officer
December 20, 2016	Philippine Competition Commission's Approval of Therma Power Inc.'s Acquisition of Partnership Interests in GNPowder Mariveles Coal Plant Ltd. Co. and GNPowder Dinginin Ltd. Co.
December 28, 2016	Completion of Therma Power Inc.'s Acquisition of Partnership Interests in GNPowder Mariveles Coal Plant Ltd. Co. and GNPowder Dinginin Ltd. Co.
December 29, 2016	Aboitiz Renewables, Inc.'s Signing of Memorandum of Understanding with BDO Unibank, Inc. and San Carlos Sun Power Inc.
January 26, 2017	Appointment of Officer
January 31, 2017	Exit from Greenfield Geothermal Exploration and Development in Ijen, East Java Province, Indonesia
February 14, 2017	Supreme Court Issuance of Entry of Judgment for Naga Power Plant Bid Case
February 21, 2017	Final List of Nominees to the Board of Directors of AboitizPower for year 2017-2018
March 7, 2017	Matters Approved by the Board on March 7, 2017
March 7, 2017	Declaration of Regular Cash Dividend Declarations
March 7, 2017	Notice and Agenda of Annual Stockholders' Meeting
March 7, 2017	Full Year and Financial and Operating Results with Press Release
March 23, 2017	Matters Approved by the Board: (a) Issuance of Fixed Rate Retail Bonds in the aggregate amount of up to Php30 Billion; (b) Creation of Board Related Party Transaction Committee.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, AEV has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Taguig on APR 04 2017.

By:




ERRAMON I. ABOITIZ

Principal Executive Officer



ANTONIO R. MORAZA

Principal Operating Officer



LIZA LUV T. MONTELIBANO

Principal Financial Officer



M. JASMINE S. OPORTO

Corporate Secretary



CRISTINA B. BELORIA

Controller/Principal Accounting Officer

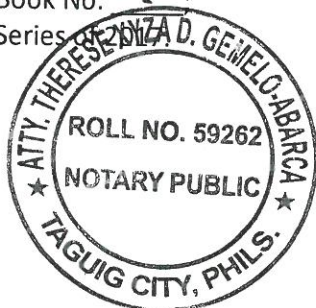
Before me, a notary public in and for the city named above, personally appeared:


NAME	PASSPORT NO.	DATE / PLACE OF ISSUE	CTC NO.	DATE / PLACE OF ISSUE
ERRAMON I. ABOITIZ	EB7151577	January 14, 2013 DFA Cebu	26533114	January 24, 2017 Cebu City
ANTONIO R. MORAZA	EB7019932	December 27, 2012 DFA Cebu	26531158	January 23, 2017 Cebu City
LIZA LUV T. MONTELIBANO	EC1111684	May 16, 2014 DFA NCR South	25044302	January 26, 2017 Makati City
M. JASMINE S. OPORTO	EB7264010	February 1, 2013 DFA Manila	15142988	February 24, 2017 Taguig City
CRISTINA B. BELORIA	EB9946110	January 8, 2014 DFA Cebu	26536245	January 30, 2017 Cebu City

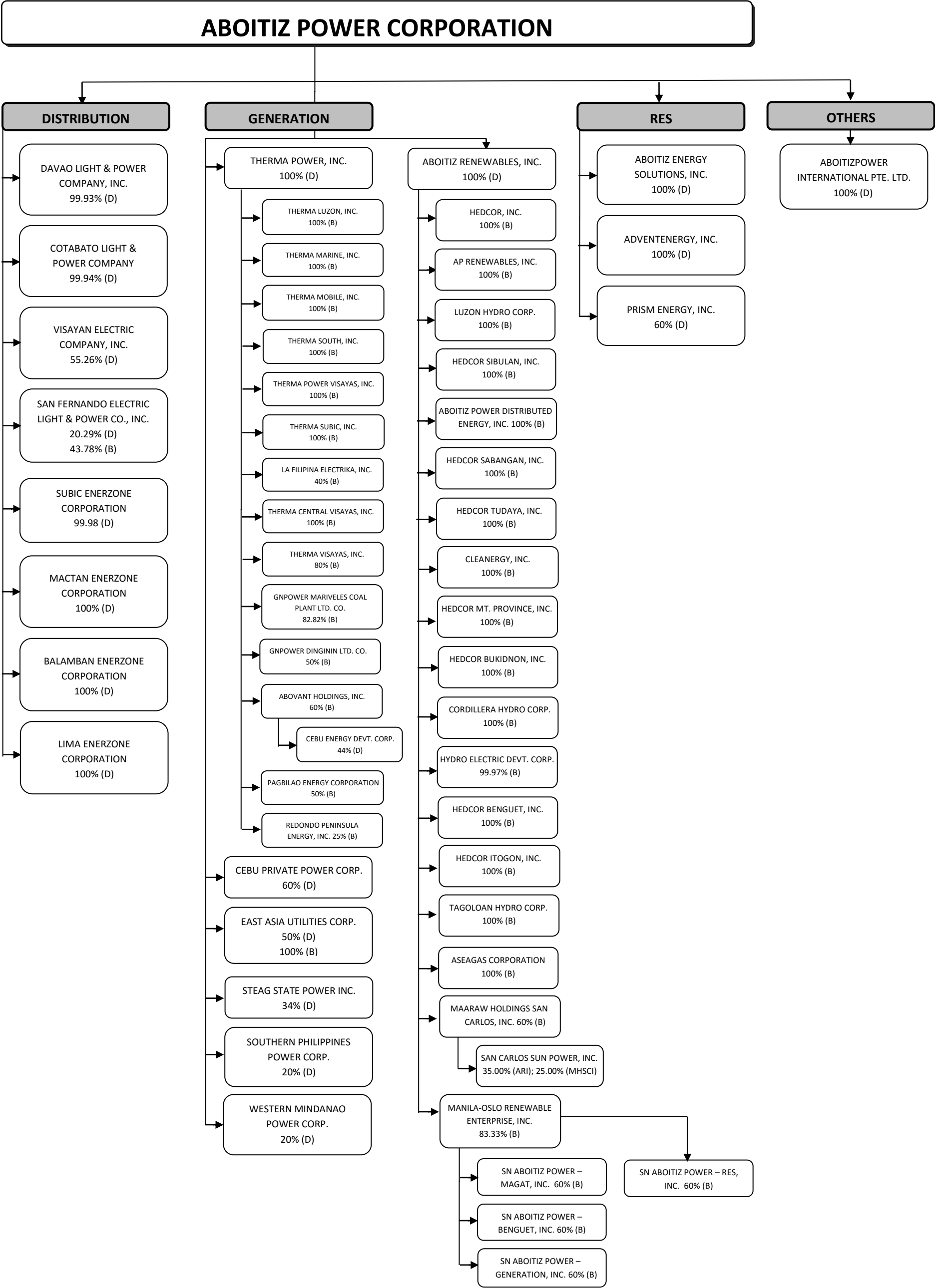
who were identified by me through competent evidence of identity to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath/affirmation before me as to such instrument.

Witness my hand and seal this APR 04 2017.

Doc. No. 108;
Page No. 23;
Book No. 1;
Series 2017.




Theresa D. Gemelo-Abarca
Notary Public for Taguig City
Notarial Commission No. 49
Until December 31, 2019
NAC Tower, 32nd Street, 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 No. V-0015202



Legend:
B – Beneficial Ownership
D – Direct Ownership

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	1	9	9	8	0	0	1	3	4	
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COMPANY NAME

[illegible]

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

[illegible]

Form Type

A	P	F	S
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Department requiring the report

C	F	D	
---	---	---	--

Secondary License Type, If Applicable

N	A		
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COMPANY INFORMATION

Company's Email Address

ap_investor@aboitiz.com

Company's Telephone Number

(032) 891-0307

Mobile Number

Not Available

No. of Stockholders

628

Annual Meeting (Month / Day)

May 15

Fiscal Year (Month / Day)

December 31**CONTACT PERSON INFORMATION**

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

Name of Contact Person

Liza Luv T. Montelibano

Email Address

liza.montelibano@aboltiz.com

Telephone Number/s

(02) 886-2800

Mobile Number

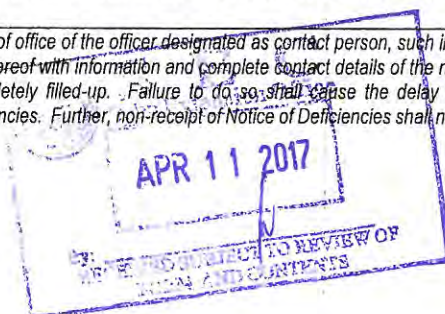
Not Available

CONTACT PERSON'S ADDRESS

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

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

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



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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS




The management of Aboitiz Power Corporation is responsible for the preparation and fair presentation of the Parent financial statements including the schedules attached therein, for the years ended December 31, 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.

MAR 07 2017

Witness my hand and seal this _____.

Doc. No. 102;

Page No. 22;

Book No. IV;

Series of 2017



Atty. Neilster Jon S. Asinas

Notary Public for Taguig City
Notarial Commission No. 25
Until December 31, 2017
MAC 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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Aboitiz Power Corporation (the Company), which comprise the parent company balance sheets as at December 31, 2016 and 2015, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the parent company financial statements, including a summary of significant accounting policies.

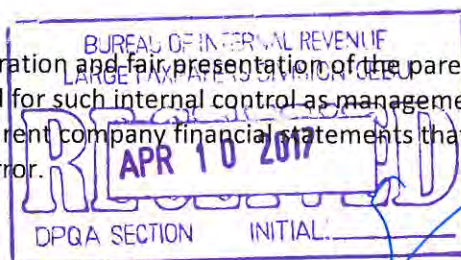
In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2016 in 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 Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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



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

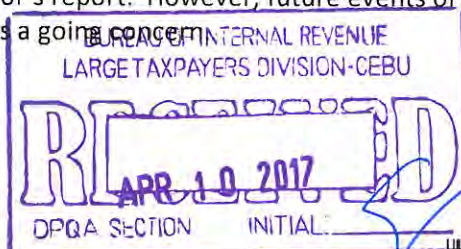
Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 21 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Aboitiz Power Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is 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

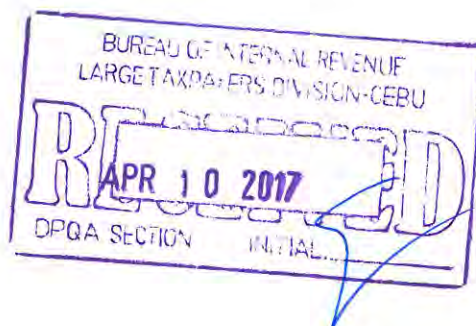
Tax Identification No. 209-316-911

BIR Accreditation No. 08-001998-96-2015

January 5, 2015, valid until January 4, 2018

PTR No. 5908776, January 3, 2017, Makati City

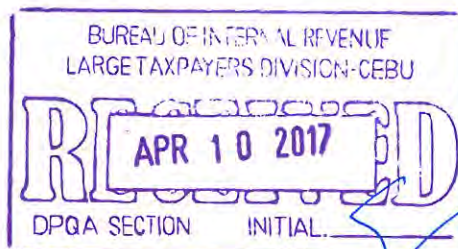
March 7, 2017



ABOITIZ POWER CORPORATION
PARENT COMPANY BALANCE SHEETS

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱2,714,654,179	₱13,840,779,357
Trade and other receivables (Note 5)	925,785,292	491,583,922
Other current assets (Note 6)	521,012,573	439,168,156
Total Current Assets	4,161,452,044	14,771,531,435
Noncurrent Assets		
Investments and advances (Note 7)	83,075,399,866	70,373,105,071
Project development costs (Note 10)	273,724,711	267,588,902
Available-for-sale (AFS) investment	96,689,232	—
Deferred income tax assets (Note 16)	91,862,690	88,657,935
Property and equipment (Note 8)	64,287,327	59,229,010
Other noncurrent assets (Note 9)	16,836,617	14,140,756
Total Noncurrent Assets	83,618,800,443	70,802,721,674
TOTAL ASSETS	₱87,780,252,487	₱85,574,253,109
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 11)	₱403,564,537	₱162,366,000
Amounts owed to a related party (Note 17)	—	12,300,000,000
Total Current Liabilities	403,564,537	12,462,366,000
Noncurrent Liabilities		
Long-term debts - net of deferred financing cost (Note 12)	9,922,153,365	9,911,224,049
Pension liability (Note 15)	20,653,885	239,105,906
Total Noncurrent Liabilities	9,942,807,250	10,150,329,955
Total Liabilities	10,346,371,787	22,612,695,955
Equity		
Capital stock (Note 13a)	7,358,604,307	7,358,604,307
Additional paid-in capital (Note 13a)	12,588,894,332	12,588,894,332
Actuarial losses on defined benefit plan (Note 15)	(257,950,177)	(272,169,566)
Unrealized valuation loss on AFS investment	(3,310,768)	—
Retained earnings (Note 13b)		
Appropriated	34,060,000,000	20,900,000,000
Unappropriated	23,687,643,006	22,386,228,081
Total Equity	77,433,880,700	62,961,557,154
TOTAL LIABILITIES AND EQUITY	₱87,780,252,487	₱85,574,253,109

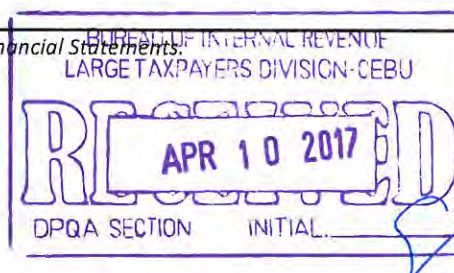
See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION
PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31		
	2016	2015	2014
REVENUE			
Dividends	₱26,807,702,580	₱6,545,200,372	₱14,992,799,358
Technical, management and other service fees (Note 17)	1,287,351,539	974,356,863	889,476,113
Interest income (Notes 4 and 17)	329,471,455	331,196,244	243,073,819
	28,424,525,574	7,850,753,479	16,125,349,290
GENERAL AND ADMINISTRATIVE EXPENSES			
Personnel (Note 14)	785,891,676	614,507,699	460,328,551
Interest and other financing charges (Note 12)	620,131,545	595,341,627	185,130,823
Project and bidding expenses (Note 10)	323,240,970	317,162	20,244,073
Service fees (Note 17)	104,581,971	114,339,626	81,789,118
Professional fees (Note 17)	96,502,870	77,527,508	69,624,119
Transportation and travel (Note 17)	59,564,834	51,092,150	54,096,793
Training	28,301,772	12,914,939	9,071,776
Rent (Note 17)	25,054,795	21,737,582	17,540,132
Depreciation and amortization (Notes 8 and 9)	21,256,849	19,249,923	16,513,947
Taxes and licenses	16,976,074	12,034,773	10,320,258
Advertising and sponsorships	9,835,050	5,066,746	4,177,915
Entertainment, amusement and recreation	8,612,605	8,184,351	5,911,596
Repairs and maintenance	6,625,413	5,690,407	5,633,393
Office supplies	4,133,728	4,317,790	2,380,104
Communication	2,787,762	3,262,869	4,230,688
Light and water	1,268,933	1,598,529	2,353,884
Others	9,355,041	7,059,749	6,354,975
	2,124,121,888	1,554,243,430	955,702,145
OTHER INCOME (CHARGES) - Net			
Foreign exchange gain (Note 18)	545,056,530	134,645,823	20,667,864
Gains on redemption of preferred shares (Note 7)	16,050,518	—	4,903,724
Provision for impairment of investment in a subsidiary (Note 7)	(120,733,027)	—	—
Others (Note 8)	8,547,746	12,451,211	26,246,358
	448,921,767	147,097,034	51,817,946
INCOME BEFORE INCOME TAX	26,749,325,453	6,443,607,083	15,221,465,091
PROVISION FOR INCOME TAX (Note 16)	72,627,378	62,984,123	59,599,195
NET INCOME	₱26,676,698,075	₱6,380,622,960	₱15,161,865,896

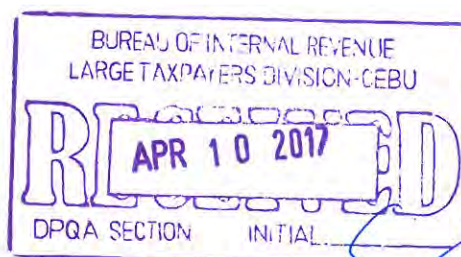
See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2016	2015	2014
NET INCOME	₱26,676,698,075	₱6,380,622,960	₱15,161,865,896
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gains (losses) on defined benefit plans (Note 16)	20,313,413	(265,058,671)	213,829,845
Income tax effect (Note 16)	(6,094,024)	79,517,601	(64,148,953)
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	14,219,389	(185,541,070)	149,680,892
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Unrealized loss on AFS investments	(3,310,768)	—	—
Total other comprehensive income (loss) for the year, net of tax	10,908,621	(185,541,070)	149,680,892
TOTAL COMPREHENSIVE INCOME	₱26,687,606,696	₱6,195,081,890	₱15,311,546,788

See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION

**PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

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

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

BUREAU OF INTERNAL REVENUE
TARGET TAXPAYERS DIVISION-CEBU

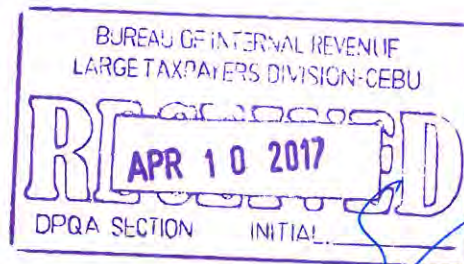
APR 10 2017

QA SECTION



	Capital Stock (Note 13a)	Additional Paid-In Capital	Actuarial Gains (Losses) on Defined Benefit Plan	Retained Earnings		Total
				Appropriated	Unappropriated	
Balances at January 1, 2014	₱7,358,604,307	₱12,588,894,332	(₱236,309,388)	₱-	₱46,174,305,525	₱65,885,494,776
Net income for the year	-	-	-	-	15,161,865,896	15,161,865,896
Other comprehensive income	-	-	149,680,892	-	-	149,680,892
Total comprehensive income	-	-	149,680,892	-	15,161,865,896	15,311,546,788
Cash dividends (Note 13b)	-	-	-	-	(12,215,283,150)	(12,215,283,150)
Appropriation during the year (Note 13b)	-	-	-	20,900,000,000	(20,900,000,000)	-
Balances at December 31, 2014	₱7,358,604,307	₱12,588,894,332	(₱86,628,496)	₱20,900,000,000	₱28,220,888,271	₱68,981,758,414

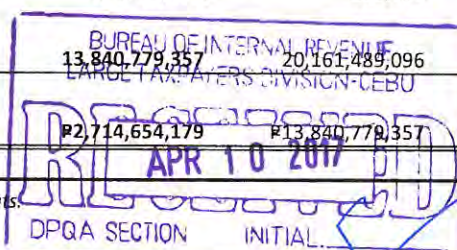
See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱26,749,325,453	₱6,443,607,083	₱15,221,465,091
Adjustments for:			
Interest and other financing charges (Note 12)	620,131,545	595,341,627	185,130,823
Provision for impairment of investment in a subsidiary (Note 7)	120,733,027	—	—
Project expenses (Note 10)	80,379,837	—	—
Unrealized foreign exchange loss (gains)	54,174,161	(183,690)	(14,091,998)
Depreciation and amortization (Notes 8 and 9)	21,256,849	19,249,923	16,513,947
Loss (gain) on disposal of assets	103,750	(99,425)	157,165
Valuation gain on investment property	—	—	(15,000,000)
Gains on redemption of preferred shares (Notes 7)	(16,050,518)	—	(4,903,724)
Interest income (Notes 4 and 17e)	(329,471,455)	(331,196,244)	(243,073,819)
Operating income before working capital changes	27,300,582,649	6,726,719,274	15,146,197,485
Decrease (increase) in:			
Trade and other receivables	(477,330,607)	(2,338,966)	(147,888,180)
Other current assets	1,813,749	(920,496)	(2,029,236)
Pension asset	—	64,671,775	(64,671,775)
Increase (decrease) in:			
Pension liability	(198,138,608)	(25,952,765)	98,680,815
Trade and other payables	241,198,537	(20,155,804)	139,897,357
Net cash generated from operations	26,868,125,720	6,742,023,018	15,170,186,466
Income taxes paid	(165,584,323)	(180,567,998)	(139,745,401)
Net cash flows from operating activities	26,702,541,397	6,561,455,020	15,030,441,065
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	372,600,692	294,943,279	140,430,640
Proceeds from:			
Redemption on preferred shares (Note 7)	57,076,000	28,000,000	31,598,716
Disposal of investment property	—	25,000,000	—
Disposal of property and equipment (Note 8)	3,592,738	4,651,958	2,176,390
Additions to:			
Computer software license (Note 9)	(4,062,937)	(2,982,065)	(1,930,825)
Property and equipment (Note 8)	(28,644,578)	(20,037,454)	(32,196,222)
Project development costs - net of transfers (Note 10)	(86,515,646)	(20,994,241)	(124,607,634)
AFS investments	(100,000,000)	—	—
Investments and advances	(12,864,053,304)	(389,595,383)	(6,175,392,836)
Net cash flows used in investing activities	(12,650,007,035)	(81,013,906)	(6,159,921,771)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debts (Note 12)	—	—	10,000,000,000
Payments of:			
Transaction costs from availment of long-term debt	—	(1,016,706)	(101,087,703)
Interest and other financing charges	(609,202,229)	(585,034,687)	(210,397,228)
Cash dividends	(12,215,283,150)	(12,215,283,150)	(12,215,283,150)
Amounts owed to related parties	(12,300,000,000)	—	—
Net cash flows used in financing activities	(25,124,485,379)	(12,801,334,543)	(2,526,768,081)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,071,951,017)	(6,320,893,429)	6,343,751,213
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(54,174,161)	183,690	14,349,351
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	13,840,779,357	20,161,489,096	13,803,388,532
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱2,714,654,179	₱13,840,779,357	₱20,161,489,096

See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

Aboitiz Power Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1998. The Company is a publicly-listed holding company of the entities engaged in power generation and power distribution in the Aboitiz Group. As of December 31, 2016, Aboitiz Equity Ventures, Inc. (AEV, also incorporated in the Philippines) owns 76.88% of the Company. The Company's ultimate parent is Aboitiz & Company, Inc. (ACO).

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

The parent company financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) of the Company on March 7, 2017.

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

Basis of Preparation

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

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

Statement of Compliance

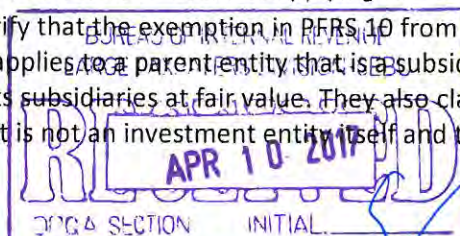
The parent company financial statements are prepared in compliance with PFRSs.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and revised standards and Philippine Interpretations which were applied starting January 1, 2016. These new and revised standards and interpretations did not have any significant impact on the parent company financial statements:

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and Philippine Accounting Standards (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 Company since it has no interest in investment entity subsidiaries, 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 Company 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 Company 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 Company.

- 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 Company given that the Company has not used a revenue-based method to depreciate 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 Company as the Company 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 will have no impact on the Company since there is no plan to shift to the equity method in the preparation of the separate 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 Company. They include:

- *Amendment to 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.
- *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 Interpretations Issued and Effective after December 31, 2016

The Company will adopt the standards enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS, 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 financial statements of the Company.

- 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 Company.

Effective January 1, 2018

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

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



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

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

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the 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 be applicable to the Company since it is not engaged in the insurance business.

- PFRS 15, *Revenue from Contracts with Customers*

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Company will adopt PFRS 15 on January 1, 2018. The Company started its assessment of the impact of PFRS 15 in the 4th quarter of 2016 by attending briefings conducted for the Aboitiz Group and analyzing its revenue streams. 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 Company'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 Company's financial liabilities.

The Company is currently assessing the impact of adopting this standard and expects that the adoption will not materially affect its 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 Company since it not a venture capital organization and has no interest in investment entity subsidiaries, associates or joint ventures.

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

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



These amendments will not have any significant impact on the Company's 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 Company's 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 PFRS 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 Company 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

Fair Value Measurement

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

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

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

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

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

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

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

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



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

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

Cash and Cash Equivalents

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) investments. For financial liabilities, the Company also classifies them into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every 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 Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the parent company statement of income unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in the parent company statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.



a. Financial asset or financial liability at FVPL

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

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

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

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

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

b. Loans and receivables

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

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



c. HTM investments

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

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

The Company does not have any HTM investments at December 31, 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 parent company statement of income. Unquoted AFS investments are carried at cost, net of impairment. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the parent company statement of income when the right of payment has been established. 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.

AFS investments amounted to ₱96.7 million and nil, as of December 31, 2016 and 2015, respectively.

e. Other financial liabilities

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

All 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.

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



Included under this category are the Company's trade and other payables, dividends payable, long-term debts and amounts owed to related parties.

Derivative financial instruments

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

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

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

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

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

As of December 31, 2016 and 2015, the Company has no freestanding derivatives.

Classification of financial instruments between liability and equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

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

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as income or expense. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount



after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

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

Financial liabilities

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

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

Impairment of Financial Assets

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

Loans and receivables

For loans and receivables carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is



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

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

Assets carried at cost

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

AFS investments

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

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

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



objectively related to an event occurring after the impairment loss was recognized in the parent company statement of income, the impairment loss is reversed through the parent company statement of income.

Offsetting Financial Instruments

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

Investments in and Advances to Subsidiaries and Associates

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

An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

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

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

Investment Property

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.

Investment property is derecognized when it has either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the derecognition of an investment property is recognized in the parent company statement of income in the year of derecognition.

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 Company as an owner-occupied property becomes an investment property, the Company 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 parent company statement of income. When the Company 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 parent company statement of income.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value, if any. Such cost includes the cost of replacing parts of such property and equipment. Depreciation is calculated on a straight-line basis over the useful lives of the assets as follows:

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

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

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

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

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

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction and other direct cost. Construction in progress is not depreciated until such time the relevant assets are completed and available for use.

Intangible Assets

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



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

Computer software license

Computer software license is initially recognized at cost. Following initial recognition, the computer software license cost is carried at cost less accumulated amortization and any accumulated impairment in value.

The computer software license is amortized on a straight-line basis over its estimated useful economic life of three to five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the computer software license is available for use. The amortization period and the amortization method for the license are reviewed at each financial year end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in the parent company statement of income in the expense category consistent with the function of the computer software license.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the parent company statement of income when the asset is derecognized.

Project Development Costs

Project development costs include power plant projects in the development phase which meet the “identifiability” requirement under PAS 38, *Intangible Assets*, as they are separable and susceptible to individual sale and are carried at acquisition cost. These assets are transferred to “Property and equipment” when construction of each power plant commences. During the period of development, the asset is tested for impairment annually.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (CGU) fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the parent company statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such



indication exists, the Company makes an estimates of the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Foreign Currency Transactions

The Company's financial statements are presented in Philippine Peso, which is the Company's functional currency. Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at balance sheet date. Exchange gains and losses arising from foreign currency transactions and translations of foreign currency denominated monetary assets and liabilities are credited to or charged against current operations.

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Capital stock includes common stock and preferred stock.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are debited to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against an equity reserve account.

Retained Earnings

The amount included in retained earnings includes accumulated earnings of the Company and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the BOD. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the transition provisions of new and amended standards.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or



receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

Dividend income

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

Technical, management and service fees

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

Interest income

Interest income is recognized as it accrues taking into account the effective yield of the asset.

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

Pension Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the parent company statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the parent company statement of income.



Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to parent company statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused net operating loss carryover (NOLCO) and excess minimum corporate income tax (MCIT), to the extent that it is probable that taxable profit will be



available against which the deductible temporary differences, and the carryforward benefits of unused NOLCO and excess MCIT can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date.

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

Value-added Tax (VAT)

Expenses and assets are recognized net of the amount of VAT, except:

- when the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of asset or as part of the expense item, as applicable
- when receivables and payables are stated with the amount of VAT included

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Input Value-Added Tax (VAT)

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

Input VAT is recognized as an asset and will be used to offset the Company's current output VAT liabilities and or applied for claim for tax credit certificates. Input VAT is stated at its estimated 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 Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

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

Events After the Reporting Period

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

3. Significant Accounting Judgment, Estimates and Assumptions

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

Judgment

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

Classification of financial instruments

The Company 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 parent company 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.

Estimating allowance for impairment of trade and other receivables

The Company maintains allowance for impairment of receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectability of the accounts. These factors include, but are not limited to, the Company's relationship with its debtors, debtor's current credit status and other known market factors. The Company reviews the age and status of receivables and identifies accounts that are to be provided with allowance either individually or collectively.

The amount and timing of recorded expenses for any period would differ if the Company made different judgment or utilized different estimates. An increase in the Company's allowance for impairment of receivables will increase the Company's recorded expenses and decrease current assets. No allowance for impairment of receivables was recognized as of December 31, 2016 and 2015. As of December 31, 2016 and 2015, the Company's receivables amounted to ₱925.8 million and ₱491.6 million, respectively (see Note 5).

Estimating allowance for impairment of losses on investment in and advances to subsidiaries and associates

Investments in and advances to subsidiaries and associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There were no impairment indicators in 2015 and 2014 based on management's assessment. In 2016, it was determined that the carrying value of the investment in AboitizPower International Pte. Ltd. (AP Int) exceeded its recoverable amount. The aggregate carrying amount of the investments in and advances to subsidiaries and associates amounted to ₱83.08 billion and ₱70.37 billion as of December 31, 2016 and 2015, respectively (see Note 7).

Assessing impairment of nonfinancial assets

The Company assesses whether there are any indicators of impairment for nonfinancial assets at each balance sheet date. These nonfinancial assets (property and equipment, computer software license, prepaid taxes and other current assets and other noncurrent assets) are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Determining the recoverable amount of the assets, which require the determination of future



cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect its financial statements. Future events could cause the Company to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

As of December 31, 2016, the carrying values of property and equipment, other current assets, and other noncurrent assets amounted to ₱64.3 million, ₱521.0 million, and ₱16.8 million, respectively. As of December 31, 2015, the carrying values of property and equipment, other current assets, and other noncurrent assets amounted to ₱59.2 million, ₱439.2 million, and ₱14.1 million, respectively (see Notes 6, 8, and 9).

Estimating useful lives of property and equipment

The Company estimates the useful lives of property and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors and circumstances mentioned above. As of December 31, 2016 and 2015, the net book values of property and equipment, excluding land, amounted to ₱64.3 million and ₱59.2 million, respectively (see Note 8).

Pension costs

The costs of defined benefit pension plans, as well as the present value of the pension obligation, are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 15.

Net benefit expense amounted to ₱58.3 million in 2016, ₱38.7 million in 2015 and ₱34.0 million in 2014. Pension liability amounted to ₱20.7 million and ₱239.1 million in 2016 and 2015, respectively (see Note 15).



Fair values of financial instruments

When the fair values of financial assets and financial liabilities recorded in the parent company balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques which include the discounted cash flow model and other generally accepted market valuation model. The inputs to 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. 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 Company's financial instruments are presented in Note 19.

Deferred income tax assets

The Company's assessment on the recognition of deferred income tax assets on non-deductible temporary differences is based on the budgeted taxable income of the following reporting period. This budget is based on the Company's past results and future expectations on revenue and expenses. As of December 31, 2016 and 2015, deferred income tax assets amounted to ₱196.2 million and ₱149.8 million, respectively. No deferred income tax assets were recognized for MCIT amounting to ₱43.8 million and ₱26.3 million and NOLCO amounting to ₱228.1 million and ₱436.9 million as of December 31, 2016 and 2015, respectively (see Note 16).

Legal contingencies

The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized as of December 31, 2016 and 2015.

4. Cash and Cash Equivalents

	2016	2015
Cash on hand and in banks	₱55,830,179	₱172,827,159
Short-term deposits	2,658,824,000	13,667,952,198
	₱2,714,654,179	₱13,840,779,357

Cash in banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposits rates.

Interest earned on cash and cash equivalents amounted to ₱329.5 million in 2016, ₱331.2million in 2015 and ₱243.1 million in 2014.



5. Trade and Other Receivables

	2016	2015
Trade (see Note 17)	₱621,159,134	₱149,901,201
Dividends (see Note 13b)	149,358,000	138,642,000
Interest (see Note 17)	123,172,369	166,301,606
Nontrade	17,001,905	24,982,855
Others	15,093,884	11,756,260
	₱925,785,292	₱491,583,922

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

For terms and conditions relating to related party receivables, refer to Note 17.

6. Other Current Assets

	2016	2015
Prepaid income tax	₱511,455,599	₱427,797,432
Prepaid rent	5,021,619	7,121,708
Input VAT	4,535,355	4,249,016
	₱521,012,573	₱439,168,156

7. Investments and Advances

The details of the Company's investments and advances follow:

	2016	2015
<i>Investments in Subsidiaries</i>		
Aboitiz Renewables, Inc. (ARI)	₱36,654,338,814	₱36,654,338,814
Therma Power, Inc. (TPI)	30,116,058,873	19,116,058,873
Hedcor Bukidnon, Inc. (Hedcor Bukidnon)	1,923,460,000	237,466,250
Hedcor Sabangan, Inc. (Hedcor Sabangan)	1,732,643,142	1,662,643,142
Lima Enerzone Corporation (LEZ)	1,329,696,667	1,329,696,667
Therma South, Inc. (Therma South)	877,892,679	771,634,402
Therma Mobile, Inc. (Therma Mobile)	742,400,000	742,400,000
Davao Light & Power Co., Inc. (DLPC)	738,472,506	738,472,506
Visayan Electric Co., Inc. (VECO)	665,388,202	665,388,202
Hedcor Tudaya, Inc. (HTI)	656,250,000	656,250,000
Mactan Enerzone Corporation (MEZC)	609,532,287	609,532,287
Balamban Enerzone Corporation (BEZC)	486,869,161	486,869,161
Hedcor Sibulan, Inc. (Hedcor Sibulan)	231,000,000	231,000,000
Subic Enerzone Corporation (SEZC)	227,000,000	227,000,000
Cotabato Light & Power Co. (CLPC)	214,047,443	214,047,443

(Forward)



	2016	2015
Therma Visayas, Inc. (TVI)	₱173,114,630	₱173,114,630
East Asia Utilities Corporation (EAUC)	144,690,887	—
AboitizPower International Pte. Ltd. (AP Int)	120,733,027	—
Aboitiz Energy Solutions, Inc. (AESI)	21,000,000	21,000,000
Cebu Private Power Corporation (CPPC)	17,806,608	17,806,608
AdventEnergy, Inc. (AI)	812,500	812,500
Prism Energy, Inc. (PEI)	750,000	750,000
	77,683,957,426	64,556,281,485
<i>Investments in Associates</i>		
STEAG State Power, Inc. (STEAG)	4,400,611,465	4,400,611,465
Hijos de F. Escaño, Inc. (Hijos)	858,069,586	858,069,586
AEV Aviation, Inc. (AAI)	258,300,000	263,400,000
Pampanga Energy Ventures, Inc. (PEVI)	209,465,106	209,465,106
San Fernando Electric Light & Power Co., Inc. (SfELAPCO)	180,863,801	180,863,801
EAUC	—	180,616,369
Western Mindanao Power Corporation (WMPC)	79,099,377	79,099,377
Southern Philippines Power Corporation (SPPC)	45,776,067	45,776,067
	6,032,185,402	6,217,901,771
Less allowance for impairment loss	855,956,072	735,223,045
	5,176,229,330	5,482,678,726
<i>Advances</i>	215,213,110	334,144,860
	₱83,075,399,866	₱70,373,105,071

Investment in EAUC

In April 2016, EAUC redeemed 36,600 Series A RPS attributable to the Company at ₱ 2,920 per share. The book value of the redeemed shares amounted to ₱35.9 million and was redeemed at a total redemption price amounting to ₱52.0 million. As a result, the Company recognized “Gain on redemption of preferred shares” amounting to ₱16.1 million.

In June 2016, TPI acquired for ₱509.4 million the remaining 50% ownership interest in EAUC. As a result, EAUC became a wholly-owned subsidiary of the Company. The transaction was accounted for as a business combination achieved in stages, and the investment in EAUC was presented as an investment in a subsidiary in 2016.

Investment in Hedcor Sabangan

The Company subscribed additional 70.0 million and 652.0 million redeemable preferred shares (RPS) for ₱70.0 million and ₱652.0 million in 2016 and 2015, respectively.

Investment in Hedcor Bukidnon

The Company subscribed additional 1.69 billion and 0.1 million RPS for ₱1.69 billion and ₱0.1 million in 2016 and 2015, respectively.



Investment in Therma South

The Company subscribed additional 106.3 million and 252.2 million RPS for ₱106.3 million and ₱252.2 million in 2016 and 2015, respectively.

Investment in TPI

In 2016, the Company subscribed additional 1.10 billion common shares for ₱1.10 billion and 9.90 billion RPS for ₱9.90 billion.

Investment in AP Int

In 2016, the Company subscribed 2.4 million common shares for ₱120.7 million.

It was determined on the same year that the carrying value of the investment in AP Int exceeded its recoverable amount. As a result, an impairment loss amounting to ₱120.7 million was recognized.

Investment in AAI

AAI redeemed shares attributable to the Company at 5,100 RPS for ₱5.1 million and 28,000 RPS for ₱28.0 million in 2016 and 2015, respectively, at ₱1,000 per share.

Investment in SPPC

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. As a result, the Company recognized a “Gain on redemption of preferred shares” amounting to ₱4.9 million.

Advances

These advances include advances to subsidiaries that will be applied against future subscriptions of the Company to the shares of stock of the subsidiaries.

The Company’s subsidiaries, all incorporated in the Philippines except for AP Int which was incorporated in Singapore, and the corresponding percentage equity ownership are as follows:

Name of Company	Nature of Business	2016		2015	
		Direct	Indirect	Direct	Indirect
ARI	Holding company	100.00%	—	100.00%	—
TPI	Holding company	100.00%	—	100.00%	—
AP Int	Holding company	100.00%	—	—	—
LEZ	Power distribution	100.00%	—	100.00%	—
Hedcor Sabangan	Power generation	—	100.00%	—	100.00%
Therma Mobile	Power generation	—	100.00%	—	100.00%
DLPC	Power distribution	99.93%	—	99.93%	—
VECO	Power distribution	55.26%	—	55.26%	—
HTI	Power generation	—	100.00%	—	100.00%
MEZC	Power distribution	100.00%	—	100.00%	—
BEZC	Power distribution	100.00%	—	100.00%	—
HedcorBukidnon*	Power generation	—	100.00%	—	100.00%
HedcorSibulan	Power generation	—	100.00%	—	100.00%
SEZC	Power distribution	65.00%	34.98%	65.00%	34.98%
CLPC	Power distribution	99.94%	—	99.94%	—
TVI	Power generation	—	100.00%	—	100.00%
Therma South	Power generation	—	100.00%	—	100.00%
AESI	Retail electricity supplier	100.00%	—	100.00%	—
CPPC	Power generation	60.00%	—	60.00%	—

(Forward)



Name of Company	Nature of Business	2016		2015	
		Direct	Indirect	Direct	Indirect
EAUC	Power generation	50.00%	50.00%	50.0%	–
AI	Retail electricity supplier	100.00%	–	100.00%	–
PEI*	Retail electricity supplier	60.00%	–	60.00%	–

*No commercial operations as of December 31, 2016

The percentage of the Company's ownership in associates is as follows:

Name of Company	Nature of Business	Percentage of Ownership	
		2016	2015
AAI	Service	49.25%	49.25%
Hijos	Holding company	46.73%	46.73%
PEVI*	Holding company	42.84%	42.84%
STEAG	Power generation	34.00%	34.00%
SFELAPCO*	Power distribution	20.29%	20.29%
SPPC	Power generation	20.00%	20.00%
WMPC	Power generation	20.00%	20.00%

*PEVI has direct ownership in SFELAPCO of 54.83% while the Company's direct ownership in SFELAPCO is 20.29% resulting to the Company's effective ownership in SFELAPCO of 43.78%.

8. Property and Equipment

December 31, 2016

	Transportation Equipment	Office Equipment	Communication Equipment	Leasehold Improvements	Total
Cost:					
Balances at beginning of year	₱51,151,971	₱25,150,867	₱752,009	₱26,891,876	₱103,946,723
Additions	11,076,329	5,792,953	–	11,775,296	28,644,578
Disposals	(7,846,131)	(245,926)	–	–	(8,092,057)
Balances at end of year	54,382,169	30,697,894	752,009	38,667,172	124,499,244
Accumulated Depreciation:					
Balances at beginning of year	20,310,679	17,696,096	691,530	6,019,408	44,717,713
Depreciation and amortization	9,753,531	7,006,504	34,559	3,095,179	19,889,773
Disposals	(4,158,534)	(237,035)	–	–	(4,395,569)
Balances at end of year	25,905,676	24,465,565	726,089	9,114,587	60,211,917
Net Book Values	₱28,476,493	₱6,232,329	₱25,920	₱29,552,585	₱64,287,327

December 31, 2015

	Transportation Equipment	Office Equipment	Communication Equipment	Leasehold Improvements	Total
Cost:					
Balances at beginning of year	₱53,595,571	₱21,798,231	₱752,009	₱28,169,537	₱104,315,348
Additions	16,211,713	3,541,345	–	284,396	20,037,454
Disposals	(18,655,313)	(188,709)	–	(1,562,057)	(20,406,079)
Balances at end of year	51,151,971	25,150,867	752,009	26,891,876	103,946,723
Accumulated Depreciation:					
Balances at beginning of year	27,008,830	11,038,181	644,961	3,727,638	42,419,610
Depreciation and amortization	8,618,375	6,805,931	46,569	2,680,774	18,151,649
Disposals	(15,316,526)	(148,016)	–	(389,004)	(15,853,546)
Balances at end of year	20,310,679	17,696,096	691,530	6,019,408	44,717,713
Net Book Values	₱30,841,292	₱7,454,771	₱60,479	₱20,872,468	₱59,229,010

The Company recognized a loss of ₱0.1 million and a gain of ₱0.1 million on disposal of property and equipment in 2016 and 2015, respectively.



There are no restrictions on the title and no property and equipment are pledged as security for liabilities.

Fully depreciated property and equipment with cost amounting to ₱37.0 million and ₱16.9 million as of December 31, 2016 and 2015, respectively, are still carried in the books of the Company and still in use.

9. Other Noncurrent Assets

	2016	2015
Computer software licenses	₱10,999,907	₱8,304,046
Recoverable deposits	5,836,710	5,836,710
	₱16,836,617	₱14,140,756

The rollforward analysis of computer software licenses is presented below:

	2016	2015
Cost:		
Balances at beginning of year	₱12,514,246	₱9,532,181
Additions	4,062,937	2,982,065
Balances at end of year	16,577,183	12,514,246
Accumulated amortization:		
Balances at beginning of year	4,210,200	3,111,926
Amortization for the year	1,367,076	1,098,274
Balances at end of year	5,577,276	4,210,200
Net book values	₱10,999,907	₱8,304,046

10. Project Development Costs

	2016	2015
Balances at beginning of year	₱267,588,902	₱246,594,661
Additions	95,992,721	116,902,979
Transfers	(9,477,075)	(95,908,738)
Write-offs	(80,379,837)	—
Balances at end of year	₱273,724,711	₱267,588,902

Project development costs consist of rights, titles and interests for various power plant development projects.

In February 2016, ₱9.5 million project costs were transferred to AP Renewables, Inc. In November 2015, ₱95.9 million project costs were transferred to Hedcor Bukidnon.



11. Trade and Other Payables

	2016	2015
Trade payables (see Note 18)	₱226,466,838	₱40,414,634
Accrued taxes and fees	70,748,142	54,345,879
Output VAT	58,157,741	35,268,721
Accrued interest (see Note 13)	28,287,924	28,287,924
Nontrade payables	19,429,594	3,584,616
Others	474,298	464,226
	₱403,564,537	₱162,366,000

Trade payables are noninterest-bearing and generally on 30-day term.

Accrued taxes and fees represent taxes withheld on compensation, benefits and other fees.

12. Long-term Debts

	Interest Rate	2016	2015
Financial and non-financial institutions - unsecured			
2014 7-year retail bonds	5.21%	₱6,600,000,000	₱6,600,000,000
2014 12-year retail bonds	6.10%	3,400,000,000	3,400,000,000
		10,000,000,000	10,000,000,000
Less deferred financing costs		77,846,635	88,775,951
		₱9,922,153,365	₱9,911,224,049

Retail Bonds - ₱10.00 billion

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 a fixed rate equivalent to 5.21% p.a. and a ₱3.40 billion 12-year bond due 2026 at a fixed rate equivalent to 6.10% p.a. The bonds have been rated PRS Aaa by PhilRatings.

The principal amount of 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.

Under the bond trust agreement, the Company shall not permit its debt-to-equity ratio to exceed 3:1 calculated based on the year-end debt and consolidated equity. The Company is in compliance with the debt covenant as of December 31, 2016.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱77.8 million and ₱88.8 million as of December 31, 2016 and 2015, respectively.

Total interest expense recognized amounted to ₱550.9 million, ₱550.9 million and ₱169.9 million in 2016, 2015 and 2014, respectively.



13. Equity

a. Capital Stock

Authorized - ₱1 par value

Preferred shares - 1,000,000,000 shares

Common shares - 16,000,000,000 shares

Issued

Common shares - 7,358,604,307 shares

₱7,358,604,307

On May 25, 2007, the Company listed with the PSE its 7,187,664,000 common shares with a par value of ₱1.00 to cover the initial public offering (IPO) of 1,787,664,000 common shares at an issue price of ₱5.80 per share. On March 17, 2008, the Company listed an additional 170,940,307 common shares, which it issued pursuant to a share swap agreement at the IPO price of ₱5.80 per share. The total proceeds from the issuance of new shares amounted to ₱10.37 billion. The Company incurred transaction costs incidental to the initial public offering amounting to ₱412.4 million, which is charged against "Additional paid-in capital" in the parent company balance sheet.

As of December 31, 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 additional appropriation of ₱13.16 billion retained earnings for the following projects:

Projects	Full Commercial Operations by	Appropriation
300 MW Cebu Coal	1 st half of 2018	₱8,160,000,000
2x300 MW Coal-fired	End of 4 th quarter 2021	5,000,000,000
Total		₱13,160,000,000



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
68 MW Manolo Fortich Hydro	End of 4 th quarter 2016	₱2,600,000,000
300 MW Davao Coal*	End of 1 st half 2015	9,500,000,000
14 MW Sabangan Hydro	End of 1 st half 2015	2,800,000,000
400 MW Coal Fired Pagbilao Unit 3	End of 4 th quarter 2017	6,000,000,000
Total		₱20,900,000,000

* 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. The cash 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. The cash dividends were paid on April 20, 2015.

On March 8, 2016, the BOD approved the declaration of regular cash dividends of ₱1.20 a share (₱8.83 billion) and special cash dividends of ₱0.46 a share (₱3.38 billion) to all stockholders of record as of March 22, 2016. The cash dividends were paid on April 19, 2016.

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.

14. Personnel Costs

	2016	2015	2014
Salaries and wages	₱454,007,818	₱353,592,235	₱290,005,226
Employee benefits	273,559,833	222,196,454	136,314,286
Retirement benefit costs (see Note 15)	58,324,025	38,719,010	34,009,039
	₱785,891,676	₱614,507,699	₱460,328,551



15. Retirement Costs

The Company has a funded, noncontributory, defined benefit pension plan ("Plan") covering all regular and full-time employees and requiring contributions to be made to separately administered fund. This retirement benefit fund ("Fund") is in the form of a trust being maintained and managed by AEV, under the supervision of the Board of Trustees (BOT) of the Plan. The BOT, whose members are also officers of AEV, is responsible for the investment of the Fund assets. Taking into account the Plan's objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of net benefit expense recognized in the parent company statements of income and the funded status and amounts recognized in the parent company balance sheets for the plan.

Net benefit expense (recognized as part of personnel costs):

	2016	2015	2014
Retirement expense to be recognized in the parent company statement of income:			
Current service cost	₱46,153,534	₱45,607,500	₱38,656,300
Net interest cost (income)	12,170,491	(6,888,490)	(4,647,261)
	₱58,324,025	₱38,719,010	₱34,009,039

Remeasurement effect to be recognized in other comprehensive income:

	2016	2015	2014
Actuarial gains (loss) due to:			
Experience adjustments	₱—	(₱295,832,497)	₱218,836,363
Changes in demographic assumptions	—	8,813,885	—
Changes in financial assumptions	—	36,532,907	(5,560,478)
Actual return excluding amount included in net interest cost	20,313,413	(14,572,966)	553,960
	₱20,313,413	(₱265,058,671)	₱213,829,845

Pension liability

	2016	2015
Present value of obligation	₱570,175,589	₱504,401,129
Fair value of plan assets	(549,521,704)	(265,295,223)
	₱20,653,885	₱239,105,906



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

	2016	2015
At January 1	₱504,401,129	₱199,198,478
Net benefit expense:		
Current service cost	46,153,534	45,607,500
Interest cost	25,674,017	5,724,508
	71,827,551	51,332,008
Employee transfers	(459,134)	18,060,368
Benefits paid	(5,593,957)	(14,675,430)
Remeasurements in other comprehensive income:		
Actuarial loss (gain) due to:		
Experience adjustments	–	295,832,497
Changes in demographic assumptions	–	(8,813,885)
Changes in financial assumptions	–	(36,532,907)
	–	250,485,705
At December 31	₱570,175,589	₱504,401,129

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

	2016	2015
At January 1	₱265,295,223	₱263,870,253
Actual contributions	256,462,633	–
Actual return excluding amount included in net interest cost	20,313,413	(14,572,966)
Interest income included in net interest cost	13,503,526	12,612,998
Transfers	(459,134)	18,060,368
Benefits paid	(5,593,957)	(14,675,430)
At December 31	₱549,521,704	₱265,295,223

Changes in pension liability recognized in the parent company balance sheets are as follows:

	2016	2015
At January 1	(₱239,105,906)	₱64,671,775
Retirement expense for the year	(58,324,025)	(38,719,010)
Actuarial gain (loss) recognized for the year	20,313,413	(265,058,671)
Actual contributions	256,462,633	–
At December 31	(₱20,653,885)	(₱239,105,906)

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

	2016	2015
Cash and fixed income investments	₱423,294,166	₱181,439,160
Equity instruments - financial institution	129,859,129	86,968,432
Fair value of plan assets	₱553,153,295	₱268,407,592



All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse investments and do not have any concentration risk.

The principal assumptions used as of December 31, 2016, 2015 and 2014 in determining net pension liability for the Company's Plan is shown below:

	2016	2015	2014
Discount rate	5.09%	5.09%	4.78%
Salary increase rate	6.00%	6.00%	7.00%

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as of December 31, 2016, assuming all other assumptions were held constant:

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rates	100	(P23,116,841)
	(100)	27,481,572
Future salary increases	100	30,574,208
	(100)	(26,591,836)

The Company's defined benefit pension plan is funded by the Company.

The Company expects to contribute P42.1 million to the defined benefit plans in 2017. The average duration of the defined benefit obligation as of December 31, 2016 is 17.5 years.

The BOT reviews the performance of the plans on a regular basis. It assesses whether the retirement plans will achieve investment returns which, together with contributions, will be sufficient to pay retirement benefits as they fall due. The Group (to which the Company belongs) also reviews the solvency position of the different member companies on an annual basis and estimates, through the actuary, the expected contribution to the Plan in the subsequent year.

16. Income Tax

Details of provision for income tax are as follows:

	2016	2015	2014
Current:			
Corporate income tax	P22,262,045	P11,707,926	P9,830,618
Final	59,664,111	61,308,261	45,215,158
	81,926,156	73,016,187	55,045,776
Deferred	(9,298,778)	(10,032,064)	4,553,419
	P72,627,378	P62,984,123	P59,599,195



The provision for corporate income tax represents MCIT in 2016, 2015 and 2014.

The reconciliation of income tax computed at the statutory tax rate to the provision for income tax reported in the parent company statements of income is as follows:

	2016	2015	2014
At statutory rate of 30%	₱8,024,797,636	₱1,933,082,125	₱4,566,439,527
<i>Additions to (reductions in)</i>			
<i>income tax resulting from:</i>			
Final tax on interest income	59,664,111	61,308,261	45,215,158
Nondeductible interest expense	32,617,674	32,788,428	24,064,308
Nondeductible expenses:			
Bidding expenses	72,858,340	—	—
Project expenses and others	27,999,283	9,600	6,073,222
Unrecognized deferred income tax asset on:			
Provision for impairment loss on investment in a subsidiary	36,219,908	—	—
MCIT	22,262,045	11,707,926	9,830,618
NOLCO	—	87,006,767	—
Applied NOLCO	(62,639,409)	—	(21,261,685)
Interest income already subjected to final tax at a lower rate	(98,841,436)	(99,358,872)	(72,922,146)
Dividend income	(8,042,310,774)	(1,963,560,112)	(4,497,839,807)
	₱72,627,378	₱62,984,123	₱59,599,195

The components of the Company's net deferred income tax asset (liability) are as follows:

	2016	2015
Deferred income taxes recognized in statement of income:		
<i>Deferred income tax assets:</i>		
Unamortized past service cost	₱85,595,953	₱33,107,840
Unrealized foreign exchange loss	70,581	—
	85,666,534	33,107,840
<i>Deferred income tax liabilities:</i>		
Pension liability	(104,353,920)	(44,912,337)
Unrealized foreign exchange gain	—	(16,181,668)
	(104,353,920)	(61,094,005)
Deferred income tax asset related to remeasurement effects in other comprehensive income	110,550,076	116,644,100
	₱91,862,690	₱88,657,935



As of December 31, 2016, the Company has MCIT that can be claimed as deduction from regular income tax liability as follows:

Period of Recognition	Availment Period	Amount	Applied	Expired	Balance
2013	2014-2016	₱4,761,605	₱—	₱4,761,605	₱—
2014	2015-2017	9,830,618	—	—	9,830,618
2015	2016-2018	11,707,926	—	—	11,707,926
2016	2017-2019	22,262,045	—	—	22,262,045
		₱48,562,194	₱—	₱4,761,605	₱43,800,589

As of December 31, 2016, the Company has NOLCO which can be claimed as deduction against the regular taxable income as follows:

Period of Recognition	Availment Period	Amount	Applied	Expired	Balance
2013	2014-2016	₱146,850,394	₱146,850,394	₱—	₱—
2015	2016-2018	290,022,557	61,947,637	—	228,074,920
		₱436,872,951	₱208,798,031	₱—	₱228,074,920

The Company did not recognize deferred income tax assets on 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.

17. Related Party Disclosures

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

The Company, in its normal course of business, has transactions with its related parties, which principally consist of the following:

- The Company has management agreements with each of the following subsidiaries: CLPC, Cotabato Ice Plant, Inc. (CIPI), DLPC, and CPPC for which it is entitled to management fees.
- The Company renders various services to related parties such as technical and legal assistance for various projects, trainings and other services, for which it bills technical and service fees.
- The Company obtained standby letters of credit (SBLC) and is acting as surety for the benefit of certain subsidiaries, associates and joint ventures in connection with certain loans and credit accommodations. As at December 31, 2016, the Company provided SBLCs for AP Renewables, Inc. (APRI), Cebu Energy Development Corporation (CEDC), LHC,



SN Aboitiz Power- Benguet (SNAP B), Therma South, STEAG, and TVI in the amount of ₱10.72 billion. As at December 31, 2015, the Company provided SBLCs for Hedcor Bukidnon, Cebu Energy Development Corporation, LHC, SNAP B, SN Aboitiz Power- Magat, STEAG, and TPI in the amount of ₱12.09 billion.

- d. AEV provides human resources, internal audit, legal, treasury and corporate finance services, among others, to the Company and shares with the member companies the business expertise of its highly qualified professionals. Transactions are priced based on agreed rates, and billed costs are always benchmarked to third party rates to ensure competitive pricing. Service Level Agreements are in place to ensure quality of service. This arrangement enables the Company to maximize efficiencies and realize cost synergies.
- e. Cash deposits and money market placements with UBP. At prevailing rates, these fixed-rate investments earned interest income amounting to ₱1.27 million and 34.7 million in 2016 and 2015, respectively. Outstanding balances amounted ₱759.0 million and ₱1.49 billion as of December 31, 2016, and 2015, respectively.
- f. Rentals paid at current market rates to Cebu Praedia Development Corporation (CPDC) for the use of CPDC's properties by the Company's officers and employees.
- g. Aviation service fees paid at arm's length basis to AAI for the use of aircraft during travel of the Company's officers and employees.

The above transactions are expected to be settled in cash.



The Company's balance sheets and statements of income include the following accounts resulting from the above transactions with related parties:

Technical, Management and other Service Fees

	Revenue			Receivable			
	2016	2015	2014	2016	2015	Terms	Conditions
Subsidiaries							
DLPC	₱358,114,403	₱309,022,629	₱279,800,391	₱41,380,792	₱53,144,400	30-day, non-interest bearing	Unsecured, no impairment
VECO	208,372,134	231,376,925	208,388,954	58,546,044	53,954,076	30-day, non-interest bearing	Unsecured, no impairment
Therma South	125,932,286	16,178,121	—	3,321,686	1,617,812	30-day, non-interest bearing	Unsecured, no impairment
Therma Luzon, Inc. (TLI)	34,050,850	39,157,064	76,370,000	—	3,915,706	30-day, non-interest bearing	Unsecured, no impairment
AESI	33,615,751	39,937,786	—	3,081,444	—	30-day, non-interest bearing	Unsecured, no impairment
CLPC	26,539,922	24,588,044	19,455,130	3,831,682	7,406,450	30-day, non-interest bearing	Unsecured, no impairment
Therma Marine, Inc. (Therma Marine)	24,930,741	24,967,128	14,120,000	27,922,430	—	30-day, non-interest bearing	Unsecured, no impairment
APRI	21,087,671	23,574,517	48,200,000	—	—	30-day, non-interest bearing	Unsecured, no impairment
CPPC	18,499,199	31,096,285	18,000,000	18,019,103	10,530,498	30-day, non-interest bearing	Unsecured, no impairment
AI	12,769,617	20,163,419	—	3,575,493	—	30-day, non-interest bearing	Unsecured, no impairment
TVI	6,487,934	11,749,584	—	594,727	—	30-day, non-interest bearing	Unsecured, no impairment
SEZC	6,001,481	6,447,310	2,928,946	1,700,558	1,342,350	30-day, non-interest bearing	Unsecured, no impairment
Therma Mobile	2,883,717	4,567,104	3,580,000	3,229,763	—	30-day, non-interest bearing	Unsecured, no impairment
MEZC	2,469,917	2,384,220	1,096,316	780,626	519,227	30-day, non-interest bearing	Unsecured, no impairment
BEZC	2,487,401	2,374,554	1,096,853	806,305	512,928	30-day, non-interest bearing	Unsecured, no impairment
LEZ	2,326,220	2,020,705	890,929	734,261	869,214	30-day, non-interest bearing	Unsecured, no impairment
HI	1,469,009	2,581,149	29,134,269	134,659	2,890,887	30-day, non-interest bearing	Unsecured, no impairment
CIPI	875,618	949,457	909,544	155,526	249,287	30-day, non-interest bearing	Unsecured, no impairment
Associates							
CEDC	103,944,750	110,156,662	66,935,000	13,972,350	—	30-day, non-interest bearing	Unsecured, no impairment
SFELAPCO	58,119,233	66,274,200	88,358,280	21,826,823	—	30-day, non-interest bearing	Unsecured, no impairment
Redondo Peninsula Energy, Inc. (RPEI)	5,882,353	—	23,611,501	—	—	30-day, non-interest bearing	Unsecured, no impairment
EAUC	882,500	4,790,000	6,600,000	—	1,224,000	30-day, non-interest bearing	Unsecured, no impairment
	₱1,057,742,707	₱974,356,863	₱889,476,113	₱203,614,272	₱138,176,835		



Transportation and Travel

	Expense			Payable		Terms	Conditions
	2016	2015	2014	2016	2015		
<i>Parent</i>							
AEV	₱143,493	₱149,782	₱266,954	₱32,500	₱—	30-day, non-interest bearing	Unsecured
<i>Associate</i>							
AAI	22,948,461	20,515,952	25,536,601	697,306	440,812	30-day, non-interest bearing	Unsecured
	₱23,091,954	₱20,665,734	₱25,803,555	₱729,806	₱440,812		

Rent

	Expense			Payable		Terms	Conditions
	2016	2015	2014	2016	2015		
<i>Parent</i>							
AEV (Parent)	₱4,242,384	₱4,117,608	₱1,405,401	₱2,465,004	₱4,405,840	30-day, non-interest bearing	Unsecured
<i>Other Related Parties</i>							
CPDC	724,593	443,078	155,880	84,010	116,499	30-day, non-interest bearing	Unsecured
	₱4,966,977	₱4,560,686	₱1,561,281	₱2,549,014	₱4,522,339		

Professional, Legal and Service Fees

	Service Fees			Payable		Terms	Conditions
	2016	2015	2014	2016	2015		
<i>Parents</i>							
ACO (Ultimate Parent)	₱8,679,181	₱5,057,857	₱9,842,143	₱973,099	₱1,778,032	30-day, non-interest bearing	Unsecured
AEV (Parent)	93,927,125	97,149,126	91,694,104	17,932,554	15,484,541	30-day, non-interest bearing	Unsecured
	₱102,606,306	₱102,206,983	₱101,536,247	₱18,905,653	₱17,262,573		



The Company obtained interest free temporary advances from TLI amounting to ₱12.3 billion in 2013. This shall be payable either one time or on a staggered basis, or such other receivables as may be due or demandable from TLI. In 2016, the advances were paid in full.

The Company's retirement benefit fund ("Fund") is in the form of a trust being maintained and managed by AEV under the supervision of the Board of Trustees (BOT) of the plan. In 2016 and 2015, other than contributions to the Fund, no transactions occurred between the Company or any of its subsidiaries and the Fund.

Total compensation and benefits of key management personnel of the Company are as follows:

	2016	2015	2014
Short-term benefits (see Note 15)	₱254,993,884	₱214,755,795	₱192,769,508
Post employment benefits (see Note 15)	12,036,116	18,224,205	16,170,492
	₱267,030,000	₱232,980,000	₱208,940,000

18. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash and cash equivalents and long-term debts. The main purpose of these financial instruments is to raise financing for the Company's operations. The Company has various other financial instruments such as trade and other receivables, trade and other payables and amounts owed to related party which arise directly from its operations.

The Company also enters into derivative transactions, particularly foreign currency forwards, to economically hedge its foreign currency risk from foreign currency denominated liabilities and purchases (see Note 19).

Risk Management Structure

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



Financial risk committee

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

Treasury service group

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

The main risks arising from the Company's financial instruments are credit risk involving possible exposure to counter party default on its cash and cash equivalents, and trade and other receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company's credit risk on cash in banks and cash equivalents and trade and other receivables pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these assets. With respect to cash in banks and cash equivalents, the risk is mitigated by the short-term and/or liquid nature of its short-term deposits mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. With respect to trade and other receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Company's policy that all debtors who wish to trade on credit terms are subject to credit procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company has no significant concentration risk to a counterparty or group of counterparties. The credit quality per class of financial assets as of December 31 is as follows (amounts in thousands):

2016

	Neither past due nor impaired			Past due but not impaired	Total
	High Grade	Standard	Sub-standard		
<i>Loans and receivables</i>					
Cash and cash equivalents	₱2,713,868	₱—	₱—	₱—	₱2,713,868
Trade and other receivables	446,380	—	—	479,405	925,785
Total	₱3,160,248	₱—	₱—	₱479,405	₱3,639,653

2015

	Neither past due nor impaired			Past due but not impaired	Total
	High Grade	Standard	Sub-standard		
<i>Loans and receivables</i>					
Cash and cash equivalents	₱13,840,117	₱—	₱—	₱—	₱13,840,117
Trade and other receivables	330,480	—	—	161,104	491,584
Total	₱14,170,597	₱—	₱—	₱161,104	₱14,331,701



High grade pertain to receivables from customers with good favorable credit standing and have no history of default.

Standard grade pertain to those customers with history of sliding beyond the credit terms but pay a week after being past due.

Sub-standard grade pertain to those customers with payment habits that normally extend beyond the approved credit terms, and has high probability of being impaired.

The aging analyses of financial assets as of December 31 are as follows (amounts in thousands):

2016

		Neither	Past due but not impaired		
		past due nor		30 - 60	More than
	Total	impaired	30 days	days	60 days
<i>Loans and receivables</i>					
Cash and cash equivalents	₱2,713,868	₱2,713,868	₱—	₱—	₱—
Trade and other receivables	925,785	446,380	388,083	21,975	69,347
Total	₱3,639,653	₱3,160,248	₱388,083	₱21,975	₱69,347

2015

		Neither past due nor impaired	Past due but not impaired		
Total			30 days	30 - 60 days	More than 60 days
<i>Loans and receivables</i>					
Cash and cash equivalents	₱13,840,117	₱13,840,117	₱—	₱—	₱—
Trade and other receivables	491,584	330,480	144,677	1,675	14,752
Total	₱14,331,701	₱14,170,597	₱144,677	₱1,675	₱14,752

Liquidity risk

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

In managing its short-term fund requirements, the Company's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term borrowings. With regard to its long-term financing requirements, the Company's policy is that not more than 25% of long-term borrowings should mature in any 12-month period.

The following tables summarize the maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of December 31 (amounts in thousands):

2016

	Contractual undiscounted payments					
	Total Carrying Value	Total	On Demand	Less than 1 year	1 to 5 years	More than 5 years
<i>Other financial liabilities</i>						
Long-term debts	₱9,922,153	₱13,675,018	₱—	₱558,582	₱8,939,262	₱4,177,174
Trade and other payables*	332,342	332,342	—	332,342	—	—
Total	₱10,254,495	₱14,007,360	₱—	₱890,924	₱8,939,262	₱4,177,174

*excluding statutory liabilities



2015

	Contractual undiscounted payments					
	Total Carrying Value	Total	On Demand	Less than 1 year	1 to 5 years	More than 5 years
<i>Other financial liabilities</i>						
Amounts owed to related parties	₱12,300,000	₱12,300,000	₱12,300,000	₱—	₱—	₱—
Long-term debts	9,911,224	14,235,129	—	560,112	9,287,563	4,387,454
Trade and other payables*	43,999	43,999	—	43,999	—	—
Total	₱22,255,223	₱26,579,128	₱12,300,000	₱604,111	₱9,287,563	₱4,387,454

*excluding statutory liabilities

Market Risk

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

Foreign exchange risk

The foreign exchange risk of the Company pertains to its foreign currency-denominated cash and cash equivalents.

	2016		2015	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Financial assets				
Cash and cash equivalents	\$4,211,282	₱209,381,461	\$26,494,701	₱1,246,840,613

The exchange rate for December 31, 2016 and 2015 is ₱49.72: US\$1 and ₱47.06: US\$1, respectively. As a result of the translation of these foreign currency denominated assets, the Company reported net unrealized foreign exchange loss of ₱54.2 million in 2016 and net unrealized foreign exchange gain of ₱0.18 million in 2015.

The following tables demonstrate the sensitivity to a reasonable possible change in the US dollar exchange rates, with all other variables held constant, of the Company's income before income tax as of December 31, 2016 and 2015 (amounts in thousands).

	Increase (decrease) in US dollar	Effect on income before tax
2016		
US dollar-denominated accounts	5%	₱10,476
US dollar-denominated accounts	(5%)	(10,476)
2015		
US dollar-denominated accounts	5%	₱62,342
US dollar-denominated accounts	(5%)	(62,342)

There is no other impact on the Company's equity other than those already affecting the parent company statements of income.



Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company considers equity as its capital.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Its policy is to keep the gearing ratio at 70% or below. The Company determines net debt as the sum of interest-bearing short-term and long-term loans less cash and short-term deposits.

	2016	2015
Long-term debts	₱9,922,153,365	₱9,911,224,049
Cash and cash equivalents	(2,714,654,179)	(13,840,779,357)
Net debt (a)	7,207,499,186	(3,929,555,308)
Equity	77,433,880,700	62,961,557,154
Equity and net debt (b)	₱84,641,379,886	₱59,032,001,846
Gearing ratio (a/b)	8.52%	(6.66%)

Part of the Company's capital management is to ensure that it meets financial covenants attached to long-term borrowings. Breaches in meeting the financial covenants would permit the banks to immediately call loans and borrowings. The Company is in compliance with the financial covenants attached to its long-term debts as of December 31, 2016 and 2015 (see Note 12).

No changes were made in the objectives, policies or processes during the years ended December 31, 2016 and 2015.

19. Financial Instruments

Fair Value of Financial Instruments

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

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with no active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price (amounts in thousands).



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

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
Long-term debts	₱9,922,153	₱9,808,741	₱9,911,224	₱9,775,378

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

Cash and cash equivalents, trade and other receivables, trade and other payables and amounts owed to related parties

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and amounts owed to related parties approximate fair values due to the relatively short-term maturity of these financial instruments.

AFS investments

The fair value of AFS investments are based on quoted market prices.

Long-term debts

The fair value of long-term debt is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 5.98% to 6.15% in 2016 and 5.92% to 6.17% in 2015.

Derivative Financial Instruments

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

As of December 31, 2016 and 2015, the Company has no outstanding foreign currency forward exchange contracts.

The Company recognized a loss from the net fair value changes relating to the forward contracts amounting to ₱0.13 million in 2014 under the "Foreign exchange losses - net" in the parent company statements of income.

Fair Value Hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.



For the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements were made.

20. Electric Power Industry Reform Act (EPIRA) of 2001

RA No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. The law provides for the privatization of National Power Corporation (NPC) and the restructuring of the electric power industry. The Implementing Rules and Regulations (IRR) were approved by the Joint Congressional Power Commission on February 27, 2002.

R.A. No. 9136 and the IRR impact the industry as a whole. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

R.A. Act No. 9136, the EPIRA, and the covering IRR provides for significant changes in the power sector, which include among others:

- i. The unbundling of the generation, transmission, distribution and supply and other disposable assets of a company, including its contracts with independent power producers and electricity rates;
- ii. Creation of a Wholesale Electricity Spot Market; and
- iii. Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effectivity date of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

21. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

The Company also reported and/or paid the following types of taxes for the year:

Value-added tax (VAT)

The Company's sales are subject to output value added tax (VAT) while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12.0%.

- a. Net Receipts and Output VAT declared in the Company's VAT returns in 2016

	Net Sales/ Receipts	Output VAT
Taxable Sales:		
Sales of services	₱1,005,148,286	₱120,617,794



The Company's sales that are subject to VAT are reported under the following accounts:

Service Income - Management fees
Service Income - Professional fees
Service Income - Technical fees
Miscellaneous Income - Operating
Miscellaneous Income - Non-operating

The Company's sales of services are based on actual collections received, hence, may not be the same as amounts accrued in the parent company statement of income.

b. Input VAT for 2016

Balance at January 1	₱8,738,551
Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	1,541,499
Capital goods subject to amortization	1,749,583
Capital goods not subject to amortization	258,553
Services lodged under the other accounts	35,861,743
	48,149,929
Claims for tax credit/refund and other adjustments	(37,353,526)
Balance at December 31	₱10,796,403

Other taxes and licenses

Taxes and licenses, local and national, include real estate taxes, licenses and permit fees for 2016:

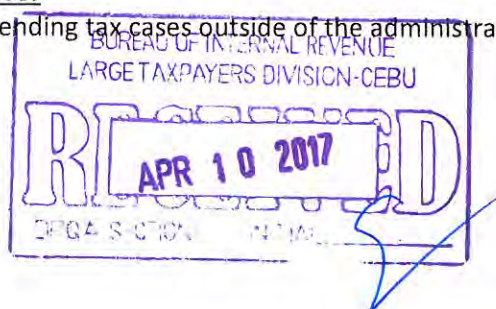
License and permit fees	₱8,633,873
Fringe benefit taxes	4,502,182
Documentary stamp taxes (DST)	19
Others	3,840,000
	₱16,976,074

Withholding taxes

Withholding taxes on compensation and benefits	₱43,592,082
Final withholding taxes	20,333,491
Expanded withholding taxes	6,822,569
	₱70,748,142

Tax Assessment and Cases

The Company has no pending tax cases outside of the administration of the BIR as of December 31, 2016.



COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	1	9	9	8	0	0	1	3	4
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COMPANY NAME

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

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

3	2	n	d		S	t	r	e	e	t	,		B	o	n	i	f	a	c	i	o		G	l	o	b	a	l		
C	i	t	y	,		T	a	g	u	i	g		C	i	t	y	,		M	e	t	r	o		M	a	n	i	l	
a	,		P	h	i	l	i	p	p	i	n	e	s		1	6	3	4												

Form Type

A	A	C	F	S
---	---	---	---	---

Department requiring the report

C	F	D
---	---	---

Secondary License Type, If Applicable

-	N	A	-
---	---	---	---

COMPANY INFORMATION

Company's Email Address

www.aboitizpower.com

Company's Telephone Number

(02) 886-2800

Mobile Number

None

No. of Stockholders

628

Annual Meeting (Month / Day)

May/16

Fiscal Year (Month / Day)

December/31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Liza Luv T. Montelibano

Email Address

Liza.montelibano@aboitiz.com

Telephone Number/s

(02) 886-2813

Mobile Number

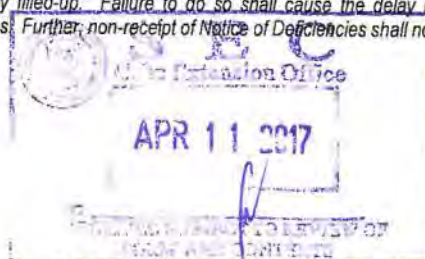
Not Available

CONTACT PERSON'S ADDRESS

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

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

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



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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS


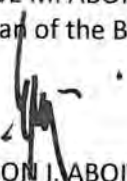

The management of Aboitiz Power Corporation is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015 in accordance with the prescribed financial reporting framework indicated 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

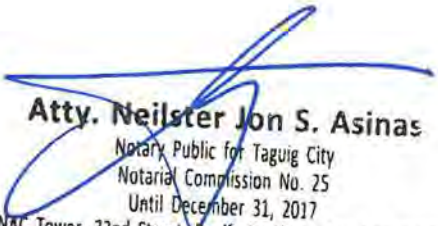
Doc. No. 101;

Page No. 22;

Book No. IV;

Series of 2017




Atty. Neilster Jon S. Asinas
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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Aboitiz Power Corporation

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 GNPowder Mariveles Coal Plant Ltd. Co. (GMCP) and GNPowder Dingin 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.



Audit response

We reviewed the sale/purchase agreement covering the acquisition and evaluated the payment of the purchase price to the sellers. We also involved our internal specialist in reviewing the valuation methodologies and assumptions used in valuing acquired assets, including the fair value of the previously-held interest. We then compared the key assumptions used in the provisional purchase price allocation against historical trends and external data.

Accounting for Business Combinations under Common Control: Purchase of Aboitiz Power Corporation (AP) of Aseagas Corporation from Aboitiz Equity Ventures, Inc. (AEV)

As disclosed in Note 9 to the consolidated financial statements, on July 4, 2016, AP, through Aboitiz Renewables, Inc. (ARI), completed its acquisition of 100% ownership in Aseagas Corporation from AEV for ₱605.0 million. The acquisition was accounted for in the books of ARI under the pooling of interests method applied on a prospective basis in accordance with Philippine Accounting Standards 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, since this is a business combination involving entities under common control of AEV, and such control is not transitory. This transaction is material to the Group and requires management judgment in assessing how the acquisition is accounted for under the pooling of interest method.

Audit response

We discussed the nature of the transaction with management and reviewed the relevant documents supporting the acquisition. We also reviewed the consolidation adjustments and management's assessment of the propriety of the accounting treatment in accordance with the relevant accounting standards. We evaluated whether AP has consistently applied the accounting policy on common control transactions in the consolidated financial statements for transactions of a similar nature. Furthermore, we assessed the disclosures in the financial statements regarding the transaction.

Revenue Recognition of Distribution Utilities

The Group's revenue from the sale of electricity accounts for 50% of the Group's consolidated revenue and is material to the Group. This matter is significant to the audit because the revenue recognized depends on the electric consumption captured, the rates applied across different customers and the systems involved in the billing process. Electric consumption captured is based on the meter readings taken on various dates for the different types of customers (i.e., industrial, commercial, and residential customers) within the franchise areas of operations of the distribution utilities. Disclosures related to this matter are provided in Notes 3 and 21 of the consolidated financial statements.

Audit Response

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



Consolidation Process

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

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
<i>Other equity reserves:</i>		
Excess of cost over net assets of investments (Note 9)	(526,883)	(421,260)
Acquisition of non-controlling interests	(259,147)	(259,147)
<i>Accumulated other comprehensive income:</i>		
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)			
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Share in net unrealized valuation gains (losses) on AFS investments of an associate (Note 10)	–	(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
<i>Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:</i>			
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												Total
	Paid-in Capital (Note 20a)	Net Unrealized Loss on AFS Investments	Share in Net Unrealized Valuation Gains on AFS Investments of an Associate (Note 10)	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 10)	Actuarial Gains (Losses) on Defined Benefit Plans (Note 27)	Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures (Note 10)	Acquisition of Non-controlling Interests	Excess of cost over net assets of investment (Note 9)	Retained Earnings		Non-controlling Interests	
										Appropriated (Note 20b)	Unappropriated (Note 20b)		
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

	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)	Retained Earnings		Non-controlling Interests	Total
										Appropriated (Note 20b)	Unappropriated (Note 20b)		
Balances at January 1, 2015	₱19,947,498	₱-	₱119,087	₱38,091	(₱375,489)	(₱519,854)	(₱48,589)	(₱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		Non-controlling Interests	Total
										Appropriated	Unappropriated		
										(Note 20b)	(Note 20b)		
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.)*	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)*	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 its returns.



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

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

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

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

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

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

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

Transactions with Non-controlling Interests

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



Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the new and revised standards and Philippine Interpretations which were applied starting January 1, 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 leases 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.

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 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.

Redeemable Preferred Shares (RPS)

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



Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

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

Financial liabilities

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

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

Impairment of Financial Assets

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

Loans and receivables

For loans and receivables carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows



(excluding future expected credit losses that have not yet been incurred). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

Assets carried at cost

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

AFS investments

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

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

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



Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements whereby the related assets and liabilities are presented gross in the consolidated balance sheet.

Property, Plant and Equipment

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

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

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

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

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

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

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts, and any resulting gain or loss is credited or charged to current operations. An item of property, plant



and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

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

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

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

Arrangement Containing a Lease

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

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

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

Finance lease

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

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

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



Operating lease

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

Service Concession Arrangements

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

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

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

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

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

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

When the applicable entities have contractual obligations it must fulfill as a condition of its license (a) to maintain the infrastructure to a specified level of serviceability or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures these contractual obligations in accordance



with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the balance sheet date.

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

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 Dingin 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
	<u>45,335,022</u>
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
	<u>29,233,006</u>
Total identifiable net assets	<u>₱16,102,016</u>
Total consideration	
	₱49,787,176
Fair value of noncontrolling interest	2,584,442
	<u>52,371,618</u>
Goodwill	<u>₱36,269,602</u>
Cash flow on acquisition:	
Net cash acquired with the subsidiary	₱5,567,064
Cash paid	(49,787,176)
Net cash outflow	<u>(₱44,220,112)</u>

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
	<hr/>
	1,258,847
Liabilities:	
Trade and other payables	80,773
Other liabilities	57,503
Deferred income tax liabilities	25,673
	<hr/>
	163,949
Total identifiable net assets at fair value	<hr/>
	₱1,094,898

(Forward)



Total consideration	₱513,205
Fair value of previously-held interest in EAUC	547,449
Bargain purchase gain	₱34,244
<hr/>	
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
	<hr/>
	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 GNPowder 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:

	Nature of Business	Percentage of Ownership		
		2016	2015	2014
MORE ¹	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 ¹	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	123,556
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

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

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

No commercial operations as of December 31, 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 GNPow 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
<i>Offshore Loan</i>	\$385,880,000	7.65%	24 semi-annual payments from the 1st business day following the Loan Conversion Date
<i>Onshore Loans - Tranche A</i>	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 5 th anniversary of the closing date until the maturity date	17 semi-annual payments from the 1st business day following the Loan Conversion Date
<i>Onshore Loans - Tranche B</i>	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
<i>Working Capital</i>	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.

Aseagas

Within the period June 2014 to September 2015, Aseagas availed of ₱2.00 billion loan from the Notes Facility and Security Agreement (NFA) it signed on June 5, 2014 with Development Bank of the Philippines (DBP). The NFA 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.

VECO

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

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

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



LHC

On April 24, 2012, LHC entered into an omnibus agreement with Philippine National Bank and 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	1 st half of 2018	₱8.16
2x300 MW Coal-fired	End of 4 th quarter 2021	5.00
Total		₱13.16

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

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

* 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	261,934
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 charges of 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 39)).

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		Terms	Conditions
	2016	2015	2014	2016	2015		
<i>Associates</i>							
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		Terms	Conditions
	2016	2015	2014	2016	2015		
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			Payable		Terms	Conditions
		2016	2015	2014	2016	2015		
<i>Ultimate Parent</i>								
ACO	Professional and Technical fees	₱8,313	₱17,809	₱—	₱727	₱1,438	30-day; interest-free	Unsecured
<i>AEV and subsidiaries</i>								
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
<i>Associate</i>								
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			Payable		Terms	Conditions
	2016	2015	2014	2016	2015		
<i>Other related parties</i>							
ACI	₱388,172	₱—	₱412,980	₱2,583	₱—	30-day; interest-free	Unsecured

f. Temporary advances

	Interest Expense			Payable		Terms	Conditions
	2016	2015	2014	2016	2015		
<i>Parent</i>							
AEV	₱16,290	₱—	₱—	₱2,559,500	₱—	On-demand; interest-bearing	Unsecured

g. Notes receivable

	Interest Income			Receivable		Terms	Conditions
	2016	2015	2014	2016	2015		
<i>Joint venture</i>							
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		Terms	Conditions
	2016	2015	2014	2016	2015		
Company	₱78,251	₱34,910	₱70,232	₱712,619	₱1,468,003	90 days or less;	No impairment
TPI and subsidiaries	102,242	29,557	43,839	2,820,245	1,821,709	interest-bearing 90 days or less;	
ARI and subsidiaries	43,955	26,874	57,100	3,941,308	4,062,425	interest-bearing 90 days or less;	No impairment
AESI	5,615	1,854	360	251,570	231,970	interest-bearing 90 days or less;	
DLP	4,509	825	5,959	229,069	125,454	interest-bearing 90 days or less;	No impairment
VECO	3,755	1,289	10,831	301,062	140,732	interest-bearing 90 days or less;	
CPPC	3,221	1,073	2,963	356,444	16,901	interest-bearing 90 days or less;	No impairment
SEZ	2,992	228	3,269	442,712	5,322	interest-bearing 90 days or less;	
EAUC	2,157	51	49	197,607	5,102	interest-bearing 90 days or less;	No impairment
LEZ	1,821	948	–	98,052	170,015	interest-bearing 90 days or less;	
AI	1,202	1,674	572	82,520	83,605	interest-bearing 90 days or less;	No impairment
MEZ	839	212	702	79,862	24,588	interest-bearing 90 days or less;	
BEZ	679	114	880	81,372	9,852	interest-bearing 90 days or less;	No impairment
CLP	405	302	62	2,545	9,212	interest-bearing 90 days or less;	
PEI	51	51	49	4,965	5,102	interest-bearing 90 days or less;	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)

¹US\$1 = ₱49.72

²US\$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)

¹US\$1 = ₱49.72

²US\$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:

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

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

	Total	Neither past due nor impaired	Past due but not impaired			Individually impaired
			Less than 30 days	31 days to 60 days	Over 60 days	
Cash and cash equivalents:						
Cash on hand and in banks	₱11,584,720	₱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			Individually impaired
			Less than 30 days	31 days to 60 days	Over 60 days	
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			Individually impaired
			Less than 30 days	31 days to 60 days	Over 60 days	
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

¹US\$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
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 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

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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		6,616,654	-
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	

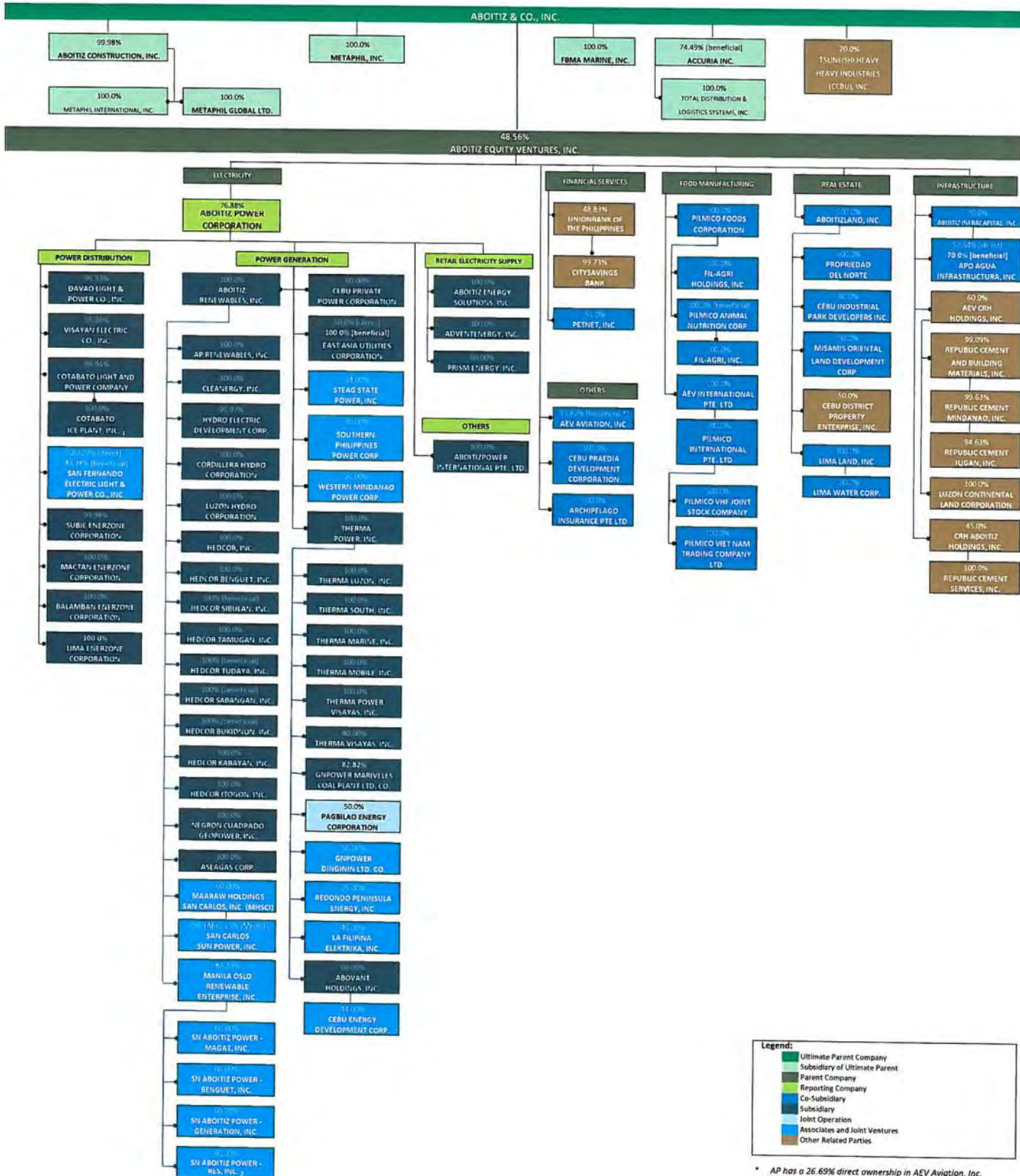
ABOITIZ POWER CORPORATION

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, 2016



Legend:

- Ultimate Parent Company
- Subsidiary of Ultimate Parent
- Parent Company
- Reporting Company
- Co-Subsidiary
- Subsidiary
- Joint Operation
- Associates and Joint Ventures
- Other Related Parties

* 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	$\frac{\text{Current assets}}{\text{Current liabilities}}$	2.25	3.12
Acid test ratio	$\frac{\text{Cash + Marketable securities} + \text{Accounts receivable} + \text{Other liquid assets}}{\text{Current liabilities}}$	1.91	2.88
SOLVENCY RATIOS			
Debt to equity ratio	$\frac{\text{Total liabilities}}{\text{Total equity}}$	2.18	1.39
Asset to equity ratio	$\frac{\text{Total assets}}{\text{Total equity}}$	3.18	2.39
Net debt to equity ratio	$\frac{\text{Debt - Cash \& cash equivalents}}{\text{Total equity}}$	1.48	0.63
Gearing ratio	$\frac{\text{Debt - Cash \& cash equivalents}}{\text{Total equity} + (\text{Debt - Cash \& cash equivalents})}$	59.65%	38.46%
Interest coverage ratio	$\frac{\text{EBIT}}{\text{Interest expense}}$	477.62%	489.50%
PROFITABILITY RATIOS			
Operating margin	$\frac{\text{Operating profit}}{\text{Total revenues}}$	29.5%	29.0%
Return on equity	$\frac{\text{Net income after tax}}{\text{Total equity adjusted for cash dividends}}$	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 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'	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	Leases	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