Global Business Power Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

A member firm of Ernst & Young Global Limited

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Building a better working world

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Global Business Power Corporation

Opinion

We have audited the consolidated financial statements of Global Business Power Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended 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.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

SYCIP GORRES VELAYO & CO.

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PTR No. 6621343, January 9, 2018, Makati City

March 26, 2018

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 23)	**₱13,414,097,030**	₱14,206,492,954
Restricted cash and cash equivalents (Notes 4 and 23)	**1,366,837,798**	1,623,851,973
Short-term investments (Note 4)	**445,751,332**	362,727,536
Receivables (Notes 5 and 23)	**4,510,413,500**	3,665,206,623
Inventories (Note 6)	**2,513,697,896**	1,781,713,978
Advances to suppliers and contractors	**254,590,883**	233,056,767
Prepayments and other current assets (Note 7)	**1,422,739,563**	1,668,950,646
Noncurrent assets held for sale (Note 12)	**250,061,233**	–
Total Current Assets	**24,178,189,235**	23,542,000,477
Noncurrent Assets		
Long-term receivables - net of current portion (Notes 5 and 8)	**82,887,298**	201,803,398
Available-for-sale (AFS) investment (Note 11)	**2,686,610,107**	3,671,506,220
Investment in and advances to associate (Note 10)	**4,297,592,681**	–
Property, plant and equipment (Note 12)	**48,936,957,487**	49,641,294,478
Deferred tax assets - net (Note 21)	**460,561,081**	485,193,074
Goodwill (Note 13)	**641,264,200**	728,285,535
Other noncurrent assets (Note 13)	**305,989,565**	309,310,594
Total Noncurrent Assets	**57,411,862,419**	55,037,393,299
TOTAL ASSETS	**₱81,590,051,654**	₱78,579,393,776
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 14 and 23)	**₱5,005,307,481**	₱4,688,333,505
Current portion of long-term debt (Note 15)	**2,589,519,938**	2,587,953,442
Income tax payable	**338,067,990**	35,688,679
Dividends payable (Note 24m)	**3,427,474,900**	3,147,040,000
Total Current Liabilities	**11,360,370,309**	10,459,015,626
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 15)	**35,553,099,482**	33,646,091,455
Deferred tax liabilities - net (Note 21)	**147,634,839**	167,326,251
Retirement benefit obligation (Note 18)	**886,913,884**	703,784,441
Advances from stockholder (Note 20)	**149,334,019**	–
Provisions (Note 16)	**1,860,890,801**	1,192,313,271
Total Noncurrent Liabilities	**38,597,873,025**	35,709,515,418
Total Liabilities	**49,958,243,334**	46,168,531,044

(Forward)

	December 31	
	2017	2016
Equity Attributable to Equity Holders of the Parent (Note 24m)		
Capital stock - ₱1 par value		
Authorized - 3,000,000,000 shares		
Issued - 1,924,020,965 shares	**₱1,924,020,965**	₱1,924,020,965
Additional paid-in capital	**19,550,064,658**	19,550,064,658
Other comprehensive income (loss):		
Unrealized valuation gain on AFS investment (Note 11)	**2,536,607,717**	3,521,503,830
Remeasurement gain (loss) on retirement benefit obligation (Note 18)	**(53,321,374)**	890,174
Retained earnings	**2,772,336,544**	2,463,966,923
	26,729,708,510	27,460,446,550
Non-controlling Interests	**4,902,099,810**	4,950,416,182
Total Equity	**31,631,808,320**	32,410,862,732
TOTAL LIABILITIES AND EQUITY	**₱81,590,051,654**	₱78,579,393,776

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
REVENUES (Note 1)		
Net fees	**₱23,589,327,133**	₱17,529,569,486
Coal sales	**204,656,459**	107,454,145
	23,793,983,592	17,637,023,631
COSTS AND EXPENSES		
Power plant operations and maintenance costs (Note 17)	**11,190,049,930**	6,313,996,191
Depreciation and amortization (Notes 12 and 13)	**2,302,637,839**	2,235,496,000
Personnel costs (Note 18)	**1,430,502,899**	1,003,705,711
Regulatory taxes and licenses	**885,423,973**	667,029,660
Outside services	**624,491,450**	500,486,561
Insurance	**206,939,532**	216,596,535
Impairment losses (Notes 5 and 6)	**111,318,895**	79,081,959
Travel and representation	**101,713,263**	81,159,283
Provisions for expenses (Note 16)	**79,952,901**	212,290,495
Professional fees	**61,900,918**	29,155,401
Rent and utilities (Note 22)	**45,846,964**	37,973,370
Telecommunications and postage	**14,937,016**	13,348,098
Supplies	**10,122,208**	10,216,182
Others	**212,940,842**	203,646,766
	17,278,778,630	11,604,182,212
FINANCE COSTS - net (Note 19)	**1,805,630,044**	2,061,814,965
OTHER INCOME - net (Note 19)	**271,168,269**	101,727,786
INCOME BEFORE INCOME TAX	**4,980,743,187**	4,072,754,240
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 21)		
Current	**1,182,093,992**	122,893,057
Deferred	**26,185,590**	(69,808,834)
	1,208,279,582	53,084,223
NET INCOME	**3,772,463,605**	4,019,670,017
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Changes in fair value of AFS (Note 11)	**(984,896,113)**	1,049,001,777
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Remeasurement income on retirement benefits, net of deferred tax (Note 18)	**(57,691,127)**	21,033,636
	(1,042,587,240)	1,070,035,413
TOTAL COMPREHENSIVE INCOME	**₱2,729,876,365**	₱5,089,705,430

(Forward)

	Years Ended December 31	
	2017	2016
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the parent	**₱2,808,369,621**	₱2,643,585,679
Non-controlling interests	**964,093,984**	1,376,084,338
	₱3,772,463,605	₱4,019,670,017
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Equity holders of the parent	**₱1,769,261,960**	₱3,708,917,994
Non-controlling interests	**960,614,405**	1,380,787,436
	₱2,729,876,365	₱5,089,705,430

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Equity Attributable to Equity Holders of the Parent						
	Capital Stock (Note 24m)	Additional Paid-in Capital	Other Comprehensive Income (Notes 11 and 18)	Retained Earnings	Total	Non-Controlling Interests	Total
Balances at January 1, 2016	**₱1,924,020,965**	**₱19,550,064,658**	**₱2,457,061,689**	**₱2,020,381,244**	**₱25,951,528,556**	**₱4,463,633,219**	**₱30,415,161,775**
Issuance of capital stock	–	–	–	–	–	258,750	258,750
Deposit for future stock subscription	–	–	–	–	–	68,136,777	68,136,777
Dividends declared (Note 24m)	–	–	–	(2,200,000,000)	(2,200,000,000)	(962,400,000)	(3,162,400,000)
Total comprehensive income	–	–	1,065,332,315	2,643,585,679	3,708,917,994	1,380,787,436	5,089,705,430
Balances at December 31, 2016	**1,924,020,965**	**19,550,064,658**	**3,522,394,004**	**2,463,966,923**	**27,460,446,550**	**4,950,416,182**	**32,410,862,732**
Reclassification of deposit for future stock subscription to advances from stockholder	–	–	–	–	–	(68,136,777)	(68,136,777)
Dividends declared (Note 24m)	–	–	–	(2,500,000,000)	(2,500,000,000)	(940,794,000)	(3,440,794,000)
Total comprehensive income	–	–	(1,039,107,661)	2,808,369,621	1,769,261,960	960,614,405	2,729,876,365
Balances at December 31, 2017	**₱1,924,020,965**	**₱19,550,064,658**	**₱2,483,286,343**	**₱2,772,336,544**	**₱26,729,708,510**	**₱4,902,099,810**	**₱31,631,808,320**

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱4,980,743,187**	₱4,072,754,240
Adjustments for:		
Depreciation and amortization (Notes 12 and 13)	**2,302,637,839**	2,235,496,000
Interest expense (Note 19)	**1,930,785,433**	2,173,830,132
Interest income (Note 19)	**(165,158,576)**	(135,764,503)
Retirement benefit expense (Note 18)	**128,641,961**	118,926,574
Impairment of goodwill (Note 13)	**87,021,335**	47,330,362
Deferred financing cost amortization (Notes 15 and 24o)	**42,094,469**	43,256,287
Provision for doubtful accounts (Note 5)	**33,781,834**	31,751,597
Dividend income (Notes 11 and 19)	**(32,542,310)**	(30,514,354)
Equity on income from associate (Note 19)	**(14,466,929)**	–
Amortization of discount on long-term receivables (Note 19)	**(11,084,983)**	(25,713,986)
Reversal of provision for impairment loss on input VAT (Note 13)	**(10,609,969)**	–
Accretion on decommissioning liability (Notes 16 and 19)	**8,993,700**	6,207,035
Net unrealized foreign exchange loss	**2,438,244**	48,827,114
Provision for inventory obsolescence (Note 6)	**1,125,695**	–
Gain on disposal and retirement of property and equipment (Note 19)	**(935,544)**	(729,218)
Operating income before working capital changes	**9,283,465,386**	8,585,657,280
Decrease (increase) in:		
Restricted cash	**257,014,175**	(122,133,317)
Short-term investments	**(66,641,476)**	(295,727,536)
Receivables	**(750,464,456)**	(86,780,290)
Advances to suppliers and contractors	**(21,534,116)**	(61,503,215)
Inventories	**(733,109,612)**	(274,211,171)
Prepayments and other current assets	**232,022,274**	249,423,631
Increase in:		
Accounts payable and accrued expenses	**509,122,006**	265,808,242
Provisions	**480,020,274**	207,102,145
Net cash generated from operations	**9,189,894,455**	8,467,635,769
Interest received	**155,358,967**	141,192,435
Interest paid	**(1,938,530,969)**	(2,208,596,400)
Income taxes paid	**(862,050,327)**	(246,151,839)
Benefits paid (Note 18)	**(3,946,159)**	–
Contribution to the retirement fund (Note 18)	**(19,000,000)**	(16,200,000)
Net cash flows from operating activities	**6,521,725,967**	6,137,879,965

(Forward)

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	**₱1,478,930**	₱1,843,396
Collections of financial assistance to Panay Electric Company	**16,333,333**	28,000,000
Dividends received (Notes 11 and 19)	**32,542,310**	30,514,354
Advances to associate for future investment conversion (Note 10)	**(1,879,463,723)**	–
Investment in associate (Note 10)	**(2,403,662,029)**	–
Additions to property, plant and equipment	**(1,821,813,317)**	(3,999,537,323)
Increase in noncurrent assets	**(4,503,684)**	(54,531,263)
Net cash flows used in investing activities	**(6,059,138,186)**	(3,993,710,836)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availment of long-term debt (Note 15)	**4,500,000,000**	5,500,000,000
Infusion from shareholder	**81,197,242**	68,136,777
Payments of:		
Dividends paid (Note 20)	**(3,147,040,000)**	(4,184,040,000)
Long-term debt (Note 15)	**(2,629,791,474)**	(2,715,781,741)
Debt transaction costs (Note 15)	**(22,500,000)**	(13,920,871)
Cash forwarded from newly acquired subsidiary	**–**	258,750
Net cash flows used in financing activities	**(1,218,134,232)**	(1,345,347,085)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(36,849,473)**	13,634,314
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(792,395,924)**	(689,262,298)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**14,206,492,954**	13,394,036,596
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱13,414,097,030**	₱14,206,492,954

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

Global Business Power Corporation (GBPC; the Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on March 13, 2002 primarily to invest in, hold, purchase, import, acquire (except land), lease, contract or otherwise, with the limits allowed for by law, any and all real and personal properties of every kind and description, whatsoever, and to do acts of being a holding company except to act as brokers dealers in securities.

On May 26, 2016, First Metro Investment Corporation (FMIC) sold its 4.73% share in the Parent Company to GT Capital Holdings, Inc. (GT Capital). Subsequently, on May 27, 2016, GT Capital entered into a Share Sale and Purchase Agreement with Beacon PowerGen Holdings, Inc. (Beacon Power), whereby GT Capital transferred and ceded to Beacon Power its entire shareholdings in the Parent Company, thereby giving the latter 56% of the shares of the Parent Company.

Following this, the 22.00% share of Orix P&E Philippines Corporation (Orix) and a portion of the shares of Meralco PowerGen Corporation (MGen) amounting to 8.00% of the total outstanding capital stock of the Parent Company were transferred to JG Summit Holdings, Inc. (JG Summit).

As of December 31, 2017 and 2016, the Parent Company is 56% owned by Beacon Power, 30% by JG Summit and 14% owned by MGen. Beacon Power is a wholly owned subsidiary of Beacon Electric Asset Holdings, Inc. (BEAHI), originally incorporated as a joint venture between Metro Pacific Investments Corporation (MPIC) and PLDT Communications and Energy Ventures, Inc. (PCEV).

On June 27, 2017, MPIC entered into a Dead of Absolute Sale of Shares with PCEV to acquire the latter's remaining 25% interest in BEAHI's common and preferred shares. As of December 31, 2017, BEAHI is wholly owned by MPIC.

ARB Power Ventures, Inc. (APVI)
As of December 31, 2017 and 2016, the Parent Company owns 100.00% interest in APVI. In general partnership with the Parent Company, APVI has 86.10% interest in Toledo Power Company (TPC; the Partnership).

TPC
TPC owns and operates a 60-megawatt (MW) coal power plant and an 82-MW Circulating Fluidized Bed (CFB) clean coal-fired power plant both located in Daanlungsod, Toledo City, Cebu and a 40-MW diesel-fired power station located in Carmen, Toledo City, Cebu, which supply electricity to Cebu III Electric Cooperative, Inc. (CEBECO III), and to its industrial customer, Carmen Copper Corporation (CCC).

In 2012, TPC started the construction of its expansion project (TPC 1-A) in its existing Toledo Power Complex in Daanlungsod, Toledo City. The expansion project is related to designing, developing, procuring, constructing, operating and maintaining a 1x82-MW gross CFB coal-fired power plant. TPC 1-A construction was completed and accepted on July 25, 2015. TPC, through its expansion plant, started to deliver power, in accordance with its respective contracts with CCC and CEBECO III, on December 26, 2014 and February 26, 2015, respectively.

The TPC 1-A project is registered with Board of Investment (BOI). Under its BOI registration, the Partnership is entitled to several incentives including an Income Tax Holiday (ITH) as an expansion entity for 3 years, from December 1, 2014 or on the actual start date of commercial operations, whichever is earlier, but in no case earlier than the date of registration. TPC1-A began commercial operations on December 26, 2014. As stated in the Certificate of Entitlement issued by the BOI, the ITH granted to the Partnership started from December 1, 2014 until November 30, 2017.

TPC's agreements with CEBECO III, CCC and other customers cover the generation and supply of electricity at agreed minimum levels and fees.

Under the cooperation period of 12 years commencing on February 26, 2003, the Partnership has an Electric Power Purchase Agreement (EPPA) with CEBECO III that specifies agreed minimum supply levels and fees denominated in Philippine peso. The EPPA provides for, among others, the supply by the Partnership of electrical power and payment of fees and related penalties in the event of termination of agreement under certain circumstances, or default or breach of agreement by any of the parties and the recovery of any costs incurred as a result of change in circumstances including change in any laws or regulations of the Philippines, among others.

The EPPA with CEBECO III covering the supply of power from the old coal plant was terminated on February 25, 2015. The EPPA was renewed for another cooperation period of 25 years commencing on February 26, 2015. This new EPPA covers the monthly supply of 17 MW of the capacity of TPC1-A to CEBECO III.

On June 5, 2012, an Energy Conversion Agreement (ECA) was entered into by the Partnership and CCC wherein the latter will be supplying the coal necessary to generate the electricity it will purchase from the Partnership and will continue until the completion and start of the commercial operations of TPC 1-A. On the same date, the Partnership entered into an EPPA with CCC for the supply and purchase of electricity generated by TPC 1-A, for a cooperation period of 12 years. This EPPA was later converted to an ECA on December 15, 2014.

The Partnership is a member of the Wholesale Electric Spot Market (WESM) and participates as a direct member.

Toledo Holdings Corporation (THC) and Global Trade Energy Resources Corp. (GTERC)
THC owns parcels of land where the power stations of TPC, Panay Power Corporation (PPC) and Cebu Energy Development Corporation (CEDC) are located. THC leases land to TPC and PPC for a period of one year, renewable every year and under such terms and conditions as may be agreed upon by both parties. THC also leases a parcel of land leased to CEDC for a period of five years, commencing July 1, 2009 and was renewed for another five years starting July 1, 2014. The contract of lease is renewable every end of the lease term under such terms and conditions as may be agreed upon by both parties.

On December 22, 2016, THC sold specific parcels of land to CEDC and TPC. PPC continues to lease land from THC as of December 31, 2017.

THC is a wholly owned subsidiary of the Parent Company.

GTERC, formerly Toledo Cebu International Trading Resources Corp., engaged in the business of trading coal which acts as an intermediary between suppliers and ultimate consumers of coal, is 90.00% owned by the Parent Company and 10.00% owned by THC. On December 27, 2017, THC assigned the remaining 10% shareholdings in GTERC to GBPC, thereby making the latter 100% owner of GTERC.

Panay Power Holdings Corporation (PPHC)
As of December 31, 2017and 2016, PPHC is 89.30% owned by the Parent Company, 8% owned by La Filipina Uy Gongco Corporation (LFUGC) and 2.7% owned by Delta Pi Limited (DPL). PPHC has 100.00% interest in PPC and Panay Energy Development Corporation (PEDC).

PPC
As of December 31, 2017 and 2016, PPC owns and operates a total of 104.50 MW of bunker fuel power plants located in La Paz, Iloilo City and Aklan.

PPC has several power supply agreements with distribution companies and electric cooperatives covering the supply of electricity at minimum contracted levels for a fixed fee. PPC entered into an Amended and Restated Electric Power Purchase Agreement (AREPPA) with Panay Electric Company (PECO) under which PECO contracted a capacity of 15 MW of PPC's Iloilo Plant 1 for its intermediate and peak power supply requirements for a period of 15 years until 2026.

In 2005, Avon River Power Holdings, Corporation (ARPHC) entered into an EPPA with Iloilo I Electric Cooperative, Inc. (ILECO-1) for a contracted capacity of 8 MW from PPC's Iloilo Plant 2, a 20 MW diesel fired power plant, for a period of 20 years from the start of commercial operations of the PPC's Iloilo Plant 2 or until 2025. This EPPA was assumed by PPC upon the merger of PPC and ARPHC with PPC as the surviving entity.

For its Aklan Plants, PPC likewise assumed the EPPAs between ARPHC and Aklan Electric Cooperative, Inc. (AKELCO) for the supply of electricity for a period of 20 years from the start of commercial operations of the Aklan Plants.

In January 2016, PPC has entered into an Interim Power Supply Agreement (IPSA) with Manila Electric Company (MERALCO) for one year from March 26, 2016 to February 25, 2017 with a provision for automatic extension of one year or until February 26, 2018. In January 2017, both parties agreed to extend the IPSA until February 18, 2018. The contract was not extended further upon expiration.

PEDC
PEDC owns and operates 2x82 MW (Phase I) and 1X150 MW (Phase II) clean coal-fired Power Plants in Brgy. Ingore, Iloilo City.

Phase I was completed and operated in March 2011.

In 2014, PEDC Phase II began construction of a new 1x150 MW power generating unit within the same industrial area where the Phase I is located.

PEDC has two Board of Investments (BOI) registrations for its Phase I and Phase II projects. As BOI registered entity, PEDC is entitled to several incentives including an Income Tax Holiday (ITH) as a pioneer entity (for Phase I) for four years from March 26, 2011, the actual start date of commercial operations. PEDC has availed of a two-year ITH extension for the Phase I project until March 25, 2017. On the other hand, the Phase II project of PEDC is also entitled to ITH incentive as an expansion entity for 3 years from August 1, 2016 or on the actual start date of commercial operations, whichever is earlier, but in no case earlier than the date of registration. On January 26, 2017, supply contracts with the customers for Phase II project became effective.

PEDC entered into various EPPAs with ILECO-1, Iloilo II Electric Cooperative, Inc. (ILECO-2), Iloilo III Electric Cooperative, Inc. (ILECO-3), PECO, AKELCO, Capiz Electric Cooperative, Inc. (CAPELCO), Antique Electric Cooperative, Inc. (ANTECO), among others. These agreements

provide for, among others, the agreed minimum supply levels and electricity fees, denominated in Philippine peso, and payment of fees/penalty or liquidated damages in the event of termination of agreement under certain circumstances, and the recovery of any costs incurred as a result of change in circumstances including change in any laws or regulations of the Philippines, among others, from PEDC's customers.

Under the EPPAs, PEDC is committed to supply electricity during the 25-year cooperation period from commencement date, except for ILECO I whose cooperation date commenced on April 26, 2011.

In April 2016, PEDC through its expansion plant, entered into an EPPA with MERALCO for a period of 25 years commencing on January 26, 2017.

GBH Power Resources, Inc. (GPRI)
The Parent Company owns 100.00% interest in GPRI. GPRI is engaged in the business of generating electric power in areas not connected to the present Luzon Grid, Mindanao Grid and major Visayas Grid(s) of National Power Corporation (NPC). GPRI owns and operates a 7.5-megawatt (MW) bunker-C fired diesel generator power station located in Pinamalayan, Oriental Mindoro.

GPRI has an EPPA with Oriental Mindoro Electric Cooperative, Inc. (ORMECO) wherein GPRI commits to provide, and ORMECO commits to purchase, in each contract year, a minimum number of kilowatt-hours (kWh) of net electrical output for a cooperation period of 20 years. GPRI began the supply of electricity to ORMECO in 2000.

Global Formosa Power Holdings, Inc. (GFPHI)
GFPHI was incorporated on May 5, 2008, primarily to acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real and personal property and to do acts of being a holding company in power generation projects in the Philippines except to act as brokers/dealers in securities. As of December 31, 2017 and 2016, the Parent Company has 93.20% interest in GFPHI and 6.8% owned by Flat World Limited (Flatworld).

CEDC
CEDC is 56% owned by GFPHI and 44% owned by Abovant Holdings, Inc. (Abovant), primarily incorporated for the purpose of constructing three (3) units of 82 MW Circulating Fluidized Bed (CFB) coal-fired power plants situated within the Toledo Power Complex at Daanlungsod, Toledo City, Cebu.

The 3x82 MW clean coal-fired power plant of CEDC was initially registered under the name of the Parent Company with the BOI on a pioneer status under Executive Order No. 226 or the Omnibus Investments Code of 1987 on June 25, 2008. On February 18, 2009, BOI granted the request to transfer the registration from the Parent Company to CEDC. CEDC started commercial operations on February 26, 2011.

CEDC signed EPPAs with the Visayan Electric Company (VECO); Philippine Economic Zone Authority-Mactan Ecozone I (PEZA - MEZ); Mactan Electric Company, Inc. (MECO); Balamban Enerzone Corporation (BEZ); Cebu I Electric Cooperative, Inc. (CEBECO I); Cebu II Electric Cooperative, Inc. (CEBECO II) and Bohol Electric I Cooperative, Inc. (BOHECO I). CEDC also has an EPPA with Global Energy Supply Corporation (GESC) since June 14, 2013. All of its EPPAs provided contracted minimum energy off-take with fuel cost as pass-through cost to its customers.

GESC
The Parent Company owns 100.00% interest in GESC. GESC was issued a Retail Electricity Supplier (RES) license by the Energy Regulatory Commission (ERC) on September 12, 2011.

On March 11, 2013, GESC entered into a Market Participation Agreement (MPA) with the Philippine Electricity Market Corporation (PEMC) to participate in the retail market of the WESM as RES.

Beginning 2013, GESC entered into Retail Supply Contracts (RSC) with contestable customers for a period ranging from one to ten years. These agreements provide for the supply of electricity at an agreed price on a per kilowatt-hour basis to contestable customers.

In 2017 and 2016, GESC also entered into Distribution Wheeling Service agreements with various distribution utilities. These agreements provide distribution services on the conveyance of power through its distribution systems to the Company's contestable customers.

The GESC also entered into EPPAs with CEDC, TPC and PEDC which provide for the supply of electricity to the Company's contestable customers.

Mindanao Energy Development Corporation (MEDC) and Global Hydro Power Corporation (GHPC)
On December 28, 2012 and March 17, 2014, MEDC and GHPC, respectively, were incorporated primarily to carry on the general business of generating electric power. As of December 31, 2017 and 2016, MEDC and GHPC are still in pre-operating stage. MEDC and GHPC are 100% owned by the Parent Company.

Global Luzon Energy Development Corporation (GLEDC)
On January 31, 2013, GLEDC was incorporated to carry on the general business of generating electric power.

The Parent Company originally held 49% interest in GLEDC shares which was increased to 100% thru issuance of additional shares in July 31, 2015.

In November 2016, the Parent Company assigned its 100.00% ownership with GLEDC to Lunar Power Core, Inc. (LPCI).

In 2016, the Parent Company moved forward with the Luna Coal Plant Project. This project is for the construction of a 2x335-MW coal power plant in Luna, La Union through GLEDC and partners. The project is in the pre-development stage as of December 31, 2017.

LPCI
LPCI was incorporated on June 10, 2016 with the purpose of engaging in the business of power generation. The Parent Company owns 57.5% of the voting shares of LPCI while Vivant Integrated Generation Corporation (VIGC) owns 42.5% of the voting shares.

On November 22, 2016, the Board of Directors (BOD) approved to amend the primary purpose from power generation to a holding company. As of December 31, 2017, LPCI's application of change of primary purpose is yet to be filed with SEC.

Global Renewables Power Corporation (GRPC)
On April 8, 2014, GRPC was incorporated for the purpose of engaging in the business of power generation derived from renewable energy resources. GRPC owns 100.00% of CACI Power Corporation (CPC).

CPC
CPC was incorporated on June 8, 2016 with the purpose of generating power through renewable energy sources.

A summary of project agreements of TPC, PPC, GPRI, PEDC and CEDC (collectively referred to as "Operating Subsidiaries") with customers covering the construction and operation of power stations follows:

Name of Company	Power Station	Location	Customer	Cooperation Period
TPC	100 MW coal and industrial fuel oil	Toledo City, Cebu	BEZ	May 4, 2009 until terminated by TPC
			MERALCO	January 22, 2016 until February 25, 2017, unless terminated earlier
			Therma Visayas Incorporated	March 26, 2017 to March 25, 2018
	82 MW coal-fired CFB technology	Toledo City, Cebu	CEBECO III	February 26, 2015 to February 26, 2040
			CCC	12 years commencing on the commercial operations date
PPC	72 MW bunker fuel oil	La Paz, Iloilo City	PECO	March 26, 2011 to March 25, 2026
			MERALCO	January 22, 2016 to February 18, 2018
	20 MW industrial fuel oil	La Paz, Iloilo City	ILECO-I	2005 to 2025
	7.5 MW industrial fuel oil	Aklan	AKELCO	2005 to 2025
GPRI	7.5 MW bunker fuel oil	Pinamalayan Oriental Mindoro	ORMECO	20 years from start of cooperation period
PEDC	164 MW coal-fired CFB technology	Iloilo City	CAPELCO ILECO-1 ILECO-2 ILECO-3 PECO ANTECO AKELCO	25 years commencing on the commercial operation date
			Iloilo Provincial Capitol	5 years commencing on the commercial operation date
			Philippine Phosphate Fertilizer Corporation	5 years commencing on the commercial operation date
			Central Negros Electric Cooperative, Inc.	15 years contract until August 11 only

Name of Company	Power Station	Location	Customer	Cooperation Period
PEDC	150 MW coal-fired CFB technology	Iloilo City	ILECO-1 ILECO-2 ILECO-3 ANTECO AKELCO Guimaras Electric Cooperative, Inc.	25 years commencing on March 2015
			MERALCO	20 years commencing on April 26, 2016
CEDC	246 MW coal-fired CFB technology	Toledo City, Cebu	VECO	25 years commencing on the commercial operations date
			MECO	15 years commencing on the commercial operations date
			MEZ	10 years commencing on the commercial operations date
			BOHECO	15 years commencing on the commercial operations date
			BEZ	15 years commencing on the commercial operations date
			CEBECO I CEBECO II	15 years commencing on the commercial operations date

The Parent Company and its subsidiaries (collectively referred to as the Group) recognized Net Fees from commercial operations amounting to ₱23,589.33 million and ₱17,529.57 million, net of discounts of ₱188.91 million and ₱157.60 million for the years ended December 31, 2017 and 2016, respectively.

The registered office address of the Parent Company is 22F, GT Tower International, 6813 Ayala Avenue corner H.V. Dela Costa Street, Makati City.

Authorization for the Issuance of the Consolidated Financial Statements
The consolidated financial statements of the Group as of and for the years ended December 31, 2017 and 2016 were authorized for issue by the BOD on March 26, 2018.

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

Basis of Preparation
The consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale (AFS) investment which has been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's functional currency. All values are rounded to the nearest Philippine peso, except when otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and the following wholly and majority-owned domestic subsidiaries:

	Country of Domicile	Percent of Effective Ownership	
		2017	2016
ARB Power Ventures, Inc.	Philippines	**100.00**	100.00
CACI Power Corporation [1,4]	Philippines	**100.00**	100.00
GBH Power Resources, Inc.	Philippines	**100.00**	100.00
Global Energy Supply Corporation	Philippines	**100.00**	100.00
Global Hydro Power Corporation	Philippines	**100.00**	100.00
Global Renewables Power Corporation	Philippines	**100.00**	100.00
Mindanao Energy Development Corporation	Philippines	**100.00**	100.00
Global Trade Energy Resources Corporation (formerly: Toledo Cebu International Trading Resources Corp.) [1]	Philippines	**100.00**	100.00
Toledo Holdings Corporation	Philippines	**100.00**	100.00
Toledo Power Company [1]	Philippines	**100.00**	100.00
Global Formosa Power Holdings, Inc.	Philippines	**93.20**	93.20
Panay Power Holdings Corporation	Philippines	**89.30**	89.30
Panay Power Company [1]	Philippines	**89.30**	89.30
Panay Energy Development Corporation [1]	Philippines	**89.30**	89.30
Lunar Power Core, Inc. [2]	Philippines	**57.50**	57.50
Global Luzon Energy Development Corporation [1,3]	Philippines	**57.50**	57.50
Cebu Energy Development Corporation [1]	Philippines	**52.19**	52.19

[1] *Indirect ownership.*
[2] *LPCI became a subsidiary of the Parent Company in 2016.*
[3] *GLEDC became a subsidiary of the Parent Company in 2015 and was subsequently transferred to LPCI in 2016.*
[4] *CACI became a subsidiary of GRPC in 2016.*

The Group controls an investee if and only if the Group has all the following:

- 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.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and 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
- 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 Parent Company using consistent accounting policies.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Group and to the non-controlling interests (NCIs), even if this results in the NCIs 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.

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the NCIs are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company:

- Derecognizes the related assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any NCIs;
- Derecognizes the cumulative translation differences, recognized 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 Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

NCIs

NCIs represent the portion of profit or loss and net assets of subsidiaries not attributed, directly or indirectly, to the Parent Company.

NCIs are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the equity holders of the Parent Company.

Changes in Accounting Policies and Disclosures

The Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017.

- Amendment to PFRS 12, *Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in PFRS 12 (Part of Annual Improvements to PFRSs 2014-2016 Cycle)*

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

  Adoption of these amendments did not have any impact on the consolidated financial statements.

- Amendments to Philippine Accounting Standards (PAS) 7, *Statement of Cash Flows, Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Group has provided the required information in Note 24 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

- 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 deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  The amendments have no effect on the Group's financial position and comprehensive income as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

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

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

Effective beginning on or after 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 are not expected to have any significant impact on the Group since the Group has no share-based payment transactions.

- 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 providing 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 the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities.

  Based on the initial assessment, adoption of the standard is not expected to have material impact on the Group.

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

  Based on the initial assessment, adoption of the standard is not expected to have material impact on the Group.

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

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

  These amendments will have no impact on the consolidated financial statements.

- 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 have no significant impact on the Group's financial position or performance.

- 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. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity 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 have no significant impact on the Group's financial position or performance.

Effective beginning on or after January 1, 2019

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

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

  These amendments have no significant impact on the Group's financial position or performance.

- PFRS 16, *Leases*

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

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

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

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

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

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

  The interpretation specifically addresses the following:

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

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

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

Deferred effectivity

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

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

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

Summary of Significant Accounting Policies

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash in banks earn interest at floating rates based on daily bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of placement and that are subject to an insignificant risk of change in value.

Restricted Cash and Cash Equivalents
Restricted cash and cash equivalents represents cash in banks and cash equivalents earmarked for long-term debt principal and interest repayment maintained in compliance with loan agreements.

Short-Term Investment

Short-term investment includes placement deposits in banks and other financial institutions whose maturity exceeds 90 days from the date of placement. It earn interest at floating rates based on bank deposit rates.

Financial Instruments

Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group's financial assets are of the nature of loans and receivables and AFS investment while the Group's financial liabilities are of the nature of other financial liabilities.

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 classified as financial assets held for trading, designated as AFS investment or designated as of FVPL. This accounting policy relates to the Group's "Cash and cash equivalents", "Restricted cash and cash equivalents", "Short-term investments", "Receivables", "Long-term receivables" and security and special deposits under "Prepayments and other current assets" and special deposits under "Goodwill and other noncurrent assets" accounts.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in interest income under the "Finance costs - net" account in the consolidated statement of comprehensive income. The losses arising from impairment of loans and receivables are recognized in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on *Impairment of Financial Assets Carried at Amortized Cost*).

Loans and receivables are classified as current when they are expected to be realized within twelve months from the reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent.

AFS Investment

AFS investment is a non-derivative financial assets that are designated as AFS or are not classified as financial assets at FVPL, held-to-maturity (HTM) investments and loans and receivables.

After initial recognition, AFS investment is measured at fair value with gains or losses recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously included in equity are included in the consolidated statement of comprehensive income. Dividends on an AFS equity instrument are recognized in the consolidated statement of comprehensive income when the entity's right to receive payment is established.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis; and option pricing models.

The change in the fair value of the AFS investment is recorded as "Unrealized valuation gain on AFS investment" in the equity section of the consolidated statements of financial position.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder or to 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. Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. Deferred financing cost, including debt issue costs, represent the fees incurred to obtain project financing and are accounted for as deduction from the related debt. Deferred financing costs are amortized using the effective interest rate method over the terms of the related long-term loans. After initial measurement, other financial liabilities are measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

Other financial liabilities are presented as current when these are expected to be settled within twelve months from the reporting date or the Group does not have any unconditional right to defer settlement within twelve months from reporting date. Otherwise, these are classified as noncurrent.

This accounting policy applies primarily to the Group's "Accounts payable and accrued expenses", "Long-term debt", "Dividends payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group 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 Group and all of the counterparties.

Fair Value Measurement
Fair value is the estimated 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 best economic interest.

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.

The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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; and
- 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 reassessing 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.

“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 statements of comprehensive income. 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 statements of comprehensive 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.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial or group of financial assets is impaired. Objective evidence includes observable data that comes to the attention of the Group about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that borrower will enter bankruptcy or other financial reorganization.

Financial Assets Carried at Amortized Cost
For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 amount of any impairment loss identified 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statement of comprehensive income. Interest income included under "Other income" continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. Loans 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 year, the amount of the estimated impairment loss increases or decreases because of an even occurring after the impairment was recognized, the previously recognized impairment loss is increase or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the parent company profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Investment
For AFS investment, the Group assesses at each reporting date whether there is objective evidence that an AFS investment is impaired.

In the case of an AFS equity investment, this would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is to be evaluated against cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. If an AFS investment is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in net income, is transferred from other comprehensive income to income in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

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:

1. the rights to receive cash flows from the asset have expired;
2. 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
3. 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.

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

Inventories
Inventories, which consist of coal, industrial fuel, lubricating oil and spare parts and supplies are stated at the lower of cost and net realizable value (NRV). Cost is determined using the weighted average method. NRV is the current replacement cost. In determining the NRV, the Group considers any adjustment necessary for obsolescence.

Advances to Suppliers and Contractors
Advances to suppliers and contractors represent payments to suppliers for various construction projects. These payments are applied to future billing. These are carried at cost.

Investment in an Associate
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. The Group's investment in an associate is accounted for under the equity method at the consolidated level.

Under the equity method, the investment in associate 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 since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

The Group's share of the results of operations of the associate is reflected in profit or loss in the consolidated statement of comprehensive income.

The financial statements of the associate 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. At each reporting date, the Group determines whether there is objective evidence that the investment in an associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognize the loss in profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate 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.

The Group has equity interest in the following associate as of December 31, 2017:

	Country of Domicile	Percentage of Ownership
Alsons Thermal Energy Corp. (ATEC)	Philippines	50% less one share

Business Combinations 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 NCIs in the acquiree. For each business combination, the Group elects whether to measure the NCIs in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred 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 of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of Philippine Accounting Standards (PAS) 39, *Financial Instruments*: *Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to OCI. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for NCIs) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of the net assets acquired over the aggregate consideration transferred, then the gain is recognized 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 is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Other Assets

Value-Added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of services (output VAT) exceeds VAT passed on from purchase of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of

services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

Creditable Withholding Taxes (CWTs)
CWTs, included in “Prepayments and other current assets” account in the consolidated statements of financial position, represent amounts withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source to the rules on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve months are classified as current assets.

Computer Software and Licenses
Computer software and licenses pertain to software that were purchased, and are initially recognized at cost. Following initial recognition, computer software and licenses are carried at cost less accumulated amortization and any accumulated impairment in value.

The software cost is amortized on a straight-line basis over its estimated useful life of five years, and assessed for impairment whenever there is an indication that the asset may be impaired. The amortization commences when the computer software and licenses are available for use. The amortization period and method for the computer software and licenses are reviewed at each financial year-end. Changes in the estimated useful life is accounted for by changing the amortization period, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized as part of “Depreciation and amortization” in the consolidated statements of comprehensive income.

Noncurrent Assets Held for Sale
The Group classifies noncurrent assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Noncurrent assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Property, Plant and Equipment
Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and accumulated impairment losses, if any. Such cost includes the present value expected for the decommissioning of the power plant at the end of its useful life and capitalized borrowing costs incurred in connection with the construction of the power plant. Capitalization of borrowing costs as part of the cost of property, plant and equipment ceases upon completion of the construction of the power plant.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, non-refundable 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 part of such property, plant and equipment when that cost is incurred if the recognition criteria are met.

Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged to income in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property, plant and equipment.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets or the term of the lease, whichever is shorter, as in the case of leasehold improvements. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The power plant complex components and other property and equipment and their related estimated useful lives are as follows:

Category	Number of Years
Boilers and Powerhouse	3 to 25
Buildings and Land Improvements	5 to 25
Turbine Generators and Desox System	3 to 25
Electrical Distribution System	3 to 25
Other Property and Equipment	3 to 5

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. When assets are retired or otherwise disposed of, both the cost and the related accumulated depreciation and amortization any allowance for impairment losses are removed from the accounts. 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 comprehensive income in the year the asset is derecognized. Impairment or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately.

Construction in progress is stated at cost. This includes the purchase price of the components, cost of testing and other directly attributable cost of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Land is measured at cost less accumulated impairment losses.

The initial cost of the land consists of its purchase price, including taxes and any directly attributable costs of acquiring the land. Expenditures incurred after the land has been used in operations are normally charged to income in the period the costs are incurred.

Land is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of comprehensive income and any revaluation reserve is transferred to equity.

Fully depreciated property, plant and equipment are retained in the accounts until these are no longer in use.

Advances to contractors are recognized as property, plant and equipment when the construction contract specifically provides for advance payments or purchase commitments related to the acquisition or construction of property, plant and equipment. Advances to contractors are stated at cost.

Borrowing Costs
Borrowing costs generally are expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized. These borrowing costs are included in the cost of the asset; all other borrowing costs are recognized as expense in the period these are incurred. In determining which borrowing costs satisfy the "directly attributable" criterion, the Group starts from the premise that directly attributable borrowing costs are those which would have been avoided if the expenditure on the qualifying asset had not been made.

Capitalization of borrowing costs commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. Investment income on the temporary investment of the Group's borrowings is deducted from borrowing costs, and only the net amount is capitalized.

Capitalized borrowing costs also include amortized deferred financing cost. This refers to transaction costs incurred in connection with the availment of loans specifically used to finance the on-going construction of power plants. The Group ceases capitalization of borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Impairment of Nonfinancial Assets
Property, plant and equipment and other nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its estimated recoverable amount, the asset or cash-generating unit (CGU) is written down to its recoverable amount. The estimated recoverable amount is the higher of fair value less costs to sell and value in use. The fair value less costs to sell is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, less incremental costs for disposing of the asset, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. 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 non-financial asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized for that asset in prior years. This accounting policy applies primarily to the Group's property, plant and equipment, CWTs and input VAT.

Additional considerations for other nonfinancial assets are discussed below:

Computer Software and Licenses
Where an indication of impairment exists, the carrying amount of computer software and licenses with a finite useful life is assessed and written down immediately to its recoverable amount.

Goodwill
Goodwill is tested for impairment annually as of December 31 and when circumstances indicate that the carrying value may be impaired.
Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group

of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Retirement Benefit Obligation
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 consolidated statements of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

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 high quality corporate 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 statements of comprehensive 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 profit or loss in subsequent periods. These are retained in other comprehensive income until full settlement of the obligation.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. 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.

Payments to the plan are recognized as expenses when employees have rendered service entitling them to the contributions.

Provisions
Provisions are recognized when the Group 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. If the effect of the time value of money is material, provisions are made 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 accretion expense.

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of comprehensive income, net of any reimbursement.

Decommissioning Liability
The decommissioning liability arising from PPC, TPC, GPRI, PEDC and CEDC's obligations, under their Environmental Compliance Certificate, to decommission or dismantle their power plant complex at the end of its useful life. 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 decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of comprehensive income as an accretion of decommissioning liability under the "Finance costs - net" account. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the power plant complex, the excess shall be recognized immediately in the consolidated statements of comprehensive income.

Provision for Other Liabilities
The Group recognizes provision for other liabilities with uncertain amount or timing of actual disbursement. These include regulatory fees and other charges which payment is probable and the amount can be estimated reliably as of the reporting date. The management reassesses its estimates on an annual basis to determine the reasonableness of provision.

Advances from Stockholder
Advances from stockholder pertains to deposits for future stock subscription which is the amount of money or property received with the purpose of applying the same as payment for future issuance of shares of stocks. This is shown as part of the equity section in the statements of financial position if and only if all of the following are present as of reporting date: (1) that the unissued authorized capital stock of the Group is insufficient to cover the amount of shares indicated in the contract; (2) that there is BOD's and stockholders' approval on the proposed increase in authorized capital stock (for which a deposit was received by the Group); and, (3) that the application for the approval of the proposed increase has been filed with the SEC. Otherwise, such deposit is presented as a liability in the consolidated statement of financial position.

Capital Stock
The Parent Company has issued common stock that is classified as equity.

Additional Paid-in Capital
Amount of contribution in excess of par value is accounted for as an additional paid-in capital. Additional paid-in capital also arises from additional capital contribution from shareholders.

Retained Earnings
The amount included in retained earnings includes profit or loss attributable to the equity holders of the Parent and reduced by dividend on common stock. Dividends on common stock are recognized as a liability and deducted from equity when they are declared. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

Retained earnings may also include the effect of changes in accounting policy as may be required by relevant transitional provisions.

Foreign Currency-Denominated Transactions
Transactions in foreign currencies are initially recorded in Philippine peso using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency using the rate of exchange prevailing at the reporting date. Foreign exchange differences between rate at transaction date and settlement date or reporting date are credited to or charged against current operations. Nonmonetary assets that are measured in terms of historical costs in foreign currency are translated using the exchange rate at the date of initial transactions.

Related Party Transactions
Transactions with related parties are accounted for based on the nature and substance of the agreement, and financial effects are included in the appropriate asset, liabilities, income and expense accounts.

Leases
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, even if that right is not explicitly specified in an arrangement.

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 that 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).

Operating Leases - Group as a Lessee
Leases in which the lessor does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of comprehensive income on a straight-line basis over the lease term. Prepaid rent is recognized as an asset until such time that the lease is incurred and the related expense is recognized.

Operating Lease - Group as a Lessor
Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Lease payments received are recognized in the consolidated statement of comprehensive income as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, taxes or duty, taking into account contractually defined terms of payment.

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

Net Fees
Net fees consist of energy fees for the energy and services supplied by the operating companies as provided for in their respective EPPAs with customers, after transmission and ancillary charges. Energy fee is recognized based on actual delivery of energy generated and made available to customers multiplied by the applicable tariff rate, net of adjustments, as agreed upon between the parties. These adjustments consist of discounts which depend on the provisions in the respective EPPAs. Discounts may pertain to prompt payment discount which is given upon payment within a specified period of time, volume discount which is computed based on the delivery of energy generated and made available to the customers multiplied by a specific rate agreed with the customer, or load factor discount computed based on the difference of the adjusted tariff rate agreed with the customer for the purpose of the discount. Energy fees derived from trading operations and recognized based on actual delivery of such electricity at relevant trading prices.

Coal Sales
Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of consideration received based on actual quantity of coal delivered.

Service Fees
Service fees pertain to fees charged to customers for coal trading services. Service fee is recognized upon rendering of services.

Efficiency Gain
As part of the ECA with CCC, the latter provides coal inventory to TPC for use in the production of the energy requirements of CCC. Excess coal provided by CCC based on the ECA over the actual consumption is recognized as gain.

Interest Income
Interest income from bank deposits, short-term investments and company granted loans is recognized as it accrues using the effective interest rate method. Interest income is included in “Finance costs - net” in the consolidated statement of comprehensive income.

Dividend Income
Dividend income is recognized when the Group’s right to receive the payment is established.

Other Income
Other income is recognized for all revenues earned and received other than those relating to power generation. It includes mainly recovery from insurance, management fees and sales of sludge oil and scrap. Income from recovery from insurance is recognized when the amount of recovery is virtually certain to be received. Sale of sludge oil and scrap is recognized when sold.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are generally recognized when the services are used or the expenses arise.

Power Plant Operations and Maintenance Costs
Cost of power plant operations and maintenance costs consist mainly of coal and fuel costs, purchased power and repairs and maintenance. These are generally expensed when the goods and services are used or the expenses are incurred.

General and Administrative Expenses
General and administrative expenses consist mainly of depreciation and amortization, personnel costs, outside services, regulatory fees, taxes and licenses and other administrative expenses. These are incurred in the normal course of business and are generally recognized when the services are used or as the expenses arise.

Interest Expenses
Interest expenses are accrued in the appropriate period.

Others
Others consist mainly of training and seminar costs and other employee related expenses, subscriptions and advertising, and other miscellaneous general expenses related to the Group's primary operations.

Income Taxes
Current Income Tax
Current tax liabilities for the current and prior year periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as of reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, unused net operating loss carryover (NOLCO) and carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused NOLCO and carryforward of unused tax credits from excess MCIT can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting 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 tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each

reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax relating to items recognized directly in equity is recognized in equity and as other comprehensive income in the consolidated statements of comprehensive income and not as part of net income.

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

3. Significant Accounting Judgments and Estimates

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. The judgments and estimates used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. Actual results could differ from such estimates.

Judgments and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

Operating Lease Commitments - Group as a Lessor and Lessee
The Group has entered into various lease agreement as a lessor and lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of the leased premises since these properties will revert to the lessor upon termination of the lease.

Determining Whether an Arrangement Contains a Lease and Proper Classification of the Lease
GPRI's EPPA with ORMECO qualifies as a lease on the basis that GPRI sells all its output to ORMECO. This agreement calls for a take-or-pay arrangement or capacity fee payments where payment is made on the basis of the availability of electricity and not on actual deliveries. The lease arrangement is determined to be an operating lease where a significant portion of the risks and rewards of ownership are retained by the Group. Accordingly, the power plant asset is recorded as part of the cost of property, plant and equipment and the capacity payments billed to ORMECO are recognized as net fees in the consolidated statements of comprehensive income over the life of the power plant.

Determination of Significant Influence Over an Investee Company
Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Management has determined that by virtue of its ownership in ATEC as of December 31, 2017 and 2016, the Group has the ability to exercise significant influence over the associate (see Note 10).

Determining NCI that is Material to the Group
The Group determines whether a subsidiary has a material non-controlling interest based on the profit or loss or other comprehensive income of the subsidiary attributable to the non-controlling interest to the Group's profit or loss or other comprehensive income for the reporting period, respectively, and

the carrying amount of the non-controlling interest attributable to the subsidiary relative to the net equity of the Group, among others. Based on management's assessment, it has determined that the NCI in CEDC and PPHC are material to the Group. Information about these subsidiaries with material NCI are disclosed in Note 9.

Recognizing Provisions for Other Liabilities
The Group determines whether it is necessary to recognize a provision arising from any probable legal or contractual obligations. Management exercises judgment in determining that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the provisions are based on the probable costs for the resolution or settlement of probable claims of regulators. On the basis of the evaluation, management determines that provisions are recognized in accordance with the criteria of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Estimates
Estimating Fair Value of Financial Instruments
The Group carries certain financial assets and liabilities at fair value, which requires the use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of change in fair value would differ if the Group utilized a different valuation methodology. Any changes in the fair value of these financial assets and liabilities would affect the consolidated statements of comprehensive income and consolidated statements of changes in equity.

Where the fair value of certain financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. 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. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives, if applicable.

The fair values of the Group's financial instruments are presented in Note 23 to the consolidated financial statements.

Estimating Impairment of Receivables, Long-Term Receivables, and Security and Special Deposits
The Group reviews its receivables, long-term receivables and security and special deposits at each reporting date to assess whether an allowance for impairment losses using a combination of specific and collective assessments should be recorded in the consolidated statements of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The aggregate amount of receivables, net of unamortized discounts and security and special deposits amounted to ₱4,994.54 million and ₱4,209.89 million as of December 31, 2017 and 2016, respectively (see Notes 5, 7, 8, 13 and 20). As of December 31, 2017 and 2016, provision for impairment losses recognized for receivables, long-term receivables, notes receivable and security and special deposits amounted to an aggregate of ₱330.12 million and ₱296.34 million, respectively (see Notes 5, 7, and 8).

Estimating NRV of Inventories
The Group provides an allowance for inventory losses whenever utility of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes (i.e., pre-termination of contracts). The allowance account is reviewed regularly to reflect the

accurate valuation in the financial records.

The Group recognized provision for inventory losses amounting to ₱10.94 million and ₱9.82 million as of December 31, 2017 and 2016, respectively. Inventories, at lower of cost and NRV and net of allowance for inventory losses, amounted to ₱2,513.70 million and ₱1,781.71 million as of December 31, 2017 and 2016, respectively (see Note 6).

Estimating Useful Lives of Property, Plant and Equipment
The Group estimates the useful life of significant parts of property, plant and equipment is based on the period over which the assets are expected to be available for use. The estimated useful life of property, plant and equipment is reviewed periodically and is 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 Group's estimation of the useful life of property, plant and equipment is based on collective assessment of industry practice, 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 factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As of December 31, 2017 and 2016, the net book value of property, plant and equipment amounted to ₱48,936.96 million and ₱49,641.29 million, respectively (see Note 12).

Estimating Impairment of Property, Plant and Equipment, Input VAT, CWTs and Computer Software and Licenses
The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

For input VAT, the Group considers the status of the claims for refund or conversion to tax credit certificate with the CTA and the extent of estimated output VAT against which the input VAT may be applied in assessing impairment of input VAT.

Impairment loss related to input VAT amounting to ₱81.44 million and ₱98.91 million was recognized as of December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the aggregate net book values of nonfinancial assets, which include property, plant and equipment, input VAT (net of allowance for impairment losses), CWTs and creditable withholding VAT amounted to ₱50,450.26 million and ₱51,420.03 million, respectively (see Notes 7, 12 and 13).

Estimating Impairment of Goodwill
The Group performs impairment review on goodwill, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the CGU to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and to make use of a suitable discount rate to calculate the present value of those future cash flows. Impairment loss on goodwill amounting to ₱87.02 million and ₱47.33 million was recognized in 2017 and 2016, respectively. The carrying value of goodwill amounted to ₱641.26 million and ₱728.29 million as of December 31, 2017 and 2016, respectively (see Note 13).

Estimating Decommissioning Liability
The Group has a legal obligation to decommission or dismantle its power plant assets at the end of their useful lives. The Group recognizes the present value of the obligation to dismantle the power plant assets and capitalizes the present value of this cost 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 assets.

Cost estimates expressed at current price levels at the date of the estimate are discounted using a rate of interest ranging from 1.99% to 3.71% in 2017 and 1.36% to 3.30% in 2016 to take into account the timing of payments. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with charges being recognized as accretion expense, included under "Finance costs - net" in the consolidated statements of comprehensive income. Changes in the decommissioning liability that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in the consolidated statement of comprehensive 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.

Decommissioning liability amounted to ₱536.15 million and ₱347.59 million as of December 31, 2017 and 2016, respectively (see Note 16).

Determining Retirement Benefit Obligation
The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. These assumptions are described in Note 18 to the consolidated financial statements.

Retirement benefit expense amounted to ₱128.64 million and ₱118.93 million in 2017 and 2016, respectively. Net retirement benefit obligation amounted to ₱886.91 million and ₱703.78 million as of December 31, 2017 and 2016, respectively (see Note 18).

Estimating Provision for Other Liabilities
The provision for other liabilities is established based on the Group's best estimate of the amount necessary to settle future or existing obligations arising from different interpretation of laws, management incentives and other charges. As the status of the issues may change and depending on the Group's performance, changes in these estimates could result to a change in the amount of provision. Provision for other liabilities amounted to ₱1,324.74 million and ₱844.72 million as of December 31, 2017 and 2016, respectively (see Note 16).

Estimating Realizability of Deferred Tax Assets
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available in the future to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on forecasted taxable income. This forecast is based on the Group's past results and future expectations on revenues and expenses.

The Group has deferred tax assets amounting to ₱785.12 million and ₱778.27 million as of December 31, 2017 and 2016, respectively (see Note 21). Temporary differences for which deferred tax assets are not recognized are disclosed in Note 21 to the consolidated financial statements.

4. Cash and Cash Equivalents, Restricted Cash and Cash Equivalents and Short-term Investments

Cash and Cash Equivalents

	2017	2016
Cash on hand and in banks	**₱1,017,442,519**	₱2,238,706,980
Cash equivalents	**12,396,654,511**	11,967,785,974
	₱13,414,097,030	₱14,206,492,954

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits earn interest at the short-term deposit rates and are made for varying periods of up to three months depending on the immediate cash requirements of the Group.

Restricted Cash and Cash Equivalents. Restricted cash and cash equivalents amounting to ₱1,366.84 million and ₱1,623.85 million as at December 31, 2017 and 2016, respectively, which are deposited in banks and invested in money market placements, pertain to debt service accounts (DSAs) representing amounts set aside for quarterly principal and interest payments of certain long-term debt. These DSAs are maintained and replenished in accordance with the provisions of loan agreements (see Note 15).

Short-term Investments. Short-term investments or time deposits in banks and financial institutions maturing after three months are classified as "Short-term investments" in the consolidated statements of financial position.

Total interest income earned on cash and cash equivalents, restricted cash and cash equivalents and short-term investments amounted to ₱164.28 million and ₱134.26 million for the years ended December 31, 2017 and 2016, respectively (see Note 19).

5. Receivables

	2017	2016
Trade – net of unamortized discount of ₱6.74 million and ₱17.83 million in 2017 and 2016, respectively	**₱4,691,781,347**	₱3,815,987,416
Others	**231,640,226**	347,361,546
	4,923,421,573	4,163,348,962
Less noncurrent portion of trade receivables	**82,887,298**	201,803,398
	4,840,534,275	3,961,545,564
Less allowance for impairment losses	**330,120,775**	296,338,941
	₱4,510,413,500	₱3,665,206,623

Trade receivables represent outstanding billings for energy fees and pass-through fuel costs arising from the delivery of electricity to customers and energy sales to the WESM. The Group's normal credit term is 15 to 30 days from the date of receipt of billing.

The uncollected output VAT portion of trade receivables as of December 31, 2017 and 2016 amounted to ₱1,391.44 million and ₱1,351.12 million, respectively (see Note 14).

The Group provided allowance on its receivable from bilateral customers amounting to ₱33.78 million and ₱31.75 million in 2017 and 2016, respectively.

Allowance for impairment losses pertain to trade and other receivables which are specifically identified as impaired.

Movements in allowance for impairment losses in 2017 and 2016 are as follows:

	2017	2016
Balances at beginning of year	**₱296,338,941**	₱264,587,344
Provision	**33,781,834**	31,751,597
Balances at end of year	**₱330,120,775**	₱296,338,941

6. Inventories

	2017	2016
Spare parts and supplies	**₱1,375,133,159**	₱1,170,553,898
Coal (see Note 24i)	**1,038,490,005**	543,585,840
Industrial fuel and lubricating oil	**111,019,568**	77,393,381
	2,524,642,732	1,791,533,119
Less allowance for inventory obsolescence	**10,944,836**	9,819,141
	₱2,513,697,896	₱1,781,713,978

Inventories charged to current operations amounted to ₱9,155.25 million and ₱5,426.44 million in 2017 and 2016, respectively.

In July 2012, CCC started to supply the coal inventories of TPC in accordance with the Energy Conversion Option as stated in the ECA between TPC and CCC (see Note 1). The Group recognized efficiency gains or losses from the ECA pertaining to the difference between the actual and agreed efficiency rate. The Group recognized gain amounting to ₱66.54 million and losses amounting to ₱7.70 million in 2017 and 2016, respectively (see Note 19).

Allowance for inventory obsolescence recognized as of December 31, 2017 and 2016 pertains to spare parts and supplies that the Group believes to be obsolete and non-moving.

7. Prepayments and Other Current Assets

	2017	2016
Input VAT (see Note 13)	**₱1,174,271,044**	₱1,444,208,195
CWTs and creditable withholding VAT	**94,408,851**	103,392,798
Prepaid insurance	**51,580,253**	60,378,684
Security deposits	**66,022,048**	29,117,547
Others	**36,457,367**	31,853,422
	₱1,422,739,563	₱1,668,950,646

Unutilized input VAT pertains mainly to VAT imposed on the Group's purchases of goods and services during the construction phase and commercial operations of the power plants. These are expected to be offset against output VAT arising from the Group's net fees subject to VAT in the future. As of December 31, 2017 and 2016, input VAT amounting to ₱326.07 million and ₱330.04 million, respectively, is classified under noncurrent assets (see Note 13).

Prepaid insurance pertains to unamortized premiums for property insurance. Effective 2016, The Group has changed its annual period coverage for all plants from the original period of August-July to May-April.

Security deposit mainly includes bill deposits for retail energy sales, rental deposits for the office unit and revolving deposits for medical expenses incurred by employees and paid by health maintenance organizations, among others.

Others consist mainly of prepaid rent and other prepaid expenses.

8. Long-Term Receivables

2017

	Noncurrent	Current	Total
PECO - noncurrent portion net of unamortized discount of ₱6.74 million	**₱82,887,298**	**₱120,657,073**	**₱203,544,371**

2016

	Noncurrent	Current	Total
Long-term trade receivables:			
PECO - noncurrent portion net of unamortized discount of ₱17.47 million	₱197,270,253	₱116,538,768	₱313,809,021
CEBECO III - noncurrent portion net of unamortized discount of ₱0.36 million	4,533,145	24,094,649	28,627,794
ILECO-2	–	2,903,365	2,903,365
	201,803,398	143,536,782	345,340,180
Long-term notes receivable (see Note 24n)	–	20,043,334	20,043,334
	₱201,803,398	₱163,580,116	₱365,383,514

PECO
On August 22, 2011, ERC approved, with modification, the EPPA between PEDC and PECO. Pursuant to the requirements of the ERC, PEDC submitted on October 28, 2011 the amount of under-recoveries and the collection scheme for PECO. The amount of under-recoveries from March 26, 2011 to August 10, 2011 computed by PEDC and PECO amounted to ₱617.27 million. The whole amount was recognized as revenue in 2011.

As of December 31, 2017 and 2016, the long-term portion of the related receivable amounting to ₱82.89 million and ₱197.27 million, respectively, was recorded at amortized cost, net of discount of ₱6.74 million and ₱17.47 million in 2017 and 2016, respectively. As of December 31, 2017 and 2016, the current portion of the related receivable amounted to ₱120.66 million and ₱116.20 million, respectively (see Note 5).

ILECO-1
On November 10, 2009, PPC and ILECO-1 entered into a settlement agreement by allocating ₱0.10/kWh of the electricity bills to consumers as payment to PPC. The allocation will be increased by ₱0.05/kWh every year until the receivable is fully paid. ILECO-1 shall make monthly payments depending on the total number of kilowatt hours sold to its consumers.

VECO and CEBECO III
In February 2009, TPC filed two applications, each jointly with VECO and CEBECO III, with the ERC for the approval of their agreements on interim rates.

On August 10, 2009, the ERC approved with modification the agreements on the interim rate with VECO and CEBECO III, subject to the following conditions: (1) capacity fee, fixed and variable operation and maintenance fees will be computed at ₱0.3832, ₱0.4546 and ₱0.1652 per kilowatt hour delivered, respectively; and (2) actual fuel cost shall be a pass-on cost, subject to a fuel consumption rate of 1kg/kWh or actual, whichever is lower. The interim rates are effective starting August 26, 2009 until TPC, VECO and CEBECO III are able to file an application or petition for the approval of a new independent tariff rate.

Pursuant to the requirements of the ERC, on October 8, 2009, TPC submitted to the ERC the amount of under-recoveries and its proposed collection scheme, both for VECO and CEBECO III. Total under-recoveries computed by TPC amounted to ₱256.81 million and ₱240.46 million for VECO and CEBECO III, respectively. On ERC's order dated December 14, 2009, the ERC directed VECO and CEBECO III to refund to TPC the amount of ₱187.53 million (within 4 years) and ₱179.25 million (within eight years), respectively, from the date of receipt of the decision. The ERC also authorized VECO and CEBECO III to collect from their consumers the same amount within the same period.

Long-term Notes Receivable
Long-term notes receivable pertain to the Group's loan to PECO as assistance to build a sub-transmission line, payable in equal monthly installments within five years commencing on the sixth month after the date of the last release of the loan balance subject to the interest rate of 9% per annum. In 2017 and 2016, collections from financial assistance to PECO amounted to ₱16.33 million and ₱28.00 million, respectively. As of December 31, 2017 and 2016, the balance of notes receivable amounted to ₱3.71 million and ₱20.04 million, respectively and presented as "Other receivable" (see Note 5).

9. Material Partly-Owned Subsidiaries

The financial information of subsidiaries that have material NCIs is provided below:

Carrying value of material NCIs as of December 31:

	2017	2016
CEDC	**₱3,019,191,652**	₱3,070,016,416
PPHC	**1,629,366,417**	1,545,686,219

Net income (loss) for the period allocated to material NCIs is as follows:

	2017	2016
CEDC	**₱742,253,840**	₱1,120,389,100
PPHC	**166,237,826**	158,872,248

Dividends declared allocated to material NCIs are as follows:

	2017	2016
CEDC	**₱792,000,000**	₱748,000,000
PPHC	**80,250,000**	149,800,000

The summarized financial information (before intercompany eliminations) of the subsidiaries which are not wholly-owned as of and for the years ended December 31, 2017 and 2016 are as follows:

2017	**CEDC** *(in millions)*	**PPHC** *(in millions)*
Statement of Financial Position		
Current assets	**₱5,708**	**₱761**
Non-current assets	**13,968**	**14,357**
Current liabilities	**4,094**	**750**
Non-current liabilities	**8,720**	**–**
Statement of Comprehensive Income		
Revenues	**8,752**	**750**
Expenses	**6,356**	**1**
Net income	**1,687**	**749**
Total comprehensive income	**1,684**	**749**
Statement of Cash Flows		
Net cash from (used in) operating activities	**₱2,815**	**(₱1)**
Net cash from (used in) investing activities	**(162)**	**1,400**
Net cash from (used in) financing activities	**(2,907)**	**(1,400)**

2016	CEDC *(in millions)*	PPHC *(in millions)*
Statement of Financial Position		
Current assets	₱5,663	₱1,412
Non-current assets	14,905	14,357
Current liabilities	3,840	1,400
Non-current liabilities	9,751	–
Statement of Comprehensive Income		
Revenues	7,966	1,400
Expenses	5,419	2
Net income	2,546	1,398
Total comprehensive income	2,554	1,398
Statement of Cash Flows		
Net cash from (used in) operating activities	3,232	(2)
Net cash from (used in) investing activities	(263)	1,400
Net cash from (used in) financing activities	2,681	(1,400)

10. Investment in and Advances to Associate

On November 27, 2017, the Group completed the acquisition of a 50%-less-one share stake in ATEC, the holding company for Alsons Consolidated Resources, Inc's (ACR) baseload coal-fired power plant assets for a total consideration of ₱4.30 billion allocated as follows:

(i) ₱2.40 billion for the common shares and
(ii) ₱1.90 billion for the assignment of certain advances of ACR to ATEC.

ATEC has stake in the following companies: (i) 75% in Sarangani Energy Corporation which owns a 105 MW baseload coal-fired plant already in operation and another 105 MW under construction, in Maasim, Sarangani Province; (ii) 100% in San Ramon Power, Inc. which is developing a 105 MW baseload coal-fired plant in Zamboanga City; and (iii) 100% in ACES Technical Services Corporation.

ATEC is a private entity that is not listed on any public exchange. The carrying amount of the Group's investment in ATEC as of December 31, 2017 is as follows:

	2017
Total cost of investment	₱2,403,662,029
Share in equity income (see Note 19)	14,466,929
Carrying value of investment	2,418,128,958
Advances to ATEC	1,879,463,723
	₱4,297,592,681

The table below shows the summarized financial information of the Group's investment in ATEC.

	2017 (in millions)
Current assets	₱2,357.22
Non-current assets	20,555.30
Current liabilities	5,450.61
Non-current liabilities	11,057.00
Equity	6,404.91
Gross revenue	4,190.16
Operating profit	483.49
Net income	447.05

11. **AFS Investment**

AFS investment represents investment in listed shares measured at fair value. The said investment has an original cost of ₱150.00 million. In 2014, the Group acquired additional 100 shares at ₱13.90 per share.

The fair value changes of the investments are recorded under "Unrealized valuation gain on AFS investment", a separate component of "Equity" in the consolidated statements of financial position.

Movements in the carrying value of AFS investment are as follows:

	2017	2016
Balances at beginning of year	**₱3,671,506,220**	₱2,622,504,443
Changes in fair value	**(984,896,113)**	1,049,001,777
Balances at end of year	**₱2,686,610,107**	₱3,671,506,220

Movements in the unrealized valuation gains on AFS investment are as follows:

	2017	2016
Balances at beginning of year	**₱3,521,503,830**	₱2,472,502,053
Fair value changes on AFS investment shown in other comprehensive income	**(984,896,113)**	1,049,001,777
Balances at end of year	**₱2,536,607,717**	₱3,521,503,830

The Group recognized dividend income from AFS investment amounting to ₱32.54 million and ₱30.51 million for the years ended December 31, 2017 and 2016, respectively and were collected in 2017 and 2016, respectively (Note 19).

12. **Property, Plant and Equipment**

2017

	Land	Boilers and Powerhouse	Buildings and Land Improvements	Electrical Distribution System	Turbine Generators and Desox System	Other Property and Equipment	Construction-in-Progress	Advances to Contractors and Suppliers	Total
Cost:									
Balances at beginning of year	**₱790,864,615**	**₱36,042,522,296**	**₱3,935,373,692**	**₱3,014,602,972**	**₱2,052,533,140**	**₱6,777,501,860**	**₱11,828,352,567**	**₱118,504,690**	**₱64,560,255,832**
Additions	**–**	**124,304,890**	**74,995**	**17,890,357**	**–**	**150,343,099**	**1,104,588,789**	**255,015,286**	**1,652,217,416**
Disposals and retirement (see Note 13)	**–**	**–**	**–**	**–**	**–**	**(13,270,526)**	**–**	**–**	**(13,270,526)**
Adjustment and reclassifications	**–**	**13,775,307**	**37,759,332**	**2,767,947,560**	**–**	**(3,036,227,619)**	**(1,093,723)**	**–**	**(217,839,143)**
Transfers	**–**	**1,733,631**	**189,254,415**	**36,413,420**	**–**	**65,631,431**	**(229,834,421)**	**(63,198,476)**	**–**
Balances at end of year	**790,864,615**	**36,182,336,124**	**4,162,462,434**	**5,836,854,309**	**2,052,533,140**	**3,943,978,245**	**12,702,013,212**	**310,321,500**	**65,981,363,579**
Accumulated depreciation, amortization and impairment loss:									
Balances at beginning of year	**19,904,390**	**11,202,732,882**	**1,060,639,558**	**730,287,695**	**442,029,446**	**1,463,367,383**	**–**	**–**	**14,918,961,354**
Depreciation and amortization	**–**	**1,507,730,724**	**168,702,429**	**241,167,104**	**88,864,973**	**278,276,490**	**–**	**–**	**2,284,741,720**
Adjustment and reclassifications (see Note 13)	**–**	**(92,292,104)**	**(685,440)**	**469,211,793**	**257**	**(522,840,459)**	**–**	**–**	**(146,605,953)**
Disposals and retirement	**–**	**–**	**–**	**–**	**–**	**(12,691,029)**	**–**	**–**	**(12,691,029)**
Balances at end of year	**19,904,390**	**12,618,171,502**	**1,228,656,547**	**1,440,666,592**	**530,894,676**	**1,206,112,385**	**–**	**–**	**17,044,406,092**
Net book values	**₱770,960,225**	**₱23,564,164,622**	**₱2,933,805,887**	**₱4,396,187,717**	**₱1,521,638,464**	**₱2,737,865,860**	**₱12,702,013,212**	**₱310,321,500**	**₱48,936,957,487**

2016

	Land	Boilers and Powerhouse	Buildings and Land Improvements	Electrical Distribution System	Turbine Generators and Desox System	Other Property and Equipment	Construction-in-Progress	Advances to Contractors and Suppliers	Total
Cost:									
Balances at beginning of year	₱790,864,615	₱35,444,435,631	₱3,861,357,960	₱2,998,412,475	₱2,392,912,447	₱6,669,538,148	₱8,477,487,246	₱457,878,871	₱61,092,887,393
Additions	–	16,469,585	25,560,023	–	–	148,216,304	3,540,832,396	57,973,300	3,789,051,608
Disposals and retirement (see Note 13)	–	–	–	–	(344,083,473)	(21,750,762)	–	–	(365,834,235)
Adjustment and reclassifications	–	78,084,769	–	–	1,775,267	(35,708,970)	–	–	44,151,066
Transfers	–	503,532,311	48,455,709	16,190,497	1,928,899	17,207,140	(189,967,075)	(397,347,481)	–
Balances at end of year	790,864,615	36,042,522,296	3,935,373,692	3,014,602,972	2,052,533,140	6,777,501,860	11,828,352,567	118,504,690	64,560,255,832
Accumulated depreciation, amortization and impairment loss:									
Balances at beginning of year	19,904,390	9,701,951,941	905,948,191	609,266,298	697,502,706	1,153,755,330	–	–	13,088,328,856
Depreciation and amortization	–	1,500,780,941	154,691,367	121,021,397	88,610,213	354,969,868	–	–	2,220,073,786
Adjustment and reclassifications (see Note 13)	–	–	–	–	–	(24,721,230)	–	–	(24,721,230)
Disposals and retirement	–	–	–	–	(344,083,473)	(20,636,585)	–	–	(364,720,058)
Balances at end of year	19,904,390	11,202,732,882	1,060,639,558	730,287,695	442,029,446	1,463,367,383	–	–	14,918,961,354
Net book values	₱770,960,225	₱24,839,789,414	₱2,874,734,134	₱ 2,284,315,277	₱1,610,503,694	₱5,314,134,477	₱11,828,352,567	₱118,504,690	₱49,641,294,478

The power plant complex TPC, and the whole property, plant and equipment of CEDC and PEDC, with aggregate carrying value of ₱45,688.97 million and ₱46,449.46 million as of December 31, 2017 and 2016, respectively, have been mortgaged/pledged as security for their long-term debt totaling to ₱38,447.97 million and ₱36,577.76 million as of December 31, 2017 and 2016, respectively (see Note 15).

Construction-in-progress mainly represents the on-going capitalized projects and construction of PEDC Unit 3 (see Note 1). Construction-in-progress pertaining to the PEDC 3 expansion amounted to ₱12,385.52 million and ₱11,730.12 million as December 31, 2017 and 2016, respectively. Borrowing costs including deferred financing cost capitalized as part of construction cost amounted to ₱686.73 million and ₱531.15 million, net of interest income amounting to ₱51.18 million and ₱24.30 million in 2017 and 2016, respectively (see Note 15).

Advances to contractors and suppliers, which form part of the contract price, were capitalized as part of property, plant and equipment since these advances already constitute purchase commitments for the acquisition of property and equipment. The Group had total contractual commitments advanced to contractors relating to the completion of the expansion projects amounting to ₱310.32 million and ₱118.50 million as of December 31, 2017 and 2016, respectively.

The advances include the amount paid for the purchase of the land for GLEDC's proposed project site in Luna, La Union. On May 26, 2016, VIGC executed a Contract to Sell over the five (5) parcels of land with an aggregate area of 414,095 square meters with the seller. On November 22, 2016, GLEDC entered into a Deed of Assignment of Contract with VIGC for the purchase of five (5) parcels of land intended for use as site for its proposed power plant project.

Fully depreciated boilers and powerhouse, buildings and land improvements and other property and equipment with cost of ₱2,652.37 million and ₱2,508.29 million, as of December 31, 2017 and 2016, respectively, are still being used in the Group's operations. In 2015, the cost of TPC's old coal plant except for the TG5 rehabilitation costs was fully depreciated coinciding with the end of the EPPA term.

Noncurrent Assets Held for Sale

In 2017, the Group entered into an agreement with the National Grid Corporation of the Philippines (NGCP) for the transfer of the CEDC and TPC's transmission facilities which ownership is expected to be transferred to NGCP in 2018. The carrying value of the assets to be transferred to NGCP was presented as "Noncurrent assets held for sale" in the 2017 statement of financial position.

13. **Goodwill and Other Noncurrent Assets**

a. Goodwill

   Goodwill pertains to the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of certain companies acquired by the Group.

Goodwill in relation to acquisitions has been attributed to the following CGUs:

2017	**PPC**	**GPRI**	**GTERC**	**Total**
Cost				
Balances at beginning and end of year	**₱1,205,891,506**	**₱17,110,792**	**₱24,201,029**	**₱1,247,203,327**
Accumulated impairment loss:				
Balances at beginning of year	**501,807,000**	**17,110,792**	**–**	**518,917,792**
Impairment loss	**87,021,335**	**–**	**–**	**87,021,335**
Balance at end of year	**588,828,335**	**17,110,792**	**–**	**605,939,127**
	₱617,063,171	**₱–**	**₱24,201,029**	**₱641,264,200**

2016	PPC	GPRI	GTERC	Total
Cost				
Balances at beginning and end of year	₱1,205,891,506	₱17,110,792	₱24,201,029	₱1,247,203,327
Accumulated impairment loss:				
Balances at beginning of year	454,476,638	17,110,792	–	471,587,430
Impairment loss	47,330,362	–	–	47,330,362
Balance at end of year	501,807,000	17,110,792	–	518,917,792
	₱704,084,506	₱–	₱24,201,029	₱728,285,535

PPC

The recoverable amount of PPC considered as CGU was based on value-in-use calculations using cash flow projections from financial budgets covering the remaining cooperation period. The financial budgets based on past experience as well as future expected market trends, are approved by management and valid when the impairment test is performed. The revenues for the CGU are significantly based on the rates and contracted capacities as provided for under the EPPAs. The revenues of the power plants are also limited to installed capacity adjusted by a certain availability or load factor as may be applicable. As such, no growth rate is further assumed in the cash flow projections.

The following describes each key assumption on which the calculation of the value-in-use for PPC is based which is used to undertake the impairment testing of goodwill:

- The interest rate used to discount the net cash flows from operations is PPC's computed WACC of 9.24%, using the capital asset pricing model.
- Revenues are significantly based on the rates and contracted capacity under PPAs. Revenues are based on the energy sold at the assumed energy fee rates and pass-through fuel cost rates throughout the remaining cooperation period.
- Operating expenses are projected to increase depending on the nature of the expenses. Fuel and oil costs are based on the assumed market prices throughout the remaining cooperation period.

Based on the impairment testing, impairment loss amounting to ₱87.02 million in 2017 and ₱47.33 million in 2016 was recognized on the goodwill arising from the acquisition of PPC.

b. Other Noncurrent Assets

	2017	2016
Input VAT - net of current portion of ₱1,174.27 million and ₱1,444.21 million in 2017 and 2016, respectively (see Note 7)	**₱326,065,504**	₱330,044,333
Software and licenses - net	**32,527,143**	45,574,841
Prepaid rent	**13,270,834**	15,020,835

(Forward)

	2017	2016
Special deposits to the NGCP	**₱5,098,394**	₱17,420,040
Others	**10,468,350**	165,000
	387,430,225	408,225,049
Less allowance for impairment losses on input VAT	**81,440,660**	98,914,455
	₱305,989,565	₱309,310,594

Input VAT
Noncurrent portion of input VAT pertains to input VAT that can be offset against output VAT beyond one year and those that will be claimed as tax credits. As of December 31, 2017 and 2016, the allowance for impairment losses on input VAT amounted to ₱81.44 million and ₱98.91 million, respectively. In 2017, allowance for impairment losses on input VAT claims amounting to ₱10.61 million was reversed due to the claims partially granted by the BIR while ₱6.86 million was written off.

Software and Licenses
Computer software and licenses pertain to the cost of software licenses acquired net of accumulated amortization.

	2017	2016
Cost:		
Balance at beginning of year	**₱98,865,188**	₱16,872,482
Additions	**4,754,782**	45,631,597
Reclassifications (see Note 12)	**2,186,205**	36,361,109
Balance at end of year	**105,806,175**	98,865,188
Accumulated Amortization:		
Balance at beginning of year	**53,290,347**	13,146,903
Amortization	**17,896,119**	15,422,214
Reclassifications (see Note 12)	**2,092,566**	24,721,230
Balance at end of year	**73,279,032**	53,290,347
Net book value	**₱32,527,143**	₱45,574,841

Prepaid Rent
Prepaid rent represents advance payment for the rental of land where the power plant in Nabas, Aklan is located.

Special Deposits
Special deposits mainly pertain to amounts deposited by the Group with the NGCP for its transactions related to transmissions of electricity and ancillary services.

14. **Accounts Payable and Accrued Expenses**

	2017	2016
Trade payables	**₱1,360,225,502**	₱1,539,815,486
Output VAT	**1,682,594,040**	1,355,207,854
Deposit from National Grid Corporation of the Philippines (NGCP; Note 12)	**162,613,404**	–
Payable to VIGC	**70,000,000**	–

(Forward)

	2017	2016
Refundable deposits	**₱59,283,475**	₱9,197,694
Accrued expenses:		
Payables to contractors	**913,066,709**	1,115,126,329
Interest	**328,389,935**	318,099,196
Outside services	**172,449,898**	65,996,620
Employee-related expenses	**94,406,266**	77,493,339
Remittances payable	**87,008,003**	116,650,313
Regulatory fees and other charges	**47,241,106**	30,251,279
Management and professional fees	**8,960,687**	47,580,516
Payables to customers	**1,234,833**	1,287,087
Others	**17,833,623**	11,627,792
	₱5,005,307,481	₱4,688,333,505

Trade payables primarily consist of payables to local suppliers for purchases of spare parts, materials and services with payment terms ranging between 30 to 360 days. These are noninterest-bearing.

Output VAT includes operating companies' deferred output VAT on trade receivables amounting to ₱1,391.44 million and ₱1,351.12 million as of December 31, 2017 and 2016, respectively (see Note 5). Deferred output VAT pertains to output VAT on amounts billed to bilateral customers and net settlement with the PEMC, who in turn have not yet collected from their ultimate customers.

Payable to VIGC pertains to the unremitted portion of the deposit for the proposed project site advanced by VIGC (see Note 20g).

Refundable deposits pertain to bill deposits from contestable customers for the estimated maximum distribution and wheeling service billings related to the resale of electricity to contestable customers.

Payables to contractors pertain to the unbilled contract price related to the construction of TPC1-A and PEDC 3 payable to Formosa Heavy Industries Corporation and True North Manufacturing Services Corporation.

Accrued regulatory fees and other charges mainly pertain to expenses related to the benefit of host communities as required under the Electric Power Industry Reform Act (EPIRA; see Note 24b).

Payables to customers represent adjustment on WESM prices for the November and December 2013 billings. The settlement of the overpayments on the billings will be remitted by the Group to the customers as these are collected from WESM.

Remittances payable represent statutory payables, contributions and taxes withheld from compensation and income payments to be remitted to the respective government agencies.

Other payables include accruals for rent and utilities, communication charges and travel expenses, among others, incurred related to the current year operations.

15. **Long-term Debts**

	2017	2016
CEDC		
Tranche A-1 Lenders		
Loans payable to local banks with interest equal to the five-year Philippine Dealing and Exchange Corporation (PDEX) treasury securities benchmark yield plus 200 basis points	**₱2,239,411,765**	₱2,535,882,353
Tranche A-2 Lenders		
Loans payable to local banks with interest equal to the seven-year PDEX treasury securities benchmark yield plus 200 basis points	**1,492,941,176**	1,690,588,235
Tranche B Lenders		
Loans payable to local banks with interest equal to the ten-year PDEX treasury securities benchmark yield plus 200 basis points	**497,647,059**	563,529,412
Tranche C Lenders		
Loans payable to local banks with interest equal to the twelve-year PDEX treasury securities benchmark yield plus 200 basis points	**3,732,352,941**	4,226,470,588
	7,962,352,941	9,016,470,588
General Financing and Corporate Purpose Loan		
Loans payable to local banks with interest equal to the twelve-year PDEX treasury securities benchmark yield plus 200 basis points	**1,226,947,368**	1,380,315,789
	9,189,300,309	10,396,786,377
PEDC (Units 1 and 2)		
Tranche A-1 Lenders		
Loans payable to local banks with interest equal to the seven-year PDEX treasury securities benchmark yield plus 200 basis points	**3,249,822,765**	3,619,778,457
Tranche B Lenders		
Loans payable to local banks with interest equal to the ten-year PDEX treasury securities benchmark yield plus 200 basis points	**1,597,370,513**	1,779,213,140
Tranche C Lenders		
Loans payable to local banks with interest equal to the twelve-year PDEX treasury securities benchmark yield plus 200 basis points	**2,864,250,573**	3,190,313,216
	7,711,443,851	8,589,304,813

(Forward)

	2017	2016
PEDC (Unit 3)		
Tranche A Lenders		
Loans payable to local banks with interest equal to the seven-year Philippine Dealing System Treasury Reference Rates (PDST-R2) treasury securities benchmark yield plus 225 basis points and 200 basis points during construction and post-construction, respectively	**₱9,800,000,000**	₱9,800,000,000
Tranche B Lenders		
Loans payable to local banks with interest equal to the twelve-year PDST-R2 treasury securities benchmark yield plus 225 basis points and 200 basis points during construction and post-construction, respectively	**1,200,000,000**	1,200,000,000
	11,000,000,000	11,000,000,000
TPC		
Loans payable to local banks with interest of Philippine Dealing System Treasury Fixing Rates (PDST-F), plus 200 basis points and 175 basis points during construction and post-construction, respectively	**6,047,222,222**	6,591,666,669
GBPC		
Loans payable to local banks with interest of Philippine Dealing System Treasury Fixing Rates (PDST-R2), plus 100 basis points	**4,500,000,000**	–
	38,447,966,382	36,577,757,859
Less unamortized deferred financing cost	**305,346,962**	343,712,962
	38,142,619,420	36,234,044,897
Less current portion - net of deferred financing cost	**2,589,519,938**	2,587,953,442
	₱35,553,099,482	₱33,646,091,455

CEDC, PEDC and TPC

On June 18, 2009, CEDC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱16,000.00 million to partially finance the construction of the Power Plant. The Agreement includes Project Loan Facility Agreement, Project Accounts Agreement, Mortgage Agreement, Pledge Agreement and Assignment Agreement. Loan balance as of December 31, 2017 and 2016 amounted to ₱7,962.35 million and ₱9,016.47 million, respectively.

In March 2016, CEDC entered into term loan agreements with various lenders for a total credit facility of ₱1,500.00 million to finance CEDC's general financing and corporate requirements. Loan balance as of December 31, 2017 and 2016 amounted to ₱1,226.95 million and ₱1,380.32 million, respectively.

On February 26, 2010, PEDC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱14,000.00 million (the Phase I Facility) to partially finance the on-going construction of the power plant. The Agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. The loan facility shall be paid within 12 years from initial advance and

PEDC shall pay interest semi-annually. Loan balance as of December 31, 2017 and 2016 amounted to ₱7,711.44 million and ₱8,589.30 million, respectively.

On March 26, 2015, PEDC entered into an Amended and Restated Omnibus Agreement (AROA) with various lenders for an additional aggregate principal amount of up to ₱11,000.00 million (the Phase II Facility) to partially finance the 1x150-MW expansion project. The AROA includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. The loan facility shall be available to PEDC for up to thirty (30) months from loan signing date and will be paid within 12 years from initial advance and PEDC shall pay interest semi-annually. Loan balance as of December 31, 2017 and 2016 amounted to ₱11,000.00 million. No principal payments were made in 2017 pending project completion which is expected to happen in the May 2018.

On March 7, 2013, TPC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱7,000.00 million to partially finance the construction of the expansion project. The Agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, and an Assignment Agreement. Loan balance as of December 31, 2017 and 2016 amounted to ₱6.047.22 million and ₱6,591.67 million, respectively.

According to the Agreements, CEDC, PEDC and TPC are required to meet certain financial ratios. CEDC, PEDC and TPC shall maintain a debt-to-equity ratio not exceeding 70:30 at all times until full payment of the obligation. Also, CEDC, PEDC and TPC shall ensure that the core equity must be at least 30% of the total project cost at project completion date and shall at all times be equivalent to at least 30% of the sum of total outstanding loan under the facility and the core equity. Debt-to-equity ratio is the ratio of the total aggregate indebtedness for borrowed money of the borrower and the sum of its equity as of any date of determination. For CEDC and PEDC, core equity includes the equity, paid in equity of third parties provided that if the same is in the form of preferred redeemable shares, redemption must be at the option of the borrower and at terms no more favorable than subordinated loans, outstanding subordinated loans and outstanding shareholder advances of the sponsor to the borrower.

For purposes of computing debt-to-equity ratio, debt represents the aggregate indebtedness for borrowed money.

As of December 31, 2017 and 2016, CEDC, PEDC and TPC are in compliance with the provisions of the Agreements.

The loans of CEDC, PEDC and TPC shall be paid within 12 years from initial advance. The schedule of repayment follows:

	Percentage
Principal amortization	70
Balloon payment	30
Total	100

Principal repayments amounted to ₱1,207.49 million and ₱1,173.80 million in 2017 and 2016, respectively, for CEDC, ₱877.86 million and ₱975.40 million in 2017 and 2016, respectively, for PEDC, and ₱544.44 million and ₱408.33 million in 2017 and 2016, respectively, for TPC.

Interest expense, including amortization of deferred financing costs, amounted to ₱853.50 million and ₱941.62 million in 2017 and 2016, respectively, for CEDC.

Interest expense, including amortization of deferred financing cost, in connection with PEDC's Phase I Facility amounted to ₱775.82 million and ₱913.90 million in 2017 and 2016, respectively. Interest expense related to PEDC's Phase II Facility amounting to ₱686.73 and ₱503.33 million, net of interest income of ₱51.18 million and ₱24.30 million from temporary investments, was capitalized as part of project costs in 2017 and 2016, respectively.

TPC 1-A project was completed and accepted on July 25, 2015 and accordingly started its commercial operation on July 26, 2015. Interest on the long-term debt amounted to ₱307.61 million and ₱334.90 million, in 2017 and 2016, respectively.

CEDC, PEDC and TPC's loans are secured by (i) a real estate mortgage on all present and future assets, including the parcels of land where their power plants are located (with a total land area of 152,677 square meters and 43,620 square meters for CEDC and TPC, respectively, and 277,681 square meters and 17.37 hectares for PEDC's Phase I and II Facilities, respectively).

The area where CEDC and TPC power plants are located was originally owned by THC, a related party with common stockholders. This was subsequently purchased by CEDC and TPC on December 2016 (see Note 11), (ii) chattel mortgage on all present and future movable properties, (iii) pledge agreement on the shares of GFPHI and Abovant in CEDC and shares of PPHC in PEDC, and shareholder advances and subordinated loans, if any, (iv) assignment agreement on CEDC's and PEDC's future revenues and (v) grantee rights of TPC for Special Use Agreement in Protected Areas No. 2008-003 issued by the Department of Environment and Natural Resources (DENR) - Regional Office No. VII on March 18, 2009. Future revenues include, among others, revenues to be received by way of operation, all proceeds of and monies payable to CEDC and PEDC, including those paid as damages for breach, default cancellation, nullification or invalidity (under the Construction Contract, Supervisory Contract, Contract for Supply of Equipment, Coordination Agreement, Land Lease Agreement, Material Lease Contracts, and Insurance Contracts, collectively, the "Assigned Documents"), and, to the extent not covered by the foregoing, all value (whether in the form of money, securities, assets or otherwise) paid or payable by any Governmental Authority to CEDC and PEDC in whole or partial settlement of claims, whether or not resulting from judicial or administrative proceedings and whether paid or payable within or outside the Philippines, as compensation for or in respect of any compulsory transfer or taking of all or any part of the project, or any assets of CEDC and PEDC, by any Governmental agency or in respect of any invalidity of any Assigned Documents.

The chattel mortgage above shall stand as security for the obligations to the extent of the principal amount of ₱100.00 million, for each of CEDC, PEDC and TPC. All monies received by the Trustee shall be applied in accordance with the Project Accounts Agreement.

As of December 31, 2017 and 2016, the unamortized deferred financing cost incurred in connection with the loans amounted to ₱57.50 million and ₱76.99 million, respectively, for CEDC, ₱202.57 million and ₱239.26 million, respectively, for PEDC, and ₱22.98 million and ₱27.46 million, respectively, for TPC, were presented as deduction from the outstanding balance of the related debt.

Among others, the agreements prohibit CEDC, PEDC and TPC to amend or modify their charter documents if any such amendment or modification would have a material adverse effect; assign or otherwise transfer, terminate, amend, or grant any waiver or forbearance or exercise any election under any material provision of the agreements or project document; make any prepayment, whether voluntary or involuntary, or repurchase of any long-term debt or make any repayment of any such long-term debt other than those allowed in the agreements unless, in any such case, it shall at the option of any lender contemporaneously make a proportionate prepayment or repayment of the

principal amount then outstanding of the Lender's outstanding participation in the loan. The agreements also prohibit CEDC, PEDC and TPC to acquire by lease any property or equipment, or to acquire rights-of-way to any property, which may have a material adverse effect; enter into contract of indebtedness except those permitted under the agreement such as indebtedness incurred in the ordinary course of business; and form or have any subsidiaries, advances or investments and issue preferred shares, unless certain conditions are complied with.

Moreover, CEDC, PEDC and TPC are prohibited from entering into contract of merger or consolidation unless CEDC, PEDC and TPC are the surviving entities and after giving effect to such event, no event of default will result), selling, leasing or disposing all or any of its property (unless in the ordinary course of the business) where such conveyance, sale or lease would have a material adverse effect to CEDC, PEDC and TPC.

CEDC, PEDC and TPC are in compliance with the loan covenants as of December 31, 2017 and 2016.

PPC

Metropolitan Bank and Trust Company (MBTC) Loans

a. On November 6, 2009, PPC entered into a ₱300.00 million, seven-year term loan agreement with MBTC. Proceeds from the loan were used to refinance the Banco De Oro loan. This loan bears interest at the prevailing 3-month PDST-F at interest pricing plus 2% spread and is covered by a Mortgage Trust Indenture Agreement. In May 2015, PDST-F as reference rate was replaced by PDST-R1. PPC's power plant is mortgaged for the aforementioned obligations (see Note 8). The loan was fully extinguished in 2016.

a. On August 24, 2006, PPC entered into a ₱1,200.00 million, ten-year term loan agreement with MBTC, for its general corporate requirements. This loan is covered by a Mortgage Trust Indenture Agreement. In March 2007, Section 1.01 of the loan agreement was amended increasing the loan facility from ₱1,200.00 million to ₱1,360.00 million and changing the reference rate from MART1 rate to PDST-F rate. In May 2015, PDST-F as reference rate was replaced by PDST-R1. The loan was fully extinguished in 2016.

   Total loan payments in 2016 amounted to ₱158.25 million.

GBPC

On October 5, 2017, the Parent Company entered into a bilateral term loan with various banks in the aggregate principal amount of ₱4,500.00 million to finance its acquisition of a 50% less one share in ATEC. The loan is a fixed rate facility with a 12-year term and quarterly principal repayment commencing three (3) years from the drawdown date. The interest rate is the interpolated 12-year PDST-R2 plus a spread of 100 basis points, with payments on a quarterly basis.

The Parent Company is required to maintain a debt-to-equity ratio not greater than 75:25 until full payment of the obligation. Also, the Parent Company is prohibited from entering into merger or consolidation, unless the Parent Company is the surviving entity.

Events of default include, among others, failure to pay when due the principal and interest due and any other amount payable on account of any funds borrowed in order to cover the amount of the unpaid loan and failure to perform any other material term, obligation or covenant.

If any of the events of default occurs and is continuing, the local banks may:

i. declare the commitment to be terminated, whereupon the obligation of the local banks to make or maintain the loan shall also terminate; and/or

ii. declare the entire unpaid principal amount of the loan then outstanding, all interest accrued and unpaid thereon and all other amounts payable to be due and payable, subject to interest and penalties without presentment, demand, protest or further notice of any kind.

As of December 31, 2017, the Parent Company is compliant with the provisions of the loan agreement.

The movements of the deferred financing cost as follows:

	2017	2016
Balances at beginning of year	**₱343,712,962**	₱400,866,017
Additions	**22,500,000**	13,920,871
Amortization	**(60,866,000)**	(71,073,926)
Balances at end of year	**₱305,346,962**	₱343,712,962

Amortization of deferred financing costs related to Phase II Facility amounting to ₱18.77 million and ₱27.82 million, respectively, for the years ended December 31, 2017 and 2016, respectively, were capitalized as part of the cost of the power plant asset.

16. Provisions

Provisions for expenses represent provisions for decommissioning costs and for other liabilities with uncertain amount or timing.

Breakdown of provisions for expenses is as follows:

	2017	2016
Decommissioning liability	**₱536,150,105**	₱347,592,844
Provisions for other liabilities	**1,324,740,696**	844,720,427
	₱1,860,890,801	₱1,192,313,271

a. Decommissioning liability

The Group recognized its legal obligation to decommission or dismantle its power plants at the end of their useful lives. In this regard, the Group established a provision to recognize its estimated liability for decommissioning.

Movements in the decommissioning liability are as follows:

	2017	2016
Balances at beginning of year	**₱347,592,844**	₱248,927,271
Provision during the year	**179,563,561**	92,458,538
Accretion of decommissioning liability (see Note 19)	**8,993,700**	4,812,920
Change in accounting estimate (see Note 19)	–	1,394,115
Balances at end of year	**₱536,150,105**	₱347,592,844

PPC, PEDC, CEDC, TPC and GPRI reassessed the amount of decommissioning liability using a risk-adjusted rate. Accordingly, additional provision of ₱179.56 million and ₱92.46 million were recognized in 2017 and 2016, respectively.

b. Provision for Other Liabilities

The Group recognized provision for liabilities with uncertain amount or timing of actual disbursement. These include regulatory fees and other charges which payment is probable and the amount can be estimated reliably as at reporting date. The management reassesses their estimates on an annual basis to determine the reasonableness of provision. Disclosure of information usually required by PAS 37*, Provisions, Contingent Liabilities and Contingent Assets* are not provided because of reasons permitted under paragraph 92 of PAS 37. Accordingly, general descriptions are provided.

17. Power Plant Operations and Maintenance Costs

	2017	2016
Power plant operations	**₱8,751,859,124**	₱5,034,203,639
Purchased power	**1,127,350,177**	591,132,501
Repairs and maintenance and others	**1,310,840,629**	688,660,051
	₱11,190,049,930	₱6,313,996,191

Power plant operations mainly represent costs directly related to consumption of fuel and coal. It also includes cost of coal sold to third parties by GTERC.

Purchased power represents cost of replacement power from WESM.

Repairs and maintenance and others mainly represent cost of materials and supplies consumed and the cost of restoration and maintenance of the power plants.

18. Personnel Costs

	2017	2016
Salaries, wages and others	**₱643,062,401**	₱536,022,580
Employee benefits	**658,798,537**	348,756,557
Retirement benefit expense	**128,641,961**	118,926,574
	₱1,430,502,899	₱1,003,705,711

The Group has a funded retirement plan covering all its employees. The retirement benefits are dependent on the years of service and the respective employees' compensation.

Funded Status
The Group has a trust agreement with MBTC, a trustee bank, to administer the Group's retirement fund under the supervision of the Retirement Committee of the plan. All participating companies have started contributing to the fund in 2015.

The Retirement Plan meets the minimum retirement benefit specified under Republic Act 7641.

The components of retirement benefit expense recognized in the consolidated statements of comprehensive income are as follows:

	2017	2016
Service cost	**₱92,617,363**	₱90,337,557
Net interest cost	**36,024,598**	28,589,017
	₱128,641,961	₱118,926,574

Remeasurement effects to be recognized in consolidated other comprehensive income:

	2017	2016
Actuarial gains (losses) on defined benefit obligation	**(₱83,836,612)**	₱46,427,113
Return on assets excluding amount included in net interest cost	**1,424,932**	(16,742,889)
	(₱82,411,680)	₱29,684,224

The funded status of the Group's retirement benefit obligation is as follows:

	2017	2016
Present value of defined benefit obligation	**₱925,206,455**	₱771,030,316
Fair value of plan assets	**(38,292,571)**	(67,245,875)
Retirement benefit obligation	**₱886,913,884**	₱703,784,441

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

	2017	2016
Balances at beginning of year	**₱771,030,316**	₱724,812,257
Current service cost	**92,617,363**	90,337,557
Interest cost	**39,570,422**	35,408,165
Adjustment	–	(740,250)
Benefits paid:		
Paid out of Group's plan assets	**(57,902,099)**	(32,360,300)
Paid out of Group's operating funds	**(3,946,159)**	–
Remeasurement (gain) losses resulting from:		
Changes in financial assumptions	**(25,197,590)**	(73,056,377)
Changes in demographic assumptions	**402,167**	(13,251,870)
Experience adjustments	**108,632,035**	39,881,134
Balances at end of year	**₱925,206,455**	₱771,030,316

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

	2017	2016
Balances at beginning of year	**₱67,245,875**	₱95,674,725
Interest income included in net interest cost	**3,545,824**	6,819,148
Remeasurement gain (loss) on return on plan assets	**1,424,932**	(16,742,889)
Contribution to the plan assets	**23,000,000**	16,200,000
Benefits paid - current year retirement	**(57,902,099)**	(32,360,300)
Benefits paid - prior year retirement	–	(2,344,809)
Adjustment on plan asset	**978,039**	–
Balances at end of year	**₱38,292,571**	₱67,245,875
Actual return on plan assets	**₱4,970,756**	(₱9,923,741)

The fair value of plan assets are comprised of 11.83% cash and cash equivalents, 68.84% investment in government securities, 11.95% investment in quoted securities, 6.69% investment in debt and other securities and 0.70 % miscellaneous receivables in 2017.

The fair value of plan assets are comprised of 8.86% cash and cash equivalents, 62.41% investment in government securities, 19.50% investment in quoted securities, 8.56% investment in debt and other securities and 0.67% miscellaneous receivables in 2016.

The Plan's assets and investments consist of the following:

- Cash and cash equivalents, which includes regular savings and time deposits;
- Investment in debt and other securities, classified as AFS investment, consisting of long-term corporate loans that bears interest ranging from 4.20% to 7.75% and has maturity from April 22, 2017 to July, 26, 2026;
- Investments in quoted equity instruments, classified as AFS investment, consisting of listed shares of stock which have market prices ranging from ₱1.88 to ₱5,200 per share;
- Investments in government securities, classified as AFS investment, consisting of retail treasury bonds that bear interest ranging from 3.24% to 7.52% and have maturities from 4/11/2010 to September 9, 2040; and
- Other financial assets held by the Plan are primarily accrued interest income on cash deposits and debt securities held by the Plan.

Principal actuarial assumptions used to determine retirement benefit obligations were as follows:

	2017	2016
Salary increase rate	7.00%	7.00%
Discount rates	5.62% - 5.78%	5.17% - 5.58%
Mortality rate	2017 Philippine Intercompany Mortality Table	1994 Group Annuity Mortality Table
Disability rate	1952 Disability Study, Period 2, Benefit 5	1952 Disability Study, Period 2, Benefit 5
Turnover rate	A scale ranging from 8% at age 18 to 0% at age 60	A scale ranging from 8% at age 18 to 0% at age 60

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as of December 31, 2017 and 2016, assuming all other assumptions were held constant:

	Increase (Decrease)	**2017**	2016
Discount rates	+1%	**(₱849,668,064)**	(₱62,988,025)
	-1%	**1,013,386,440**	73,615,060
Future salary increase rate	+1%	**1,016,878,499**	76,329,895
	-1%	**(845,188,198)**	(66,587,772)

The Group plans to fund the retirement liability for the total of the amortization of the past service cost and the normal cost. The amortization of the past service cost is determined based on the average expected future service years. The Group expects to contribute ₱216.80 million to the retirement plan in 2018.

The average duration of the defined benefit obligation as of December 31, 2017 and 2016 is 10 to 15 years and 10 to 14 years, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2017:

1 year or less	**₱70,496,991**
More than 1 year to 5 years	**422,203,850**
More than 5 years to 10 years	**513,433,376**
More than 10 years to 15 years	**517,401,682**
More than 15 years to 20 years	**985,499,447**
More than 20 years	**2,899,342,907**

19. **Finance Costs and Other Income** - net

	2017	2016
Finance costs - net:		
Interest expense (see Note 15)	**₱1,972,879,903**	₱2,217,086,419
Interest income (see Note 4)	**(165,158,576)**	(135,764,503)
Amortization of discount on long-term receivables (see Note 8)	**(11,084,983)**	(25,713,986)
Accretion of decommissioning liability (see Note 16)	**8,993,700**	6,207,035
	₱1,805,630,044	₱2,061,814,965

	2017	2016
Other income - net:		
Service fees	**₱127,063,446**	₱30,076,221
Efficiency gain (loss) (see Note 6)	**66,539,622**	(7,704,835)
Dividends (see Note 11)	**32,542,310**	30,514,354
Equity income from associate (see Note 10)	**14,466,929**	–
Sales of scrap, sludge and other materials	**10,362,909**	9,409,075
Foreign exchange gain (loss) - net	**4,582,734**	(42,488,587)
Recovery from insurance	**1,639,647**	69,401,253
Gain on disposal of property and equipment	**935,544**	729,218
Others - net	**13,035,128**	11,791,087
	₱271,168,269	₱101,727,786

"Others - net" in 2017 and 2016 pertains mainly to revenue from various charges to contractors and freight costs billings to CCC for coal purchases related to ECA, among others.

20. **Related Party Transactions**

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities, which are under the common control with the reporting enterprises and its key management personnel, directors, or its shareholders. In considering each related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Group has significant transactions with related parties on terms agreed between the parties as follows:

Category	Year	Revenues	Costs	Receivables	Accounts Payable and Accrued Expenses	Dividends Payable	Advances from Stockholders	Terms	Conditions
Stockholders:									
Beacon Power (see Note 20b)	**2017**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,400,000,000**	**₱–**	Noninterest-bearing	Unsecured
	2016	₱–	₱–	₱–	₱–	₱1,232,000,000	₱–		
JG Summit (see Note 20b)	**2017**	**–**	**–**	**–**	**–**	**750,000,000**	**–**	Noninterest-bearing	Unsecured
	2016	–	–	–	–	660,000,000	–		
MGen (see Note 20b)	**2017**	**–**	**–**	**–**	**–**	**350,000,000**	**–**	Noninterest- bearing	Unsecured
	2016	–	–	–	–	308,000,000	–		
FMIC (see Note 20b)	**2017**	**–**	**–**	**–**	**–**	**–**	**–**	Interest-bearing	Secured; no impairment
	2016	–	68,083,810	–	–	–	–		
Non-controlling shareholders:									
Abovant	**2017**	**–**	**–**	**–**	**–**	**792,000,000**	**–**	Noninterest- bearing	Unsecured
	2016	–	–	–	–	748,000,000	–		
Flatworld	**2017**	**–**	**–**	**–**	**–**	**58,262,400**	**–**	Noninterest- bearing	Unsecured
	2016	–	–	–	–	54,910,000	–		
La Filipina	**2017**	**–**	**–**	**–**	**–**	**60,000,000**	**–**	Noninterest- bearing	Unsecured
	2016	–	–	–	–	112,000,000	–		
Delta Pi	**2017**	**–**	**–**	**–**	**–**	**17,212,500**		Noninterest- bearing	Unsecured
	2016	–	–	–	–	32,130,000			
VIGC (see Note 20c and g)	**2017**	**–**	**–**	**–**	**70,000,000**	**–**	**149,334,019**	Noninterest- bearing	Unsecured
	2016	–	–	–	–	–	–		
Associates of the ultimate parent:									
MBTC (see Notes 20a and b)	**2017**	**–**	**–**	**–**	**–**	**–**	**–**	Interest-bearing	Secured; no impairment
	2016	67,709,382	610,273,587	–	–	–	–		
ORIX METRO Leasing and Finance Corporation (ORIX; see Note 20a)	**2017**	**–**	**–**	**–**	**–**	**–**	**–**	Interest-bearing	No impairment
	2016	2,996,254	–	–	–	–	–		
MERALCO (see Note 20d)	**2017**	**2,335,997,996**	**19,787,675**	**536,004,005**	**–**	**–**	**–**	Noninterest- bearing	No Impairment
	2016	447,705,024	–	119,196,221	–	–	–		
Smart Communications, Inc (SMART; see Note 20f)	**2017**	**–**	**3,981,985**	**–**	**255,371**	**–**	**–**	Noninterest- bearing	No Impairment
	2016	–	–	–	–	–	–		
Philippine Long Distance Telephone Company (PLDT; see Note 20e)	**2017**	**–**	**3,434,700**	**–**	**268,843**	**–**	**–**	Noninterest- bearing	Unsecured
	2016	–	–	–	–	–	–		
	2017	**₱2,335,997,996**	**₱27,204,360**	**₱536,004,005**	**₱70,524,214**	**₱3,427,474,900**	**₱149,334,019**		
	2016	₱518,410,660	₱678,357,397	₱119,196,221	₱–	₱3,147,040,000	₱–		

a. The Group has cash and cash equivalents with MBTC and ORIX. The Group also placed temporary investments in FMIC which also matured in the year they were placed. Interest earned from these deposits and short-term investments is based on the respective bank deposit rates and investment rates. MBTC, a significant associate of GT Capital, is the parent company of FMIC and ORIX. However, GT Capital and FMIC are no longer shareholders of the Parent Company and thus, ceased to be related parties beginning May 2016.

b. Transactions with Beacon Power, Mgen and JG Summit pertain to dividends declared in 2017. Transaction with FMIC pertain to dividends declared in 2016 (see Notes 1 and 24m).

   The Group has transactions with FMIC and MBTC related to the long-term debt availed by CEDC, PEDC and TPC (see Note 15).

c. Advances from stockholders pertain to cash received from VIGC for additional advances for future stock subscription to LPCI. As of December 31, 2017 and 2016, the additional advances for future stock subscription was not yet classified to equity pending filing of the LPCI's application for the increase of authorized capital stock with SEC.

d. The Group's transaction with MERALCO, the parent company of Mgen and an associate of MPIC, pertains to the supply of power in accordance to the EPPA with TPC, PPC and PEDC (see Note 1). Also, it pertains to the purchase of electricity for office requirements of the Group.

e. The Group's transaction with PLDT, a subsidiary of MPIC pertains to the Group's leased lines used to facilitate the easy communication between the plant site and the corporate office.

f. The Group's transaction with SMART, a subsidiary of MPIC, pertains to the mobile phone subscriptions being utilized by the Group's employees.

g. On November 22, 2016, GLEDC entered into a Deed of Assignment of Contract with VIGC for the purchase of five (5) parcels of land in Luna, La Union. On May 26, 2016, VIGC executed a Contract to Sell over the five (5) parcels of land with an aggregate area of 414,095 square meters with the seller. Transaction with VIGC represents downpayment for the purchase of land.

h. The compensation of key management personnel are as follows:

	2017	2016
Salaries and wages	**₱177,198,787**	₱155,702,308
Allowances and benefits	**116,627,788**	82,744,448
	₱293,826,575	₱238,446,756

21. **Income Taxes**

The provision for current income tax pertains to the RCIT for the Parent Company, GPRI, TPC, CEDC, PEDC, GTERC and GESC and MCIT for PPC and THC for the year ended December 31, 2017. For the year ended December 31, 2016, the provision for current income tax pertains to RCIT for PPC, TPC, GTERC, THC and GESC and MCIT for the Parent Company and GPRI.

In 2017, APVI, GFPHI, GRPC, GHPC, MEDC, CACI, LPCI and PPHC did not have provisions for current income tax due to their gross loss and net taxable loss positions. In 2016, APVI, CEDC, GFPHI, GPRI, GRPC, GHPC, MEDC, PEDC, CACI, LPCI and PPHC did not have provisions for current income tax due to their gross loss and net taxable loss positions.

The reconciliation of statutory income tax rate to effective income tax rates follows:

	2017	2016
Statutory income tax	**₱1,494,222,956**	₱1,221,826,272
Additions to (reductions in) income tax resulting from:		
Income tax subject to tax holiday	**(326,084,085)**	(1,246,832,039)
Effect of impairment of goodwill	**26,106,400**	14,199,109
Effect of non-recognition of deferred income tax assets	**14,774,949**	24,940,966
Equity income from associate	**(4,340,079)**	–
Income exempt from income tax or subject to final tax at a lower rate and nondeductible expenses	**3,599,441**	38,949,915
Effective income tax	**₱1,208,279,582**	₱53,084,223

Deferred income taxes of the companies in the Group that are in deferred income tax assets and liabilities position consist of the following at December 31:

	2017	2016
Deferred income taxes recognized in profit or loss:		
Deferred income tax assets:		
Retirement benefit obligation	**₱236,993,809**	₱207,690,806
Provisions and accrued expenses	**199,817,964**	76,193,226
Decommissioning liability	**158,485,884**	102,122,654
Net capitalized commissioning income	**93,722,180**	98,968,898
Allowance for probable losses	**24,432,199**	29,674,336
NOLCO	**22,813,090**	230,277,846
Unrealized foreign exchange losses	**13,639,539**	16,064,390
Allowance for impairment losses	**8,263,402**	5,072,482
MCIT	**4,110,534**	10,766,177
Unamortized discount on receivables	**2,022,047**	5,347,542
	764,300,648	782,178,357
Deferred income tax liabilities:		
Capitalized dismantling costs	**(114,248,133)**	(67,690,572)
Unamortized deferred financing cost	**(91,604,089)**	(103,113,888)
Capitalized borrowing cost	**(55,207,072)**	(57,651,665)
Net generation costs capitalized during construction	**(37,639,534)**	(42,658,138)
Capitalized deferred financing cost	**(22,969,834)**	(17,799,335)
Unrealized forex gains	**(2,887,271)**	(4,167,498)
	(324,555,933)	(293,081,096)
Deferred income tax asset (liability) recognized as other comprehensive income:		
Retirement benefit obligation	**20,816,366**	(3,904,187)
Net deferred income tax assets	**₱460,561,081**	₱485,193,074

	2017	2016
Deferred income tax liabilities recognized in profit or loss:		
Fair value adjustment on acquisition	**₱147,634,839**	₱167,319,484
Unrealized foreign exchange gain	**–**	6,767
Net deferred income tax liabilities	**₱147,634,839**	₱167,326,251

As of December 31, 2017 and 2016, the Group has unrecognized deferred income tax assets from certain subsidiaries. These deferred income tax assets were not recognized as management believes that it is not likely that the tax benefits of such differences would be realized in the foreseeable future. The details of the Group's unrecognized deferred tax asset on deductible temporary differences are as follows:

	2017	2016
Allowance for impairment losses:		
Receivables	**₱32,377,439**	₱25,096,101
Property, plant and equipment	**1,709,064**	2,113,212
NOLCO	**10,239,096**	7,539,390
Retirement benefit obligation	**8,376,113**	7,348,711
Decommissioning liability	**2,359,148**	2,155,199
Accrued expenses	**2,238,759**	1,039,763
MCIT	**170,927**	1,640,363
Unrealized foreign exchange loss	**172**	274
	₱57,470,718	₱46,933,013

As of December 31, 2017, the Group has NOLCO and MCIT that can be claimed as deduction from future taxable income and future income tax liabilities, respectively, as follows:

Year incurred	Year of Expiration	NOLCO	MCIT
2015	2018	₱7,539,933	₱1,722
2016	2019	2,559,301	–
2017	2020	100,075,865	4,279,739
		₱110,175,099	₱4,281,461

Movements in NOLCO are as follows:

	2017	2016
Balances at beginning of year	**₱792,724,119**	₱978,844,660
Additions	**100,075,865**	10,463,210
Applications and expirations	**(782,624,885)**	(196,583,751)
Balances at end of year	**₱110,175,099**	₱792,724,119

Movements in MCIT are as follows:

	2017	2016
Balances at beginning of year	**₱12,406,541**	₱4,416,562
Additions	**4,279,739**	8,126,960
Applications	**(12,404,819)**	(136,981)
Balances at end of year	**₱4,281,461**	₱12,406,541

Deferred income tax assets on certain deductible temporary differences, unused tax credits and NOLCO have not been recognized as management believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Tax Reform for Acceleration and Inclusion (TRAIN) Act
Republic Act No. 10963 or the TRAIN Act was signed into law on December 19, 2017 and took effect on January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

22. **Operating Lease Agreements**

The Parent Company entered into lease contracts with Federal Land, Inc. (FLI), a subsidiary of GT Capital for the lease of its corporate office located at the 22nd and 19th floor of GT Tower International building. The old lease contracts for 22nd floor and 19th foor (Ayala Wing) were renewed to cover another three years from August 1, 2015 to July 31, 2018 and January 1, 2018 to December 31, 2020 respectively. In 2017, the Parent Company has entered into another lease contract with FLI for an additional area of 343 square meters from April 1, 2017 to March 31, 2020. Monthly rental aggregated to ₱2.6 million, broken down into ₱1.6 million and ₱1.0 million for the lease of the 22nd floor and 19th floor, respectively. Rent increases by 7% and 5% annually starting at the year of commencement of the lease for 22nd and 19th floor, respectively. The lease contract is renewable at the option of the Parent Company, on such terms and conditions mutually acceptable to both parties.

GESC and CEDC renewed the lease contracts with MBTC for the lease of its corporate office located at the 15th floor of MBTC Plaza in Fuente, Cebu, commencing on May 1, 2015 and June 1, 2015, respectively, and expiring on April 30, 2017 and May 31, 2018, respectively. Monthly rental amounts to ₱0.03 million and ₱0.15 million and, respectively. Rent increases by 10.00% annually starting at the year of commencement of the lease. The lease contracts are renewable at the option of GESC and CEDC, on such terms and conditions mutually acceptable to both parties.

In May 2017, GESC renewed the lease contract with MBTC for a period from May 1, 2017 to April 30, 2010. Monthly rental started from ₱0.07 million and with annual escalation rate of 5%.

The future minimum lease payments under the non-cancellable operating lease are as follows:

	2017	2016
Within one (1) year	**₱27,199,471**	₱28,472,267
After one (1) year but not more than five (5) years	**27,830,643**	11,899,153
	₱55,030,114	₱40,371,420

Rent expense for the years ended December 31, 2017 and 2016 amounted to ₱32.99 million and ₱26.79 million, respectively.

23. **Financial Instruments**

Financial Risk Management Objectives and Policies
The main purpose of the Group's financial instruments is to finance its operations. The Group has various financial assets and liabilities such as cash and cash equivalents, short-term investments, receivables, security and special deposits, long-term and notes receivables, AFS investment, accounts payable and accrued expenses, short and long-term debt and dividends payable which arise directly from its operations and investing and financing activities.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group has exposure to equity price risk, credit risk, liquidity risk, and interest rate risk from the use of its financial instruments. The BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Equity Price Risk
Equity price risk is such risk where the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group is exposed to equity securities price risk because of AFS investment held by the Parent Company.

The table below shows the sensitivity to a reasonably possible change in the Philippine Stock Exchange index (PSEi), with all other variables held constant, of the Group's equity (through OCI) due to changes in the carrying value of the Group's AFS investment. The analysis links PSEi changes, which proxies for general market movements, to individual stock prices through their betas. Betas are coefficients depicting the sensitivity of individual prices to market movements.

The sensitivity range is based on the historical volatility of the PSEi for the past year. The analysis is based on the assumption that last year's PSEi volatility will be more or less the same in the following year.

	Percentage change in PSEi	Sensitivity to equity
2017	**Increase by 12.24%**	**₱108,145,957**
	Decrease by 12.24%	**(108,145,957)**
2016	Increase by 21.30%	218,149,615
	Decrease by 21.30%	(218,149,615)

Credit Risk
Credit risk represents the loss that the Group would incur if counterparties fail to perform their contractual obligations. The Group established controls and procedures on its credit policy to determine and monitor the credit worthiness of customers and counterparties. Moreover, the EPPAs, RSCs and PSAs with customers include inherent protection clauses, i.e., provisions for interests on unpaid billings, and change in laws/circumstances, among others. The Group's maximum credit risk is equal to the carrying value of the Group's financial assets which consist of cash and cash equivalents, short-term investments, receivables, due from a related party, security and

special deposits, long-term and notes receivables and AFS investment. The significant concentration of credit risk relates to receivables from the customers of the Operating Subsidiaries (see Note 1).

The credit quality of financial assets is being managed by the Group using internal credit ratings.

The table below shows the credit quality by class of financial assets based on the Group's rating system as of December 31, 2017 and 2016:

2017

	Neither Past Due Nor Impaired				
	High Grade	**Standard Grade**	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalents[1]					
Unrestricted	**₱13,413,070,134**	**₱–**	**₱–**	**₱–**	**₱13,413,070,134**
Restricted	**1,366,837,798**	**–**	**–**	**–**	**1,366,837,798**
Short term investments	**445,751,332**	**–**	**–**	**–**	**445,751,332**
Receivables[2]					
Trade					
Short-term	**2,751,430,308**	**1,324,088,989**	**205,569,177**	**327,805,575**	**4,608,894,049**
Long-term	**89,627,456**	**–**	**–**	**–**	**89,627,456**
Long-term notes receivable	**3,710,000**	**–**	**–**	**–**	**3,710,000**
Others	**150,152,815**	**18,467,233**	**55,289,262**	**2,315,201**	**226,224,511**
Security and special deposits	**–**	**5,098,395**	**–**	**–**	**5,098,395**
AFS investment	**2,686,610,107**	**–**	**–**	**–**	**2,686,610,107**
	₱20,907,189,950	**₱1,347,654,617**	**₱260,858,439**	**₱330,120,776**	**₱22,845,823,782**

[1]***Excluding cash on hand***
[2]***Excluding business related advances***

2016

	Neither Past Due Nor Impaired				
	High Grade	Standard Grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents[1]					
Unrestricted	₱14,205,616,057	₱–	₱–	₱–	₱14,205,616,957
Restricted	1,623,851,973	–	–	–	1,623,851,973
Short term investment	362,727,536	–	–	–	362,727,536
Receivables[2]					
Trade					
Short-term	2,250,546,799	968,825,448	250,895,618	294,023,741	3,764,291,606
Long-term	219,628,539	–	–	–	219,628,539
Long-term notes receivable	20,043,334	–	–	–	20,043,334
Others	212,481,219	2,170,362	12,978,289	2,315,200	229,945,070
Security and special deposits	4,133,684	19,437,412	–	–	23,571,096
AFS investment	3,671,506,220	–	–	–	3,671,506,220
	₱22,570,535,361	₱990,433,222	₱263,873,907	₱296,338,941	₱24,121,181,431

[1]*Excluding cash on hand*
[2]*Excluding business related advances*

High grade financial assets are those in which the creditor has a high financial capacity to pay its accounts and the account is supported by a collateral or guarantee, such as government guarantee. Standard grade financial assets pertain to accounts of counterparties who have a good history of paying their accounts on time and who have the financial capacity to pay.

The table below shows the aging analysis of past due but not impaired financial assets per class that the Group held as of December 31, 2017 and 2016. A financial asset is past due when a counterparty has failed to make a payment when contractually due.

2017

	Neither past due nor impaired	Past due but not impaired				Impaired	Total
		Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days		
Cash and cash equivalents[1]							
Unrestricted	**₱13,413,070,134**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱13,413,070,134**
Restricted	**1,366,837,798**	**–**	**–**	**–**	**–**	**–**	**1,366,837,798**
Short term investment	**445,751,332**	**–**	**–**	**–**	**–**	**–**	**445,751,332**
Receivables[2]							
Trade							
Short-term	**4,075,519,297**	**43,195,805**	**14,524,589**	**7,930,088**	**139,918,695**	**327,805,575**	**4,608,894,049**
Long-term	**89,627,456**	**–**	**–**	**–**	**–**	**–**	**89,627,456**
Long-term notes receivable	**3,710,000**	**–**	**–**	**–**	**–**	**–**	**3,710,000**
Others	**168,620,048**	**8,099,581**	**11,774,704**	**2,282,701**	**33,132,276**	**2,315,201**	**226,224,511**
Security and special deposits	**5,098,395**	**–**	**–**	**–**	**–**	**–**	**5,098,395**
AFS investment	**2,686,610,107**	**–**	**–**	**–**	**–**	**–**	**2,686,610,107**
	₱22,254,844,567	**₱51,295,386**	**₱26,299,293**	**₱10,212,789**	**₱173,050,971**	**₱330,120,776**	**₱22,845,823,782**

[1]*Excluding cash on hand*
[2]*Excluding business related advances*

2016

	Neither past due nor impaired	Past due but not impaired				Impaired	Total
		Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days		
Cash and cash equivalents[1]							
Unrestricted	₱14,205,616,057	₱–	₱–	₱–	₱–	₱–	₱14,205,616,957
Restricted	1,623,851,973	–	–	–	–	–	1,623,851,973
Short term investment	362,727,536	–	–	–	–	–	362,727,536
Receivables[2]							
Trade							
Short-term	3,219,372,247	68,671,343	74,775,456	8,506,619	98,942,200	294,023,741	3,764,291,606
Long-term	219,628,539	–	–	–	–	–	219,628,539
Long-term notes receivable	20,043,334	–	–	–	–	–	20,043,334
Others	214,651,581	300,068	150,350	431,009	12,096,862	2,315,200	229,945,070
Security and special deposits	23,571,096	–	–	–	–	–	23,571,096
AFS investment	3,671,506,220	–	–	–	–	–	3,671,506,220
	₱23,560,968,583	₱68,971,411	₱74,925,806	₱8,937,628	₱111,039,062	₱296,338,941	₱24,121,181,431

[1]*Excluding cash on hand*
[2]*Excluding business related advances*

Liquidity Risk
The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The table below summarizes the maturity profile of the Group's financial liabilities as of December 31, 2017 and 2016 based on contractual undiscounted payments.

2017

	On demand	Within 1 year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued expenses[1]	**₱–**	**₱3,182,392,360**	**₱–**	**₱–**	**₱3,182,392,360**
Dividends payable	**–**	**3,427,474,900**	**–**	**–**	**3,427,474,900**
Long-term debt:					
Principal	**–**	**2,629,791,475**	**21,249,540,232**	**14,568,634,675**	**38,447,966,382**
Future interest	**–**	**2,389,140,114**	**7,615,633,753**	**3,148,355,121**	**13,153,128,988**
	₱–	**₱11,628,798,849**	**₱28,865,173,985**	**₱17,716,989,796**	**₱58,210,962,630**

[1]*Excluding, payables to employees and statutory payables, and regulatory fees and other charges*

2016

	On demand	Within 1 year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued expenses[1]	₱–	₱3,197,723,991	₱–	₱–	₱3,197,723,991
Dividends payable	–	3,147,040,000	–	–	3,147,040,000
Long-term debt:					
Principal	–	2,629,791,475	18,049,110,173	15,898,856,209	36,577,757,857
Future interest	–	2,367,527,240	8,302,796,080	2,744,080,222	13,414,403,542
	₱–	₱11,342,082,706	₱26,351,906,253	₱18,642,936,431	₱56,336,925,390

[1]*Excluding, payables to employees and statutory payables, and regulatory fees and other charges*

As of December 31, 2017 and 2016, the net financial assets amounting to ₱21,124.26 million and ₱22,473.72 million, respectively, may be used to meet the Group's liquidity needs. The net financial asset is net of uncollected VAT of ₱1,391.44 million and ₱1,351.12 million as of December 31, 2017 and 2016, respectively.

Interest Rate Risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposures to the risk of changes in market interest rate relates primarily to its long-term debt obligations with variable interest rates. The Group's loans bear fixed interest rates subject to repricing after a minimum of 5 years for CEDC and PEDC and 7 years for TPC. In 2016, CEDC's Tranche A-2 loans was repriced. In March 2017, Tranche A of the Phase 1 loan was repriced. No changes in interest rates for TPC.

The following tables demonstrate management's best estimates of the sensitivity to a reasonably possible change in interest rates, with all variables held constant, of the profit or loss before income tax (through the impact on variable-rate borrowings):

	Increase (decrease) in basis points	**Effect on income before income tax**
2017	**290**	**(₱65,873,615)**
	(290)	**65,873,615**

	Increase (decrease) in basis points	Effect on income before income tax
2016	260	(₱66,933,624)
	(260)	66,933,624

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

Foreign Currency Risk
Foreign Currency Risk Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rate.

The Group uses the Philippine peso as its functional currency and is therefore exposed to foreign exchange movements, primarily in US Dollar ($) currency. The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-Philippine peso currencies. Moreover, the majority of the power sales of the Group are through long-term Electric Power Purchase Agreements which have provisions for passing on fuel costs, including the foreign exchange component, and certain other costs.

The balances of the Group's financial assets and financial liabilities denominated in $ are as follows:

	2017		2016	
	Original Currency (in $)	**Translated (in ₱)**	Original Currency (in $)	Translated (in ₱)
Financial assets				
Cash and cash equivalents	**6,456,897**	**322,347,686**	28,459,681	1,417,662,081
Short term investment	**22,500,000**	**1,273,076,500**	–	–
Financial liability				
Trade payable	**20,596,519**	**1,028,240,018**	22,284,250	1,110,245,345
Net exposure	**8,360,378**	**567,184,168**	6,175,431	307,416,736

The following table presents the impact on the Group's income before income tax due to change in the revaluation of its monetary assets and liabilities, brought about by changes in US dollar to peso exchange rate (holding all other variables constant). There is no impact on the Group's equity other than those already affecting income.

	Change in exchange rates in peso against US dollar	Sensitivity to income before income tax
2017	**Strengthens by 1.74%**	**₱9,963,052**
	Weakens by 1.74%	**(9,963,052)**
2016	Strengthens by 3.14%	₱9,652,198
	Weakens by 3.14%	(9,652,198)

Categories of Financial Instruments
Classification of financial instruments as of December 31, 2017 and 2016:

Financial assets:

	2017		
	Loans and Receivables	**AFS Investment**	**Total**
Cash and cash equivalents[1]	**₱14,779,907,932**	**₱–**	**₱14,779,907,932**
Short-term investments	**445,751,332**	**–**	**445,751,332**
Receivables[2]	**4,928,456,016**	**–**	**4,928,456,016**
Security and special deposits	**5,098,395**	**–**	**5,098,395**
AFS investment	**–**	**2,686,610,107**	**2,686,610,107**
	₱20,159,213,675	**₱2,686,610,107**	**₱22,845,823,782**

[1]*Excluding cash on hand*
[2]*Excluding business related advances*

	2016		
	Loans and Receivables	AFS Investment	Total
Cash and cash equivalents[1]	₱15,829,468,030	₱–	₱15,829,468,030
Short-term investments	362,727,536	–	362,727,536
Receivables[2]	4,233,908,549	–	4,233,908,549
Security and special deposits	23,571,096	–	23,571,096
AFS investment	–	3,671,506,220	3,671,506,220
	₱20,449,675,211	₱3,671,506,220	₱24,121,181,431

[1]*Excluding cash on hand*
[2]*Excluding business related advances*

Financial Liabilities:

	2017	2016
Accounts payable and accrued expenses	**₱3,182,392,360**	₱3,197,723,991
Dividends payable	**3,427,474,900**	3,147,040,000
Long-term debt	**51,601,095,370**	49,992,161,399
	₱58,210,962,630	₱56,336,925,390

Fair Value of Financial Instruments

The following table sets forth an analysis of financial asset and financial liability whose carrying values do not approximate their fair values as of December 31, 2017 and 2016:

	Carrying Amount		Fair Value	
	2017	2016	**2017**	2016
Financial Asset:				
Long-term trade receivables	**₱82,887,298**	₱201,803,397	**₱85,279,447**	₱178,261,162
Financial Liability:				
Long-term debt	**38,142,619,419**	36,234,044,897	**39,027,717,622**	34,532,276,773

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Long-term receivables

The estimated fair value is based on the discounted value of the future cash flows using the prevailing interest rate ranging from 3.13% to 3.77% and 2.59% to 3.86% in 2017 and 2016, respectively.

Long-Term Debt (Bearing Variable Interest)

The carrying amount of long-term debt approximates their fair values because of recent and quarterly re-pricing based on current market rates.

Long-Term Debt (Bearing Fixed Interest)

The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rate ranging from 2.51% to 5.70% and 1.86% to 4.85% in 2017 and 2016, respectively.

The following financial assets and financial liabilities approximate their values as of December 31, 2017 and 2016:

Cash and Cash Equivalents, Short-term Investments, Receivables and Security and Special Deposits

The carrying amounts of cash and cash equivalents, short-term investments, receivables, due from related parties and marginal deposits approximate their fair values due to the short-term maturity of these financial instruments.

AFS Investment

Fair value of AFS investment is based on the quoted market bid prices at the close of business on the reporting date.

Accounts Payable and Accrued Expenses and Dividends Payable

The carrying amounts of accounts payable and accrued expenses and dividends payable, which are all subject to normal trade terms, approximate their fair values due to their short-term nature.

Fair Value Hierarchy

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

- 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

As of December 31, 2017 and 2016, the Group has quoted AFS investment amounting to ₱2,686.61 million and ₱3,671.51 million, respectively, which is categorized under Level 1 in the fair value hierarchy.

In 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Capital Management

The primary objective of the Parent Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its investments 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. No changes were made in the objectives, policies or processes during the years ended December 31, 2017 and 2016.

As discussed in Note 15, the Omnibus Agreements and loan agreements entered into by CEDC, PEDC and TPC require the entities to maintain certain financial ratios.

CEDC, PEDC and TPC shall maintain a debt-to-equity ratio not exceeding 70:30 at all times until full payment of the obligation. CEDC, PEDC and TPC shall likewise ensure that the core capital must be at least 30.00% of the total project cost at project completion date and shall at all times be equivalent to at least 30.00% of the sum of the total aggregate indebtedness for borrowed money and the sum of its equity as of any date of determination.

In 2017 and 2016, the Group was able to comply with the loan covenants.

The following table pertains to the account balances the Group considers as its core capital:

	2017	2016
Capital stock	**₱1,924,020,965**	₱1,924,020,965
Additional paid-in capital	**19,550,064,658**	19,550,064,658
Retained earnings	**2,772,336,544**	2,463,966,923
Long-term and short-term debt	**38,142,619,420**	36,234,044,897
	₱62,389,041,587	₱60,172,097,443

24. **Other Matters**

a. Business Risks

The risks associated with the Group are the business risks associated with the Operating Subsidiaries which include operating risks, environmental matters, permits, political and economic factors and fluctuations in currency exchange rate that affect fuel and oil prices.

Construction risks include shortages of materials and labor, work stoppages and other labor disputes, weather interference, catastrophic events (such as floods, earthquakes and fires), engineering, archaeological, environmental and geological problems, any of which could give rise to delays or cost overruns.

The risks associated with operating the Group include the breakdown or failure of equipment or processes and the performance of the Group below expected levels of output or efficiency. Prior to open access, the electricity fees charged by the Group are subject to regulation by the ERC created under the EPIRA.

b. EPIRA

Republic Act No. 9136, the EPIRA, which became effective in 2001, and the covering Implementing Rules and Regulations (IRR) provide 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 Electric Power Industry Participant, including its contracts with independent power producers and electricity rates;
ii. Creation of a WESM within one year; and
iii. Open and nondiscriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of existing generation and distribution companies within five (5) years from the effectivity of the EPIRA. New generation and distribution companies that started after the effectivity of the EPIRA shall implement their respective public offerings not later than five (5) years from the issuance of their certificate of compliance. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution 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 concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

Based on the assessment of the Operating Subsidiaries, they have complied with the applicable provisions of the EPIRA and its IRR.

c. WESM

In 2011, the Operating Subsidiaries and the PEMC entered into an MPA setting forth the terms and conditions for the eligibility of the entities to participate in the WESM and which allows electricity to be injected into or withdrawn from the Grid.

The Group's spot sales to WESM amounted to ₱1,532.86 million and ₱713.76 million in 2017 and 2016, respectively. Also, purchased power from the WESM combined for replacement power and house-load amounted to ₱976.80 million and ₱594.27 million in 2017 and 2016, respectively (see Note 17).

d. Clean Air Act

The Clean Air Act and the related IRR contain provisions that have an impact on the industry as a whole and to the Operating Subsidiaries in particular, that needs to be complied with within 44 months from the effectivity date or by July 2004. Based on the assessment made on the Operating Subsidiaries' existing facilities, the Operating Subsidiaries believe that they comply with the provisions of the Clean Air Act and the related IRR.

e. Energy Regulation (ER) 1-94

Based on ER 1-94 and the IRR of the EPIRA, generation companies are mandated to provide benefits to its host communities, equivalent to ₱0.01 per kWh of energy generated and sold. The Operating Subsidiaries accrue the required benefits to their host community (included under "Accounts payable and accrued expenses" account in the consolidated statement of financial position) prospectively from the date of effectivity of ER 1-94. Such amount accrued is remitted to the trust account of the DOE upon their audit. Total accrued benefits amounted to ₱47.24 million and ₱30.25 million as of December 31, 2017 and 2016, respectively (see Note 14).

f. Petition against PPC

On October 4, 2002, a petition was filed by consumer protection groups from Iloilo City against PPC, NPC and PECO for the refund of ₱12.10 million representing ₱0.30/kWh discount due to PECO consumers. The petitioners alleged that the power purchased by PPC from NPC, which it sold to PECO (and eventually charged to Iloilo consumers) from June 2001 to July 2002 were subject to the discount. The case remains pending with the ERC as of December 31, 2017. Management believes that it is not probable that there will be an outflow of resources with regard to the petition and that the amount of obligation, if any, cannot be measured reliably. Hence, no provision was recorded.

g. Contingencies

In the ordinary course of business, certain subsidiaries have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of the subsidiaries' protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations.

h. Supply and Equipment Loan Agreement

PPC has a Supply and Equipment Loan Agreement with Shell, whereby Shell will supply PPC's total requirements of petroleum products at prices based on the formula indicated in the agreement. The agreement also provides that Shell will install at PPC's premises the equipment and facilities for the storage and servicing of products purchased at no cost to PPC. The agreement is effective for 15 years and ended until 2013, subject to pricing review every five years. As PPC has not utilized the contracted quantity, the Group's bid committee approved the renewal of the agreement for another 5 years or until the contracted quantity is fully utilized.

Under the new contract, pricing is subject to review every year.

i. Long-term Coal Supply Agreements (CSA)

In order to ensure that there is an adequate supply of coal to operate the power plants, the respective operating plants has entered into several long term contracts with local and foreign coal suppliers. The long term supply agreements are as follows:

PEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2010 - 2019	New C Index with Forex	300,000 MT
PT Sakti Nusantara Bakti	Indonesia	2017 - 2026	New C Index	150,000 MT
Samtan Co., Ltd.	Indonesia	2011 - 2020	New C Index	150,000 MT
Samsung C&T Corporation	Russian	2016 - 2020	Fixed Price	350,000 MT

CEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2010 - 2019	New C Index with Forex	400,000 MT
PT Adaro	Indonesia	2017 - 2019	New C Index	300,000 MT
Samsung C&T Corporation	Russian	2016 - 2020	Fixed Price	300,000 MT

TPC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2015 - 2018	New C Index with Forex	180,000 MT

j. Transmission Line Maintenance, Substation Maintenance and Information Technology (IT) Audit

CEDC entered into a contract with Vivant Corporation (VC) effective starting January 1, 2012, subject to renewal with VC to conduct transmission line maintenance audit for CEDC's 5.1 km dedicated point to point line from Barangay Daanlungsod, Toledo City to Barangay Talavera, Toledo City and to conduct substation maintenance audit for its substation located at Barangay Daanlungsod, Toledo City and Barangay Talavera, Toledo City with monthly contract rates of ₱1.50 million and ₱1.00 million, respectively.

In addition, CEDC entered into an agreement with Southern Grove Properties and Development Corp. (formerly VC Ventures) for the review of the IT software and hardware utilized by the CEDC in its operations. The monthly contract price is ₱1.00 million.

k. Commitments for Capital Expenditures

In 2014, the Company entered into various contracts with Formosa Heavy Industries Corporation (FHIC), True North Manufacturing Services Corporation (TNMC), Poyry Contracting, Inc., Poyry Switzerland, Ltd., among others, in relation to the PEDC 3 expansion project and site development for the supply of materials, machinery and equipment, and services from local and foreign suppliers. These commitments and obligations are expected to be completed and terminated upon final acceptance of the project in 2018 (see Note 12).

l. Advances to Contractors

PEDC has advances to contractors representing payments to Formosa Heavy Industries Corporation and True North Manufacturing Services Corporation for the construction of 1x150-MW power plant PEDC expansion. PEDC will apply these advances to future billings by the contractors.

m. Equity

i. *Capital Stock*

The Group has an outstanding capital stock of 1,924,020,965 shares at a par value of ₱1.00 per share as of December 31, 2017 and 2016.

ii. *Dividends*

In December 2017 and November 2016, the BOD of the respective companies, including the Parent Company, approved the declaration of cash dividends to the stockholders of records as of December 31, 2017 and 2016, respectively. The dividends are payable in the following year.

Below are the details of the cash dividend declaration:

	2017		2016	
	Amount	**₱/share**	Amount	₱/share
GBPC	**₱2,500,000,000**	**₱1.30**	₱2,200,000,000	₱1.14
CEDC	**1,800,000,000**	**324.68**	1,700,000,000	306.64
PPHC	**750,000,000**	**0.34**	1,400,000,000	0.64
GFPHI	**1,008,000,000**	**202.02**	950,000,000	190.40

The balance of retained earnings includes the accumulated equity in net earnings of the subsidiary and associates amounting to ₱2,510.07 million and ₱2,237.42 million as at December 31, 2017 and 2016, respectively. Such amounts are not available for distribution until such time that the Parent Company receives the dividends from the subsidiary and associates.

n. Long-Term Notes Receivable

Long-term notes receivable pertains to the PEDC's loan to PECO as assistance to build a sub-transmission line, payable in equal monthly installments within five years commencing on the sixth month after the date of the last release of the loan balance subject to the interest rate of 9% per annum. As of December 31, 2017 and 2016, long-term notes receivable from PECO amounted to ₱3.71 million and ₱20.04 million, respectively (see Note 8).

o. Notes to Statement of Cash Flows

Noncash investing activities in 2017 and 2016 pertain to additional provisions and reductions in decommissioning liability amounting to ₱179.56 million and ₱92.46 million, respectively. These formed part of adjustments to property, plant, and equipment (see Note 16).

It also includes the capitalization of the amortization of deferred financing costs as part of construction-in-progress amounting to ₱18.77 million and ₱27.82 million in 2017 and 2016,

respectively (see Note 15). The Group has an unpaid balances to the contractors which was included as part of property, plant and equipment amounting to ₱913.06 million and ₱1,115.12 million as of December 31, 2017 and 2016, respectively (see Notes 12 and 13).

Changes in Liabilities arising from Financing Activities

	January 1, 2017	Cash flows	Reclassification of current portion	Amortization of deferred financing costs	Dividend declaration	December 31, 2017
Current portion of long-term loans	**₱2,587,953,442**	**(₱2,629,791,474)**	**₱2,570,694,762**	**₱60,663,211**	**₱–**	**₱2,589,519,941**
Long-term loans - net of current portion	**33,646,091,455**	**4,477,500,000**	**(2,570,694,762)**	**202,789**	**–**	**35,553,099,482**
Dividends payable	**3,147,040,000**	**(3,147,040,000)**	–	–	**3,427,474,900**	**3,427,474,900**
Infusion from shareholder	**68,136,777**	**81,197,242**	**–**	**–**		**149,334,019**
Total liabilities from financing activities	**₱39,449,221,674**	**(₱1,218,134,232)**	**₱–**	**₱60,866,000**	**₱3,427,474,900**	**₱41,719,428,342**

The Group classifies interest paid as cash flows from operating activities.