

g. Registrations with the BOI

- On June 16, 2015, EDC was granted with an ITH incentive by the BOI covering its 4.16 MW Burgos Solar Power Plant - Phase 1, effective for a 7-year period beginning in December 2015. Meanwhile, on December 3, 2015, the BOI granted another ITH incentive to EDC covering its 2.66 MW Burgos Solar Power Plant - Phase 2, effective for a 7-year period beginning in June 2015.
- On November 13, 2015, GCGI was granted with an ITH incentive by the BOI covering its 112.5 MW Tongonan Geothermal Power Plant, effective for 7-year period beginning in April 2015. Only revenues derived from power generated (i.e., 36.79 MW or the capacity in excess of the 75.71 MW, whichever is lower) and sold to the grid, other entities and/or communities shall be entitled to ITH.
- On December 11, 2015, GCGI was granted with an ITH incentive by the BOI covering its 192.5 MW Palinpinon Geothermal Power Plant, effective for 7-year period beginning in February 2014. Only revenues derived from power generated (i.e., 39.66 MW or the capacity in excess of the 152.84 MW, whichever is lower) and sold to the grid, other entities and/or communities shall be entitled to ITH.
- On February 12, 2014, the BOI approved the ITH registration of the Nasulo Power Plant under the RE Law effective for a 7-year period beginning in January 2016 or date of commissioning, whichever is earlier. While the Nasulo power plant has a capacity of 49.4 MW, the ITH shall be limited only to the revenues derived from the sale of 30 MW.
- On March 19, 2014, Prime Meridian received its Certificate of Registration with the BOI under the Omnibus Investment Code of 1987 as a new operator of 115 MW Avion Natural Gas-Fired Power Plant (the Avion power plant). Subject to specific terms and conditions Prime Meridian is entitled to certain tax and non-tax incentives, which include among others, ITH for four years from November 2014 or actual start of commercial operations, whichever come earlier. The ITH shall be limited only to revenues generated from sale of electricity of the 115 MW Avion power plant. On September 26, 2016, the Avion power plant started its commercial operations.
- On February 14, 2013, BGI was granted with an ITH incentive by the BOI covering its 130 MW BMGPP complex. Subject to certain conditions, BGI is entitled to ITH for seven years from July 2013 or date of commissioning of the power plants, whichever is earlier. BGI does not recognize deferred income tax assets and deferred income tax liabilities on temporary differences for its registered activities that are expected to reverse during the ITH period.
- On November 22, 2013, FNPC received its Certificate of Registration with the BOI under the Omnibus Investments Code of 1987 as the new operator of a 450 MW Combined Cycle Natural Gas Power Plant (the "San Gabriel" power plant). Subject to certain conditions, FNPC is entitled to certain tax and non-tax incentives, which include, among others, ITH for four years from April 2016 or actual start of commercial operations, whichever is earlier. The ITH shall be limited only to the revenues generated from the sales of electricity of the San Gabriel power plant. On November 5, 2016, the San Gabriel power plant started its commercial operations.



- On June 29, 2011, the BOI approved the ITH registration of the 86 MW Burgos Wind Farm under the RE Law. On June 3, 2014, EBWPC received a legal service letter from BOI granting the upward amendment of registered capacity of the Burgos Wind Farm from 86 MW to 150 MW effective for a 7-year period beginning in December 2015 or date of commissioning, whichever is earlier.
 - FG Hydro is registered with the BOI under the Omnibus Investments Code of 1987 as the new operator of the 112 MW PAHEP/MAHEP on a pioneer status. As a registered enterprise, FG Hydro was entitled to certain tax and non-tax incentives which include, among others, ITH for six years commencing on April 13, 2007. On October 2, 2013, the BOI approved FG Hydro's application for an ITH extension by granting it another year or until April 12, 2014.
- h. Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. The TRAIN mainly amended the personal income tax rates, adjusted the VAT exempt thresholds and increased excise taxes on petroleum and mineral products and automobiles. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, First Gen Group assessed that the same will not have any significant impact on the consolidated financial statement balances as of the reporting date.

23. Earnings Per Share Calculations

	2017	2016	2015
(a) Net income attributable to equity holders of the Parent Company	\$134,424	\$199,590	\$167,318
Less dividends on preferred stocks	(28,072)	(30,399)	(35,758)
(b) Net income available to common stocks	\$106,352	\$169,191	\$131,560
(c) Weighted average number of common stocks for basic earnings per share	3,599,477,324	3,599,971,340	3,581,395,541
Basic/Diluted Earnings Per Share (b/c)	\$0.030	\$0.047	\$0.037

In 2017, 2016 and 2015, First Gen Group does not have any dilutive potential common stocks. Hence, diluted EPS is the same as basic EPS.

24. Financial Risk Management Objectives and Policies

First Gen Group's principal financial liabilities are comprised of loans payable and long-term debts, among others. The main purpose of these financial liabilities is to raise financing for First Gen Group's growth and operations. First Gen Group has other various financial assets and liabilities such as cash and cash equivalents, receivables, amounts due to and from related parties, and accounts payable and accrued expenses, which arise directly from its operations.

As a matter of policy, First Gen Group does not trade its financial instruments. However, First Gen Group enters into derivative and hedging transactions, primarily interest rate swaps, cross-currency swaps and foreign currency forwards, as needed, for the sole purpose of managing the relevant financial



risks that are associated with First Gen Group's borrowing activities and as required by the lenders in certain cases.

First Gen Group has an Enterprise-Wide Risk Management Program which is aimed to identify risks based on the likelihood of occurrence and impact to the business, formulate risk management strategies, assess risk management capabilities and continuously monitor the risk management efforts.

The main financial risks arising from First Gen Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and merchant risk. The BOD reviews and approves policies for managing each of these risks as summarized below. First Gen Group's accounting policies in relation to derivative financial instruments are set out in Note 2 to the consolidated financial statements.

Interest Rate Risk

First Gen Group's exposure to the risk of changes in market interest rate relates primarily to First Gen Group's long-term debt obligations that are subject to floating interest rates, derivative assets, derivative liabilities, and AFS financial assets.

First Gen Group believes that prudent management of its interest cost will entail a balanced mix of fixed and variable rate debt. On a regular basis, the Finance team of First Gen Group monitors the interest rate exposure and presents it to management by way of a compliance report. To manage the exposure to floating interest rates in a cost-efficient manner, First Gen Group may consider prepayment, refinancing, or hedging the risks as deemed necessary and feasible.

In November 2008, FGPC entered into interest rate swap (IRS) agreements to cover the interest payments for up to 91% of its combined debt under the Covered and Uncovered Facilities. However, in May 2017, FGPC fully paid the outstanding loans under the Covered and Uncovered Facilities and such payments have led to the termination of the interest rate swaps.

In 2013, FGP entered into three IRS agreements to cover interest payments up to 24.3% of its Term Loan Facility. In the last quarter of 2014, EBWPC entered into four (4) IRS with aggregate notional amount of \$150.0 million. This is to partially hedge the interest rate risks on its ECA and Commercial Debt Facilities (the Foreign Facility) that is benchmarked against U.S. LIBOR and with flexible interest reset feature that allows EBWPC to select the interest reset frequency to be applied. In the first quarter of 2016, EBWPC entered into three (3) additional IRS with aggregate notional amount of \$30.0 million.

Under these swap agreements, FGPC, FGP and EBWPC agreed to exchange, at specific intervals, the difference between fixed and variable rate interest amounts calculated by reference to the agreed-upon notional principal amounts.

As of December 31, 2017 and 2016, approximately 59.1% and 70.9%, respectively, of First Gen Group's borrowings are subject to fixed interest rate after considering the effect of its interest rate swap agreements.



Interest Rate Risk Table

The following table sets out the nominal amount, by maturity, of First Gen Group's financial instruments that are exposed to interest rate risk (amounts in millions):

2017						
	Interest Rates	Within 1 Year	More than 1 Year up to 3 Years	More than 3 Years up to 5 Years	More than 5 Years	Total
Fixed Rate						
Long-term debts:						
FGP Term Loan Facility*	1.28% - 1.43%	\$10.22	\$60.34	\$-	\$-	\$70.56
Parent \$200 million Term Loan	4.90%	20.00	40.00	47.00	81.00	188.00
Parent \$300 million Notes	6.50%	-	-	-	91.69	91.69
EDC \$300 million Notes	6.50%	-	-	210.99	-	210.99
IFC 1	7.40%	5.03	10.06	10.06	15.03	40.18
IFC 2	6.66%	6.85	13.70	13.70	3.35	37.60
FXCN						
¥3.0 billion	5.25%	2.16	4.33	46.38	-	52.87
¥4.0 billion	5.25%	2.88	5.77	61.85	-	70.50
FXR Bonds						
¥3.0 billion	4.16%	-	60.08	-	-	60.08
¥4.0 billion	4.73%	-	-	-	79.50	79.50
FNPC Term Facility	3.37%	19.19	38.38	38.38	105.53	201.48
¥1.5 billion Term Loan	5.25%	0.60	4.21	2.40	22.23	29.44
¥1.0 billion Term Loan	5.58%	0.20	0.40	2.40	17.02	20.02
¥291.2 million Term Loan	5.75%	0.45	0.90	0.90	3.59	5.84
UBP ¥2.0 billion Term Loan	5.44%	2.67	5.34	5.34	25.37	38.72
SBC ¥3.0 billion Term Loan	5.32%	4.81	9.61	10.82	32.44	57.68
PNB ¥500.0 million Term Loan	4.74%	2.00	4.01	3.00	-	9.01
BPI ¥1.0 billion Term Loan	5.21%	1.60	3.20	3.61	10.82	19.23
SBC ¥1.0 billion Term Loan	5.43%	1.34	2.67	2.67	12.68	19.36
SBC ¥500.0 million Term Loan	5.50%	0.67	1.34	1.34	6.33	9.68
BGI ¥5.0 billion Term Loan	5.25%	12.02	25.04	23.53	15.52	76.11
GCGI ¥8.5 billion Term Loan	5.25%	20.43	44.26	54.48	-	119.17
Floating Rate						
Long-term debts:						
FGPC Term Loan Facility	2.62%	\$71.43	\$142.86	\$142.86	\$107.14	\$464.29
FGP Term Loan Facility	3.97%	31.78	23.66	164.00	-	219.44
PNB Loan	4.50%	3.51	7.72	8.42	-	19.65
US\$80 million Term Loan	3.37%	72.80	-	-	-	72.80
EBWPC Loans						
\$37.5 million Commercial Debt Facility	3.76%	1.97	4.59	5.06	21.94	33.56
\$150.0 million ECA Debt Facility	3.76%-4.11%	7.87	18.38	20.25	87.76	134.26
¥5.6 billion Commercial Debt Facility	6.19%	2.53	5.06	5.06	87.93	100.58

*Including effect of interest rate swap

2016						
	Interest Rates	Within 1 Year	More than 1 Year up to 3 Years	More than 3 Years up to 5 Years	More than 5 Years	Total
Fixed Rate						
Long-term debts:						
Covered Facility*	7.65%	\$22.58	\$88.33	\$93.88	\$-	\$204.79
Uncovered Facility*	7.56% - 7.96%	13.24	-	-	-	13.24
Term Loan Facility*	1.28% - 1.43%	8.27	20.44	50.12	-	78.83
Parent \$200 million Term Loan	4.90%	6.00	40.00	40.00	108.00	194.00
Parent \$300 million Notes	6.50%	-	-	-	300.00	300.00
EDC \$300 million Notes	6.50%	19.50	58.50	9.75	-	87.75
IFC 1	7.40%	5.05	10.11	10.11	20.14	45.41
IFC 2	6.66%	6.88	13.75	13.75	10.25	44.63
FXCN						
¥3.0 billion	5.25%	\$2.17	\$4.34	\$4.34	\$44.41	\$55.26
¥4.0 billion	5.25%	2.90	5.79	5.79	59.21	73.69
FXR Bonds						
¥3.0 billion	4.16%	-	-	60.34	-	60.34
¥4.0 billion	4.73%	-	-	-	80.45	80.45
FNPC Term Facility	3.37%	\$19.19	\$38.38	\$38.38	\$124.73	\$220.68
¥1.5 billion Term Loan	5.25%	0.60	2.41	3.62	23.53	30.16
¥1.0 billion Term Loan	5.58%	-	0.40	1.41	18.30	20.11
¥291.2 million Term Loan	5.75%	-	0.90	0.90	4.05	5.85
BGI ¥5.0 billion Term Loan	5.25%	12.07	24.14	27.15	25.14	88.50
GCGI ¥8.5 billion Term Loan	5.25%	20.51	41.03	47.87	30.77	140.18

(Forward)



	2016					Total
	Interest Rates	Within 1 Year	More than 1 Year up to 3 Years	More than 3 Years up to 5 Years	More than 5 Years	
<u>Floating Rate</u>						
Long-term debts:						
Uncovered Facility	5.17%	\$4.41	\$—	\$—	\$—	\$4.41
Term Loan Facility	3.54%	25.73	63.56	37.88	118.00	245.17
Staple Financing	5.38%	41.74	—	—	—	41.74
PNB Loan	3.07%	5.50	11.55	12.65	6.60	36.30
US\$80 million Term Loan	2.56%	—	72.80	—	—	72.80
US\$175 million Refinanced Syndicated Term loan	2.51%	87.48	—	—	—	87.48
EBWPC Loans						
\$37.5 million Commercial Debt Facility	3.30%	1.50	4.13	4.97	24.47	35.07
\$150.0 million ECA Debt Facility	3.30%	6.00	16.50	19.88	97.88	140.26
₱5.6 billion Commercial Debt Facility	3.65%	2.54	5.08	5.08	95.35	108.05

*Including effect of interest rate swap

Interest on financial instruments classified as floating rate is repriced semi-annually on each interest payment date. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of First Gen Group that are not included in the foregoing tables are noninterest-bearing and are therefore not subject to cash flow interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates for the years ended December 31, 2017 and 2016, with all other variables held constant, of First Gen Group's income before income tax and equity (through the impact of floating rate borrowings, derivative assets and liabilities):

	Increase (Decrease) in Basis Points	Increase (Decrease) in Income Before Income Tax	Increase (Decrease) in Equity
December 31, 2017			
U.S. Dollar	+100	(\$7.78 million)	\$9.05 million
	-100	7.78 million	(8.16 million)
December 31, 2016			
U.S. Dollar	+100	(\$7.17 million)	\$13.50 million
	-100	7.17 million	(12.74 million)
Philippine Peso	+100	(0.64 million)	–
	-100	0.64 million	–

The effect of changes in interest rates in equity pertains to the fair valuation of derivatives designated as cash flows hedges and is exclusive of the impact of changes affecting First Gen Group's consolidated statement of income.

Foreign Currency Risk

Foreign Currency Risk with Respect to Philippine Peso, Euro and Other Foreign Currencies. First Gen Group's exposure to foreign currency risk arises as the functional currency of the Parent Company and certain subsidiaries, the U.S. dollar, is not the local currency in its country of operations. Certain financial assets and liabilities as well as some costs and expenses are denominated in various foreign currencies. To manage the foreign currency risk, First Gen Group may consider entering into derivative transactions, as necessary.

The following table sets out the foreign currency-denominated monetary assets and liabilities (translated into U.S. dollar) as of December 31, 2017 and 2016 that may affect the consolidated financial statements of First Gen Group (amounts in millions):



	2017									
	Original Currency									
	Philippine Peso- denominated Balances	Euro- denominated Balance	Japanese Yen- denominated Balance	Chilean Peso denominated Balance	New Zealand dollar denominated Balance	Singapore Dollar denominated Balance	Hong Kong Dollar denominated Balance	Peruvian Sol Denominated Balance	Indonesian Rupiah denominated Balance	Equivalent U.S. Dollar Balances ¹
Financial Assets										
Loans and receivables:										
Cash and cash equivalents	₱20,138.1	€—	¥—	CHL₱118.7	NZ\$—	SG\$—	HK\$—	PEN0.2	IDR1,566.7	\$408.2
Receivables	8,533.8	—	—	—	—	—	—	—	—	170.9
Long-term receivables	191.3	—	—	—	—	—	—	—	—	3.8
	28,863.2	—	—	118.7	—	—	—	0.2	1,566.7	582.9
AFS financial assets	546.4	—	—	—	—	—	—	—	—	10.9
Financial assets at FVPL	1,034.6	—	—	—	—	—	—	—	—	20.7
Total financial assets	30,444.2	—	—	118.7	—	—	—	0.2	1,566.7	614.5
Financial Liabilities										
Liabilities at amortized cost:										
Accounts payable and accrued expenses	11,306.8	9.2	115.1	—	1.6	0.1	0.1	—	—	250.6
Dividends payable	722.9	—	—	—	—	—	—	—	—	14.5
Long-term debts	42,829.6	—	—	—	—	—	—	—	—	857.8
Total financial liabilities	54,859.3	9.2	115.1	—	—	—	—	—	—	1,122.9
Net financial liabilities (assets)	₱24,415.1	€9.2	¥115.1	(CHL₱118.7)	NZ\$1.6	SG\$0.1	HK\$0.1	(PEN0.2)	(IDR1,566.7)	\$508.4

¹ US\$1=₱49.93, US\$1=€0.838, US\$1=¥112.887, US\$1=CHL₱615.660, US\$1=HK\$7.816, US\$1=NZD1.412, US\$1=SG\$1.338, US\$1=IDR13,494.59 and US\$1=PEN0.054 as of December 31, 2017

	2016								
	Original Currency								
	Philippine Peso- denominated Balances	Euro- denominated Balance	Japanese Yen- denominated Balance	Chilean Peso denominated Balance	New Zealand dollar denominated Balance	Singapore Dollar denominated Balance	Hong Kong Dollar denominated Balance	Great Britain Pound denominated Balance	Equivalent U.S. Dollar Balances ¹
Financial Assets									
Loans and receivables:									
Cash and cash equivalents	₱12,191.2	€–	¥–	CHL₱142.7	NZ\$–	SG\$–	HK\$–	£–	\$245.6
Receivables	8,733.4	–	–	–	–	–	–	–	175.7
Long-term receivables	34.9	–	–	–	–	–	–	–	0.7
	20,959.5	–	–	142.7	–	–	–	–	422.0
AFS financial assets	1,120.4	–	–	–	–	–	–	–	22.5
Financial assets at FVPL	383.9	–	–	–	–	–	–	–	7.7
Total financial assets	22,463.8	–	–	142.7	–	–	–	–	452.2
Financial Liabilities									
Liabilities at amortized cost:									
Accounts payable and accrued expenses	₱9,922.8	₱7.1	₱328.3	₱–	₱0.5	₱0.1	₱0.1	₱0.2	₱210.5
Dividends payable	731.8	–	–	–	–	–	–	–	14.7
Long-term debts	40,743.9	–	–	–	–	–	–	–	819.5
Total financial liabilities	51,398.5	7.1	328.3	–	0.5	0.1	0.1	0.2	1,044.7
Net financial liabilities (assets)	₱28,934.7	€7.1	¥328.3	(CHL142.7)	NZ\$0.5	SG\$0.1	HK\$0.1	£0.2	\$592.2

¹ US\$1=₱49.72, US\$1=€0.959, US\$1=¥117.181, US\$1=CHL₱669.116, US\$1=HK\$7.743, US\$1=NZD1.443, US\$1=SG\$1.447 and US\$1=GB£0.871 as of December 31, 2016.



The following tables demonstrate, for the years ended December 31, 2017 and 2016, the sensitivity to a reasonably possible change in the foreign currency exchange rates applicable to First Gen Group, with all other variables held constant, to First Gen Group's income before income tax and equity (due to changes in the revaluation of monetary assets and liabilities):

2017			
	Foreign Currency Appreciates (Depreciates) By	Increase (Decrease) in Income Before Income Tax	Increase (Decrease) in Equity
<i>(Amounts in Millions)</i>			
Philippine Peso	6%	\$10.31	(\$35.27)
	(6%)	(\$11.62)	45.80
European Euro	3%	(0.01)	0.21
	(3%)	0.01	(0.21)
Japanese Yen	10%	(0.09)	—
	(10%)	0.11	—
Chilean Peso	10%	(0.2)	—
	(10%)	0.2	—
Hong Kong Dollar	10%	(0.01)	—
	(10%)	0.01	—
Singapore Dollar	10%	(0.01)	—
	(10%)	0.01	—
New Zealand Dollar	10%	(0.10)	—
	(10%)	0.13	—
Peruvian Sol	10%	(0.41)	—
	(10%)	0.50	—
Indonesian Rupiah	10%	(0.01)	—
	(10%)	0.01	—
2016			
	Foreign Currency Appreciates (Depreciates) By	Increase (Decrease) in Income Before Income Tax	Increase (Decrease) in Equity
<i>(Amounts in Millions)</i>			
Philippine Peso	5%	\$2.36	\$30.08
	(5%)	(2.61)	(33.24)
European Euro	3%	(0.23)	—
	(3%)	0.23	—
Japanese Yen	10%	(0.25)	—
	(10%)	0.31	—
Chilean Peso	10%	(0.02)	—
	(10%)	0.02	—
Hong Kong Dollar	10%	(0.01)	—
	(10%)	0.01	—
Singapore Dollar	10%	(0.01)	—
	(10%)	0.01	—
New Zealand Dollar	10%	(0.03)	—
	(10%)	0.04	—
Great Britain Pound	10%	(0.02)	—
	(10%)	0.03	—

The effect of changes in foreign currency rates in equity pertains to the fair valuation of the derivatives designated as cash flow hedges and is exclusive of the impact of changes affecting First Gen Group's consolidated statement of income.

Foreign Currency Risk with Respect to U.S. Dollar. In the case of entities within First Gen Group with Philippine Peso as its functional currency, they are mainly exposed to foreign currency risk through monetary assets and liabilities denominated in U.S. dollar. Any depreciation of the U.S. dollar against the Philippine peso posts foreign exchange losses relating to its monetary assets and liabilities.



The U.S. dollar denominated monetary assets are translated to Philippine peso using the exchange rate of ₱49.93 to \$1.00 and ₱49.72 to \$1.00 as at December 31, 2017 and 2016, respectively.

For EDC, its exposure to foreign currency risk is mitigated to some degree by some provisions of its GRESCs, SSAs, PPAs, and Renewable Energy Payment Agreement (REPA). The service contracts allow full cost recovery while its sales contracts include billing adjustments covering the movements in Philippine peso and the U.S. dollar rates, U.S. Price and Consumer Indices, and other inflation factors. To further mitigate the effects of foreign currency risk, EDC will prepay, refinance or hedge its foreign currency denominated loans whenever deemed feasible or enter into derivative contracts.

The table below summarizes First Gen Group's exposure to foreign exchange risk with respect to U.S. dollar as at December 31:

	2017		2016	
	U.S. Dollar-denominated Balances	Philippine Peso Equivalent	U.S. Dollar-denominated Balances	Philippine Peso Equivalent
	<i>(Amounts in Millions)</i>			
Financial Assets				
Loans and receivables:				
Cash equivalents	\$33.0	₱1,647.2	\$63.9	₱3,177.5
Cash on hand and in banks	9.4	467.4	9.5	474.2
AFS financial assets -				
Derivative assets designated as cash flow hedges	2.2	111.3	13.0	646.5
Total financial assets	\$44.6	₱2,225.9	\$86.4	₱4,298.2
Financial Liabilities				
Liabilities at amortized cost:				
Accounts payable	\$14.8	₱740.3	\$13.2	₱655.9
Long-term debt	444.9	22,213.1	626.7	31,160.6
Accrued interest on long-term debts	6.8	337.8	9.4	467.5
Derivative liabilities designated as cash flow hedges	1.7	84.7	2.0	101.7
Total financial liabilities	\$468.2	₱23,375.9	\$651.3	₱32,385.7

The following table sets out the impact of the range of reasonably possible movement in the U.S. dollar exchange rates with all other variables held constant on the Group's income before income tax and equity for the years ended December 31, 2017 and 2016.

	Change in Exchange Rate in U.S dollar against Philippine peso	Effect on Income Before Income Tax	Equity
		<i>(Amounts in Millions)</i>	
2017	10%	(₱2,117.65)	₱2.67
	(10%)	2,117.65	(2.67)
2016	10%	(₱2,863.22)	₱54.48
	(10%)	2,863.22	(54.48)

The effect of changes in foreign currency rates in equity pertains to the fair valuation of the derivatives designated as cash flow hedges and is exclusive of the impact of changes affecting First Gen Group's consolidated statement of income.

Credit Risk

First Gen Group trades only with recognized, reputable and creditworthy third parties and/or transacts only with institutions and/or banks which have demonstrated financial soundness. It is First Gen Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the level of the



allowance account is reviewed on an ongoing basis to ensure that First Gen Group's exposure to doubtful accounts is not significant.

For EDC, the geothermal and power generation businesses trade with two major customers, NPC and TransCo, both are government-owned-and-controlled corporations. Any failure on the part of NPC and TransCo to pay their obligations to EDC would significantly affect EDC's business operations. As a practice, EDC monitors closely its collections from NPC and TransCo, and may charge interest on delayed payments following the provisions of the PPAs and REPA, respectively. Receivable balances are monitored on an ongoing basis to ensure that EDC's exposure to bad debts is not significant. The maximum exposure of trade receivable is equal to its carrying amount.

With respect to credit risk arising from the other financial assets of First Gen Group, which comprise of cash and cash equivalents, excluding cash on hand, trade and other receivables, financial assets at FVPL, short-term investments, and AFS financial assets, First Gen Group's exposure to credit risk arises from a possible default of the counterparties with a maximum exposure equal to the carrying amount of these instruments before taking into account any collateral and other credit enhancements.

Credit Risk Exposure

The table below shows the gross maximum exposure to credit risk of First Gen Group as of December 31, 2017 and 2016.

	2017	2016
Financial assets accounted for as cash flow hedge		
Derivative assets	\$4,416	\$12,833
Financial assets at FVPL		
Designated as at FVPL	20,720	22,534
Loans and receivables		
Cash and cash equivalents*	670,972	497,873
Receivables:		
Trade	352,135	336,518
Due from related parties	1,729	1,592
Others	3,083	6,372
DSRA	114,173	20,665
Long-term receivables	5,753	1,265
Short-term investments	14,847	5,873
Special deposits and funds	5,177	2,695
Other current assets	709	726
Total loans and receivables	1,168,578	873,579
AFS financial assets		
Debt securities	2,936	2,565
Equity securities	7,042	6,749
Proprietary club membership shares	964	1,014
Total AFS financial assets	10,942	10,328
	\$1,204,656	\$919,274

*Excluding cash on hand

First Gen Group does not hold collateral for its financial assets as security.



The following tables show First Gen Group's aging analysis of financial assets as of December 31, 2017 and 2016:

2017							
	Neither Past Due nor Impaired	Past Due but Not Impaired				Past Due and Impaired	Total
		Less than 30 Days	31 Days to 1 Year	Over 1 Year up to 3 Years	Over 3 Years		
Loans and receivables:							
Cash and cash equivalents*	\$670,972	\$-	\$-	\$-	\$-	\$-	\$670,972
Trade receivables	280,179	4,319	17,666	49,971	-	2,552	354,687
Due from related parties	1,729	-	-	-	-	-	1,729
Other receivables	3,083	-	-	-	-	-	3,083
Long-term receivables	2,795	-	-	1,094	1,864	131	5,884
Special deposits and funds	5,177	-	-	-	-	-	5,177
Short-term investments	14,847	-	-	-	-	-	14,847
DSRA	114,173	-	-	-	-	-	114,173
Other current assets	709	-	-	-	-	-	709
AFS financial assets:							
Debt securities	2,936	-	-	-	-	-	2,936
Equity securities	7,042	-	-	-	-	-	7,042
Proprietary club membership shares	964	-	-	-	-	-	964
Financial assets at FVPL - Designated as at FVPL	20,720	-	-	-	-	-	20,720
Financial assets accounted for as cash flow hedge - Derivative assets	4,416	-	-	-	-	-	4,416
Total	\$1,129,742	\$4,319	\$17,666	\$51,065	\$1,864	\$2,683	\$1,207,339

*Excluding cash on hand

2016							
	Neither Past Due nor Impaired	Past Due but Not Impaired				Past Due and Impaired	Total
		Less than 30 Days	31 Days to 1 Year	Over 1 Year up to 3 Years	Over 3 Years		
Loans and receivables:							
Cash and cash equivalents*	\$497,873	\$-	\$-	\$-	\$-	\$-	\$497,873
Trade receivables	268,060	5,241	12,988	50,229	-	2,307	338,825
Due from related parties	1,592	-	-	-	-	-	1,592
Other receivables	6,372	-	-	-	-	-	6,372
Long-term receivables	1,265	-	-	-	-	1,562	2,827
Special deposits and funds	2,695	-	-	-	-	-	2,695
Short-term investments	5,873	-	-	-	-	-	5,873
DSRA	20,665	-	-	-	-	-	20,665
Other current assets	726	-	-	-	-	-	726
AFS financial assets:							
Debt securities	2,565	-	-	-	-	-	2,565
Equity securities	6,749	-	-	-	-	-	6,749
Proprietary club membership shares	1,014	-	-	-	-	-	1,014
Financial assets at FVPL - Designated as at FVPL	22,534	-	-	-	-	-	22,534
Financial assets accounted for as cash flow hedge - Derivative assets	12,833	-	-	-	-	-	12,833
Total	\$850,816	\$5,241	\$12,988	\$50,229	\$-	\$3,869	\$923,143

*Excluding cash on hand

Credit Quality of Financial Assets

The evaluation of the credit quality of First Gen Group's financial assets considers the payment history of the counterparties.

Financial assets are classified as 'high grade' if the counterparties are not expected to default in settling their obligations, thus, credit risk exposure is minimal. These counterparties normally include banks, related parties, and customers who pay on or before due date. Financial assets are classified as 'standard grade' if the counterparties settle their obligations to First Gen Group with tolerable delays.



As of December 31, 2017 and 2016, substantially all financial assets that are neither past due nor impaired are viewed by management as ‘high grade’ considering the collectability of the receivables and the credit history of the counterparties. Meanwhile, past due but not impaired financial assets are classified as standard grade.

Concentration of Credit Risk

The Parent Company, through its operating subsidiaries FGP and FGPC, earns substantially all of its revenue from Meralco. Meralco is committed to pay for the capacity and energy generated by the San Lorenzo and Santa Rita power plants under the existing long-term PPAs which are due to expire in September 2027 and August 2025, respectively. While the PPAs provide for the mechanisms by which certain costs and obligations including fuel costs, among others, are pass-through to Meralco or are otherwise recoverable from Meralco, it is the intention of the Parent Company, FGP and FGPC to ensure that the pass-through mechanisms, as provided for in their respective PPAs, are followed.

EDC’s geothermal and power generation businesses trade with two major customers, namely NPC and TransCo. Any failure on the part of NPC and TransCo to pay their obligations to EDC would significantly affect EDC’s business operations.

First Gen Group’s exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of the receivables from Meralco, in the case of FGP and FGPC, and the receivables from NPC and TransCo, in the case of EDC.

The table below shows the risk exposure in respect to credit concentration of First Gen Group as of December 31, 2017 and 2016:

	2017	2016
Trade receivables from Meralco	\$147,301	\$178,687
Trade receivables from NPC and TransCo	69,821	78,354
Total credit concentration risk	\$217,122	\$257,041
Total receivables	\$356,947	\$344,482
Credit concentration percentage	60.83%	74.62%

Liquidity Risk

First Gen Group’s exposure to liquidity risk refers to the lack of funding needed to finance its growth and capital expenditures, service its maturing loan obligations in a timely fashion, and meet its working capital requirements. To manage this exposure, First Gen Group maintains its internally generated funds and prudently manages the proceeds obtained from fund-raising in the debt and equity markets. On a regular basis, First Gen Group’s Treasury department monitors the available cash balances by preparing cash position reports. First Gen Group maintains a level of cash and cash equivalents deemed sufficient to finance the operations.

In addition, First Gen Group has short-term deposits and available credit lines with certain banking institutions. FGP, FGPC, EDC, GCGI, BGI, and EBWPC in particular, each maintain a DSRA to sustain the debt service requirements for the next payment period. As part of its liquidity risk management, First Gen Group regularly evaluates its projected and actual cash flows. It also continuously assesses the financial market conditions for opportunities to pursue fund raising activities.

As of December 31, 2017 and 2016, 24.0% and 20.9%, respectively, of First Gen Group’s debt will mature in less than a year based on the carrying value of borrowings reflected in the consolidated financial statements.



The tables below summarize the maturity profile of First Gen Group's financial assets used for liquidity management and financial liabilities as of December 31, 2017 and 2016 based on the contractual undiscounted payments:

	2017					Total
	On Demand	Less than 3 Months	3 to 12 Months	Over 1 Year up to 5 Years	Over 5 Years	
Financial Assets:						
Cash and cash equivalents	\$671,251	\$-	\$-	\$-	\$-	\$671,251
Trade receivables	-	284,498	17,666	49,971	-	352,135
DSRA	-	-	114,173	-	-	114,173
Total loans and receivables	671,251	284,498	131,839	49,971	-	1,137,559
Derivative contract receipts	-	-	1,322	1,987	-	3,309
Derivative contract payments	-	-	(962)	(1,173)	-	(2,135)
Total financial assets accounted for as cash flow hedge	-	-	360	814	-	1,174
AFS financial assets -						
Debt securities	2,936	-	-	-	-	2,936
Total financial assets	\$674,187	\$284,498	\$132,199	\$50,785	\$-	\$1,141,669
Financial liabilities:						
Accounts payable and accrued expenses*	\$57,874	\$245,473	\$28,797	\$-	\$-	\$332,144
Due to a related party	145	-	-	-	-	145
Dividends payable	-	14,478	-	-	-	14,478
Long-term debts	-	48,427	428,995	1,676,049	931,916	3,085,387
Total liabilities carried at amortized cost	58,019	308,378	457,792	1,676,049	931,916	3,432,154
Derivative contract receipts	-	(6,846)	-	-	-	(6,846)
Derivative contract payments	-	6,914	-	-	-	6,914
Total financial liabilities accounted for as cash flow hedges	-	68	-	-	-	68
Total financial liabilities	\$58,019	\$308,446	\$457,792	\$1,676,049	\$931,916	\$3,432,222

	2016					Total
	On Demand	Less than 3 Months	3 to 12 Months	Over 1 Year up to 5 Years	Over 5 Years	
Financial Assets:						
Cash and cash equivalents	\$497,980	\$-	\$-	\$-	\$-	\$497,980
Trade receivables	-	273,301	46,828	16,389	-	336,518
DSRA	20,665	-	-	-	-	20,665
Total loans and receivables	518,645	273,301	46,828	16,389	-	855,163
Derivative contract receipts	-	-	1,851	4,803	-	6,654
Derivative contract payments	-	-	(1,086)	(2,136)	-	(3,222)
Total financial assets accounted for as cash flow hedge	-	-	765	2,667	-	3,432
AFS financial assets -						
Debt securities	2,565	-	-	-	-	2,565
Total financial assets	\$521,210	\$273,301	\$47,593	\$19,056	\$-	\$861,160
Financial liabilities:						
Accounts payable and accrued expenses*	\$78,656	\$211,303	\$31,621	\$-	\$-	\$321,580
Due to a related party	145	-	-	-	-	145
Dividends payable	-	14,719	-	-	-	14,719
Long-term debts	-	46,381	388,649	1,695,038	1,280,282	3,410,350
Total liabilities carried at amortized cost	78,801	272,403	420,270	1,695,038	1,280,282	3,746,794
Derivative contract receipts	-	-	(2,838)	(8,837)	-	(11,675)
Derivative contract payments	-	-	9,119	17,864	-	26,983
Total financial liabilities accounted for as cash flow hedges	-	-	6,281	9,027	-	15,308
Total financial liabilities	\$78,801	\$272,403	\$426,551	\$1,704,065	\$1,280,282	\$3,762,102

*Excluding output VAT, local and other taxes and payables to government agencies.



Merchant Risk

First Gen Group has two fully-merchant power plants, namely FNPC and Prime Meridian. These new gas plants are exposed to the volatility of spot prices because of supply and demand changes, which are mostly driven by factors that are outside of First Gen Group's control. These factors include (but are not limited to) unexpected outages, weather conditions, transmission constraints, and changes in fuel prices. These have caused and are expected to cause variability in the operating results of the aforementioned merchant plants. In 2018, FNPC was awarded a PSA for 414 MW of its capacity by Meralco. The term of the PSA is for six (6) years.

First Gen Group plans to mitigate these risks by having a balanced portfolio of contracted and spot capacities. As of December 31, 2017 and 2016, First Gen Group was 80% and 79% contracted in terms of installed capacity, respectively. This percentage will increase to 92.0% upon approval of the FNPC PSA with Meralco by the ERC.

Capital Management

The primary objective of First Gen Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business, comply with its financial loan covenants and maximize shareholder value. Core capital includes long-term debt and equity.

First Gen Group manages its capital structure and makes adjustments to it, in light of changes in business and economic conditions. To maintain or adjust the capital structure, First Gen Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No significant changes were made in the objectives, policies or processes during the years ended December 31, 2017 and 2016.

First Gen Group monitors capital using a debt ratio, which is total debt (net of debt issuance costs) divided by total debt plus total equity. The amounts considered as total debt are mostly interest-bearing debt, and First Gen Group's practice is to keep the debt ratio lower than 75:25.

	2017	2016
Long-term debts (current and non-current portions)	\$2,512,687	\$2,678,132
Equity attributable to equity holders of the Parent		
Company	\$1,882,270	\$1,662,949
Non-controlling interests	581,918	426,618
Total equity	\$2,464,188	\$2,089,567
Total debt and equity	\$4,976,875	\$4,767,699
Debt ratio	51:49	56:44

First Gen Group's subsidiaries are obligated to perform certain covenants with respect to maintaining specified debt-to-equity and minimum debt-service coverage ratios, as set forth in their respective agreements with the creditors. As of December 31, 2017 and 2016, First Gen Group is in compliance with those covenants.



25. Financial Instruments

Set out in the following table is a comparison by category of the carrying values and fair values of First Gen Group's financial instruments as at December 31, 2017 and 2016 that are carried in the consolidated financial statements:

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Financial assets accounted for as cash flow				
hedges - Derivative assets	\$4,416	\$4,416	\$12,833	\$12,833
Financial assets designated at FVPL	20,720	20,720	22,534	22,534
Loans and receivables:				
Cash and cash equivalents	671,251	671,251	497,980	497,980
Receivables:				
Trade	352,135	352,135	336,518	336,518
Due from related parties	1,729	1,729	1,592	1,592
Others	3,083	3,083	6,372	6,372
Long-term receivables	5,753	3,542	1,265	1,209
Special deposits and funds	5,177	5,177	2,695	2,695
Short-term investments	14,847	14,847	5,873	5,873
DSRA	114,173	114,173	20,665	20,665
Other current assets	709	709	726	726
Total loans and receivables	1,168,857	1,166,646	873,686	873,630
AFS financial assets -				
Debt securities	2,936	2,936	2,565	2,565
Equity securities	7,042	7,042	6,749	6,749
Proprietary club membership shares	964	964	1,014	1,014
Total AFS financial assets	10,942	10,942	10,328	10,328
	\$1,204,935	\$1,202,724	\$919,381	\$919,325
Financial Liabilities				
Financial liabilities carried at amortized cost:				
Accounts payable and accrued expenses*	\$332,145	\$332,145	\$321,580	\$321,580
Dividends payable	14,478	14,478	14,719	14,719
Due to a related party	145	145	145	145
Long-term debts	2,512,687	2,592,791	2,678,132	2,832,607
Total financial liabilities at amortized cost	2,859,455	2,939,559	3,014,576	3,169,051
Financial liability accounted for as cash flow				
hedges - Derivative liabilities	1,763	1,763	16,435	16,435
	\$2,861,218	\$2,941,322	\$3,031,011	\$3,185,486

*Excluding output VAT, local and other taxes and payables to government agencies.

Fair Value and Categories of Financial Instruments

The fair values of cash and cash equivalents, receivables, other current assets, accounts payable and accrued expenses, dividends payable and amounts due to/from related parties approximate the carrying values at financial reporting date, due to the short-term maturities of the transactions.

Long-term Receivables

The fair value of long-term receivables was computed by discounting the expected cash flows using the applicable rates of 4.05% and 3.40% in 2017 and 2016, respectively.

AFS financial assets

Fair values of quoted debt and equity securities are based on quoted market prices. For equity instruments that are not quoted, the investments are carried at cost less allowance for impairment losses, if any, due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Financial instruments at fair value through profit or loss

The fair values of financial instruments at fair value through profit or loss are based on quotations provided by the investment manager.



FGP and FGPC long-term debts

The fair values of long-term debts were computed by discounting the instruments' expected future cash flows using the prevailing credit adjusted U.S. dollar interest rates ranging from 1.7753% to 2.4675% and 0.9656% to 2.1780% as of December 31, 2017 and 2016, respectively.

Parent Company and FNPC long-term debts

The fair values of the Parent Company's and FNPC's U.S. dollar-denominated long-term debts were computed by discounting the instruments' expected future cash flows using the prevailing credit adjusted U.S. dollar interest rates on December 31, 2017 and 2016 ranging from 1.4980% to 2.6260% and 0.6350% to 2.6520%, respectively.

Long-term debts of Red Vulcan, EDC and FG Hydro

The fair values for EDC's and FG Hydro's long-term debts are estimated using the discounted cash flow methodology with the applicable rates ranging from 1.75% to 97.32% and 1.75% to 34.18% on December 31, 2017 and 2016, respectively. As of December 31, 2016, the fair value of Red Vulcan's Staple Financing approximates its carrying value. On September 18, 2017, Red Vulcan fully settled the outstanding loan.

Fair Value Hierarchy of Financial Assets and Liabilities

The table below summarizes the fair value hierarchy of First Gen Group's financial assets and liabilities.

	2017			
	Fair value	Level 1	Level 2	Level 3
Loans and receivables:				
Long-term receivables	\$3,542	\$—	\$—	\$3,542
AFS financial assets:				
Debt securities	2,936	2,936	—	—
Equity securities	7,042	864	6,178	—
Financial assets accounted for as cash flow hedges - Derivative assets	4,416	—	4,416	—
Financial assets designated at FVPL	20,720	—	20,720	—
Long-term debt	2,592,791	—	—	2,592,791
Financial liabilities accounted for as cash flow hedges - Derivative liabilities	1,763	—	1,763	—
	2016			
	Fair value	Level 1	Level 2	Level 3
Loans and receivables:				
Long-term receivables	\$1,209	\$—	\$—	\$1,209
AFS financial assets:				
Debt securities	2,565	2,565	—	—
Equity securities	6,749	655	6,094	—
Financial assets accounted for as cash flow hedges - Derivative assets	12,833	—	12,833	—
Financial assets designated at FVPL	22,534	—	22,534	—
Long-term debt	2,832,607	—	—	2,832,607
Financial liabilities accounted for as cash flow hedges - Derivative liabilities	16,435	—	16,435	—

As of December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and there were no transfers into and out of Level 3 fair value measurements.

Derivative Financial Instruments

First Gen Group enters into derivative transactions such as interest rate swaps to hedge its interest rate risks arising from its floating rate borrowings, cross currency swaps, and foreign currency forwards to hedge the foreign exchange risk arising from its loans and payables. These derivatives (including embedded derivatives) are accounted for either as derivatives not designated as accounting hedges or derivatives designated as accounting hedges.



The table below shows the fair values of First Gen Group's outstanding derivative financial instruments, reported as assets or liabilities, together with their notional amounts as of December 31, 2017 and 2016. The notional amount is the basis upon which changes in the value of derivatives are measured.

	2017			2016		
	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount
Derivatives Designated as						
Accounting Hedges						
Freestanding derivatives:						
Interest rate swaps	\$2,186	\$1,545	\$224,696	\$2,213	\$16,435	\$441,865
Cross currency swaps	—	—	—	9,410	—	75,000
Forward contracts	—	68	€5,716	—	—	—
Call spread swaps	2,230	150	\$48,800	1,210	—	28,800
Total derivatives	\$4,416	\$1,763		\$12,833	\$16,435	
Presented as:						
Current	\$2,294	\$158		\$9,461	\$88	
Noncurrent	2,122	1,605		3,372	16,347	
Total derivatives	\$4,416	\$1,763		\$12,833	\$16,435	

Derivatives not Designated as Accounting Hedges

These derivatives may include freestanding derivatives used to economically hedge certain exposures but were not designated by management as accounting hedges. Such derivatives are classified as at FVPL with changes in fair value directly taken to the consolidated statement of income. As of December 31, 2017 and 2016, First Gen Group has no derivatives not designated as accounting hedges.

Derivatives Designated as Accounting Hedges

First Gen Group has interest rate swaps accounted for as cash flow hedges for its floating rate loans and cross-currency swaps and foreign currency forwards accounted for as cash flow hedges of its Philippine peso and U.S. dollar denominated borrowings and Euro denominated payables, respectively. Under a cash flow hedge, the effective portion of changes in fair value of the hedging instrument is recognized as cumulative translation adjustments in other comprehensive income (loss) until the hedged item affects earnings.

Interest Rate Swaps - FGPC

On November 14, 2008, FGPC entered into eight interest rate swap agreements with the following hedge providers namely: Société Générale (Singapore Branch), Bayerische Hypo-und Vereinsbank AG (Hong Kong Branch), Calyon and SCB. On the same date, FGPC designated the interest rate swaps as hedges of the cashflow variability in the Covered and Uncovered Facilities, attributable to the movements in the six-month LIBOR (see Note 14).

Under the four IRS agreements that hedge 100% of the Covered Facility, FGPC pays a fixed rate of 4.4025% and receives a 6-month U.S. LIBOR on the aggregate amortizing notional amount of \$312.0 million, simultaneous with the interest payments every May and November on the hedged loan. The notional amounts of the interest rate swaps are amortizing based on the repayment schedule of the hedged loan. The interest rate swap agreements have a term of 12 ½ years and will mature on May 10, 2021 (coinciding with the maturity of the hedged loan).

Under the four IRS agreements that hedge 75% of the Uncovered Facility, FGPC pays a fixed rate of 4.0625% and receives a 6-month U.S. LIBOR on the aggregate amortizing notional amount of \$141.0 million, simultaneous with the interest payments every May and November on the hedged loan. The notional amounts of the interest rate swaps are amortizing based on the repayment schedule of the hedged loan. The interest rate swaps have a term of 8 ½ years and will mature on May 10, 2017 (coinciding with the maturity of the hedged loan).



On May 19, 2017, FGPC terminated the IRS agreements in the amount of \$13.4 million. As the hedge loan was terminated, the aggregate negative fair values of the interest rate swaps that were deferred to “Cumulated translation adjustments” account in the consolidated statement of financial position amounting to \$13.4 million as of the termination date were taken in the “Interest expense and financing charges” account in the consolidated statement of income (see Note 20).

As of December 31, 2017 and 2016, the aggregate negative fair values of the IRS that were deferred to “Cumulative translation adjustments” account in the consolidated statement of financial position amounted to nil and \$10.1 million (net of related deferred income tax effect of \$4.3 million), respectively.

Interest Rate Swap - FGP

In April 2013, FGP entered into two interest rate swap agreements with ING Bank and SCB to hedge its floating rate exposure on \$80.0 million of its \$420.0 million term loan facility (see Note 14). Under the IRS agreements, FGP pays a fixed rate of 1.425% and receives a floating rate of U.S. LIBOR, on a semi-annual basis, simultaneous with the interest payments every June and December on the hedged loan.

In May 2013, FGP entered into another IRS agreement with RCBC to hedge its floating rate exposure on another \$20.0 million of the \$420.0 million term loan facility. Under the IRS agreement, FGP pays a fixed rate of 1.28% and receives a floating rate of U.S. LIBOR, on a semi-annual basis, simultaneous with the interest payment every June and December on the hedged loan. The notional amounts of interest rate swaps are amortizing based on the repayment schedule of the hedged loan. The interest rate swaps were designated as cash flow hedges and will mature on June 10, 2020.

On June 10, 2013, FGP designated the IRS as hedging instruments to hedge the variability in the cash flows from the Term Loan Facility, attributable to the movements of six-month U.S. LIBOR. The hedges are accounted for as cash flow hedges.

As of December 31, 2017 and 2016, the positive fair values of the IRS that were deferred to “Cumulative translation adjustments” account in the consolidated statement of financial position amounted to \$0.8 million (net of related deferred income tax effect of \$0.3 million) and \$0.7 million (net of related deferred income tax effect of \$0.3 million), respectively.

There was no ineffective portion recognized in the consolidated statement of income for the years ended December 31, 2017, 2016 and 2015.

The outstanding aggregate notional amounts and the related cumulative mark-to-market gains and losses of the IRS designated as cash flow hedges as of December 31, 2017 and 2016 are as follows:

	2017	2016
Notional amounts	\$74,696	\$272,865
Cumulative mark-to-market losses	—	(14,388)
Cumulative mark-to-market gains	1,100	1,021



The net movements in the fair value of the interest rate swaps of FGPC and FGP are as follows:

	2017	2016
Fair value at beginning of year	(\$13,367)	(\$21,539)
Fair value changes taken into equity during the year	(1,493)	(1,097)
Fair value changes realized during the year	15,960	9,269
Fair value at end of year	1,100	(13,367)
Deferred income tax effect on cash flow hedges	(330)	4,010
Fair value deferred into equity	\$770	(\$9,357)

Fair value changes during the year, net of deferred income tax, are recorded in the consolidated statement of comprehensive income, and under the “Cumulative translation adjustments” account in the consolidated statement of financial position. The fair value changes realized during the year were taken into “Interest expense and financing charges” account in the consolidated statement of income. This pertains to the net difference between the fixed interest paid/accrued and the floating interest received/accrued on the interest rate swap agreements as at financial reporting date.

For the years ended December 31, 2017 and 2016, fair value changes taken to the consolidated statement of income amounted to \$11.9 million and \$5.7 million, respectively.

Foreign Currency Forwards - FGPC, FGP and FNPC

On September 11, 2017, FGPC, FGP and FNPC entered into several currency forwards with ING Bank N.V. Manila Branch (ING) to purchase European Euro at fixed Euro to U.S. dollar exchange rates. FGPC, FGP and FNPC designated these derivatives as effective hedging instruments that will address the risk on variability of cash flows due to foreign exchange fluctuations in Euro to U.S. dollar exchange rates related to its Euro denominated liabilities arising from the monthly operations and maintenance fees to SPOI.

Under the agreements, FGPC, FGP, FNPC are obligated to buy Euro from ING amounting to €8.6 million, €3.7 million and €1.8 million, respectively, based on the agreed strike exchange rates. The settlement of each of the forward contract is from October 3, 2017 up to March 2, 2018 which coincides with the settlement of the outstanding and forecasted monthly payables to SPOI.

Pertinent details of the foreign currency forwards are as follows:

Trade Date	Settlement Date	Forward Date	Notional amounts (in thousands Euro)		
			FGPC	FGP	FNPC
09/11/17	10/03/17	10/23/29	€1,733	€959	€296
09/11/17	11/03/17	10/23/29	1,729	887	354
09/11/17	12/04/17	10/23/29	1,758	329	410
09/11/17	01/03/18	10/23/29	1,175	370	365
09/11/17	02/02/18	10/23/29	1,068	575	195
09/11/17	03/02/18	10/23/29	1,164	598	206

As of December 31, 2017, the outstanding notional amount of the foreign currency forward contracts designated as cash flow hedges amounted to €5.7 million. The aggregate negative fair value of the foreign currency forward contracts that was deferred to “Cumulative translation adjustments” account in the consolidated statement of financial position amounted to \$0.1 million.



Cross Currency Swaps - EDC

In 2012 and 2014, EDC entered into 6 and an additional 6 non-deliverable cross-currency swap (NDCCS) agreements with an aggregate notional amount of \$65.0 million and \$45.0 million, respectively, to partially hedge the foreign currency and interest rate risks on its Refinanced Syndicated Term Loan that is benchmarked against U.S. LIBOR and with flexible interest reset feature that allows EDC to select the interest reset frequency to be applied (i.e., monthly, quarterly, or semi-annually). As it is EDC's intention to reprice the interest rate on the hedged loan quarterly, EDC utilizes NDCCS with quarterly interest payments and receipts.

Under the NDCCS agreements, EDC receives floating US\$ interest based on 3-month U.S. LIBOR plus 175 basis points and pays fixed peso interest. On specified dates, EDC also receives specified U.S. dollar amounts in exchange for specified peso amounts based on the agreed swap rates. These U.S. dollar receipts correspond with the expected interest and fixed principal amounts due on the hedged loan. Effectively, the 12 NDCCS converted 62.86% of the hedged loan into a fixed-rate peso loan.

Pertinent details of the NDCCS are as follows:

Notional amount (in million)	Trade Date	Effective Date	Maturity Date	Swap rate	Fixed rate	Variable rate
\$15.00	03/26/12	03/27/12	06/17/17	43.05	4.87%	3-month LIBOR + 175 bps
\$10.00	04/18/12	06/27/12	06/17/17	42.60	4.92%	3-month LIBOR + 175 bps
\$10.00	05/03/12	06/27/12	06/17/17	42.10	4.76%	3-month LIBOR + 175 bps
\$10.00	06/15/12	06/27/12	06/17/17	42.10	4.73%	3-month LIBOR + 175 bps
\$10.00	07/17/12	09/27/12	06/17/17	41.25	4.58%	3-month LIBOR + 175 bps
\$10.00	10/29/12	12/27/12	06/17/17	41.19	3.44%	3-month LIBOR + 175 bps
\$7.50	05/14/14	06/27/14	06/17/17	43.62	3.80%	3-month LIBOR + 175 bps
\$7.50	05/14/14	06/27/14	06/17/17	43.57	3.80%	3-month LIBOR + 175 bps
\$7.50	06/09/14	06/27/14	06/17/17	43.55	3.60%	3-month LIBOR + 175 bps
\$7.50	06/09/14	06/27/14	06/17/17	43.55	3.60%	3-month LIBOR + 175 bps
\$7.50	07/10/14	9/27/14	06/17/17	43.29	3.50%	3-month LIBOR + 175 bps
\$7.50	07/09/14	9/27/14	06/17/17	43.37	3.68%	3-month LIBOR + 175 bps

The maturity date of the 12 NDCCS coincides with the maturity date of the hedged loan.

All NDCCS were settled on June 17, 2017.

As of December 31, 2016, the outstanding aggregate notional amount of EDC's NDCCS amounted \$75.0 million. The aggregate positive fair value changes on these NDCCS amounting to \$0.3 million were recognized under "Cumulative translation adjustments" account in the consolidated statement of financial position as of December 31, 2016.

Interest Rate Swap - EBWPC

In the last quarter of 2014, EBWPC entered into four (4) IRS with aggregate notional amount of \$150.0 million. This is to partially hedge the interest rate risks on its ECA and Commercial Debt Facilities (the Foreign Facility) that is benchmarked against U.S. LIBOR and with flexible interest reset feature that allows EBWPC to select the interest reset frequency to be applied. Under the IRS agreement, EBWPC will receive semi-annual interest of 6-month U.S. LIBOR and will pay fixed interest. EBWPC designated the interest rate swap as hedging instruments in cash flow hedge against the interest rate risk arising from the Foreign Facility. In the first quarter of 2016, EBWPC entered into three (3) additional IRS with aggregate notional amount of \$30.0 million.



Pertinent details of the IRS are as follows:

Notional amount (in million)	Trade Date	Effective Date	Maturity Date	Fixed rate	Variable rate
US\$62.00	10/20/14	12/15/14	10/23/29	2.635%	6-month LIBOR
40.00	10/20/14	12/15/14	10/23/29	2.635	6-month LIBOR
39.00	12/11/14	12/15/14	10/23/29	2.635	6-month LIBOR
18.00	02/12/16	06/15/16	10/23/29	1.825	6-month LIBOR
9.00	10/20/14	12/15/14	10/23/29	2.508	6-month LIBOR
6.00	02/12/16	06/15/16	10/23/29	1.825	6-month LIBOR
6.00	02/12/16	06/15/16	10/23/29	1.825	6-month LIBOR

The maturity date of the seven (7) IRS coincides with the maturity date of the Foreign Facility.

As of December 31, 2017 and 2016, the outstanding aggregate notional amounts of EBWPC's interest rate swap amounted to \$162.2 million and \$169.0 million, respectively. The aggregate negative fair value changes on these interest rate swaps amounting to \$1.2 million and \$0.3 million, respectively, were recognized under "Cumulative translation adjustments" account in the consolidated statements of financial position as of December 31, 2017 and 2016.

Call Spread Swap Contracts - EDC

In March 2016, EDC entered into three (3) call spread swaps (CSS) with an aggregate notional amount of \$28.8 million. In June 2016, EDC also entered into additional two (2) CSS with a notional amount of \$9.6 million each. These derivative contracts are designed to hedge the possible foreign exchange losses of its \$80.0 million club loan.

In July 2017, EDC entered into four (4) CSS with an aggregate notional amount of \$20.0 million. These derivative contracts are designed to hedge the possible foreign exchange loss of its \$300.0 million Notes.

The aggregate fair value changes on these CSS contracts amounted to \$0.9 million and \$1.2 million as of December 31, 2017 and 2016, respectively.

Hedge Effectiveness Results

Since the critical terms of the hedged loans and the interest rate swaps/NDCCS match, except for one to two days timing difference on the interest reset dates, the hedges were assessed to be highly effective. As such, the aggregate fair value changes on these interest rate swaps/NDCCS amounting to nil and \$8.7 million gain as of December 31, 2017 and 2016 were recognized under "Cumulative translation adjustments" account in the consolidated statement of financial position. No ineffective portion was recognized in the consolidated statements of income for the years ended December 31, 2017, 2016 and 2015.

As of December 31, 2017 and 2016, the fair value of the outstanding CSS amounted to \$0.9 million loss. Since the critical terms of the \$80.0 million club loan and CSS match, EDC recognized the aggregate fair value changes on these under "Mark-to-market gain (loss) on derivatives" account in the consolidated statements of income.



As of December 31, 2017 and 2016, the net movement of changes made to “Cumulative translation adjustments” account for EDC’s cash flow hedges are as follows:

	2017	2016
Balances at beginning of year	(\$503)	(\$3,948)
Fair value changes taken into equity during the year	(6,899)	7,470
Fair value changes realized during the year	(2,001)	(1,612)
Foreign exchange losses realized taken to the consolidated statements of income	8,990	(2,413)
	(413)	(503)
Deferred income tax effect on cash flow hedges	(832)	231
Balances at end of year	(\$1,245)	(\$272)

26. Significant Contracts, Franchise, Commitments and Contingencies

a. PPAs and PSAs

FGP and FGPC

FGP and FGPC each has an existing PPA with Meralco, the largest power distribution company operating in the island of Luzon and the Philippines and the sole customer of both companies. Under the PPA, Meralco will purchase in each contract year from the start of commercial operations, a minimum number of kWh of the net electrical output of FGP and FGPC for a period of 25 years. Billings to Meralco under the PPA are substantially in U.S. dollar and a small portion is billed in Philippine peso.

On January 7, 2004, Meralco, FGP and FGPC signed the amendment to their respective PPAs. The negotiations resulted in a package of concessions including the assumption of FGP and FGPC of community taxes at current tax rate, while conditional concessions include increasing the discounts on excess generation, payment of higher penalties for non-performance up to a capped amount, recovery of accumulated deemed delivered energy until 2011 resulting in the non-charging of Meralco of excess generation charge for such energy delivered beyond the contracted amount but within a 90% capacity quota. The amended terms under the respective PPAs of FGP and FGPC were approved by the ERC on May 31, 2006.

Under the respective PPAs of FGP and FGPC, the fixed capacity fees and fixed operating and maintenance fees are recognized monthly based on the actual NDC tested and proven, which is usually conducted on a semi-annual basis. Total fixed capacity fees and fixed operating and maintenance fees amounted to \$305.2 million, \$298.0 million and \$296.4 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total power sold to Meralco by FGP and FGPC (which already includes the fixed capacity fees and fixed operating and maintenance fees mentioned above) amounted to \$920.2 million, \$826.6 million and \$1,076.5 million for the years ended December 31, 2017, 2016 and 2015, respectively.

FG Bukidnon

On January 9, 2008, FG Bukidnon and Cagayan Electric Power and Light Co., Inc. (CEPALCO), an electric distribution utility operating in the City of Cagayan de Oro, signed a PSA for the FG Bukidnon plant. Under the PSA, FG Bukidnon shall generate and deliver to CEPALCO and CEPALCO shall take, and pay for even if not taken, the available energy for a period commencing on the date of ERC approval until March 28, 2025.



On June 14, 2012, FG Bukidnon signed a Transmission Service Agreement with NGCP for the latter's provision of the necessary transmission services to FG Bukidnon. The charges under this agreement are as provided in the Open Access Transmission Service Rules and/or applicable ERC orders/issuances. Under the PSA, these transmission-related charges shall be passed through to CEPALCO.

FG Hydro

FG Hydro had contracts which were originally transferred by NPC to FG Hydro as part of the acquisition of PAHEP/MAHEP for the supply of electric energy with several customers within the vicinity of Nueva Ecija. All contracts expired as of December 31, 2010.

Upon renegotiation with the customers and as stipulated by the ERC, the expired contracts were renewed except for the contract with Pantabangan Municipal Electric System (PAMES). FG Hydro shall generate and deliver to these customers the contracted energy on a monthly basis. FG Hydro is bound to service these customers for the remainder of the stipulated terms, the range of which falls between August 2018 and December 2020.

Upon expiration, these contracts may be renewed upon renegotiation with the customers and approval by the ERC. As of December 31, 2017, there are three remaining long-term power supply agreements being serviced by FG Hydro.

Details of the existing contracts are as follows:

Related Contract	Expiry Date	Other Development
Nueva Ecija II Electric Cooperative, Inc., Area 1 (NEECO II - Area 1)	August 25, 2018	The ERC granted a provisional approval of the PSC between FG Hydro and NEECO II-Area 1 that took effect on January 13, 2014.
Edong Cold Storage and Ice Plant (ECOSIP)	December 25, 2020	A new agreement was signed by FG Hydro and ECOSIP in November 2010 for the supply of power in the succeeding ten years.
NIA-Upper Pampanga River Integrated Irrigation System (UPRIIS)	October 25, 2020	FG Hydro and NIA-UPRIIS signed a new agreement in October 2010 for the supply of power in the succeeding ten years.
PAMES	December 25, 2008	There was no new agreement signed between FG Hydro and PAMES. However, FG Hydro had continued to supply PAMES' electricity requirements with PAMES' compliance to the agreed restructured payment terms.

In addition to the above contracts, FG Hydro entered into a PSA with FGES in 2016 for the delivery of electricity to a contestable customer of FGES. The PSC commenced on February 26, 2016 and will end on February 25, 2018.

On February 26, 2016, FG Hydro entered into a PSA with BGI for the delivery of electricity to a customer of FG Hydro. The contract is for a period of thirty (30) months and will remain effective until August 25, 2018.

In 2017, FG Hydro entered into various PSAs with FGES and BGI for the supply of replacement power to various contestable customers of FGES and BGI with varying contract periods beginning December 17, 2017 and up to February 5, 2018.

The PSA with Nueva Ecija II Electric Cooperative, Inc., Area 2 expired on December 25, 2016 and was not renewed.



EDC

EDC sells electricity pursuant to the following PPAs/PSA/ASPA:

- PPAs

588.4 MW Unified Leyte

The PPA provides, among others, that NPC shall pay EDC a base price per kilowatt-hour of electricity delivered subject to inflation adjustments. The PPA stipulates a contracted annual energy of 1,370 gigawatt-hour (GWh) for Leyte-Cebu and 3,000 GWh for Leyte-Luzon throughout the term of the PPA. It also stipulates that EDC shall specify the nominated energy for every contract year. The contract is for a period of 25 years, which commenced in November 1997.

52.0 MW Mindanao I

The PPA provides, among others, that NPC shall pay EDC a base price per kilowatt-hour of electricity delivered subject to inflation adjustments. The PPA stipulates a minimum offtake energy of 330 GWh for the first year and 390 GWh per year for the succeeding years. The contract is for a period of 25 years, which commenced in March 1997.

54.0 MW Mindanao II

The PPA provides, among others, that NPC shall pay EDC a base price per kilowatt-hour of electricity delivered subject to inflation adjustments. The PPA stipulates a minimum energy offtake of 398 GWh per year. The contract is for a period of 25 years, which commenced in June 1999.

Revenue from sale of electricity covered by the three (3) PPAs amounted to \$274.0 million, \$298.1 million \$304.6 million in 2017, 2016 and 2015, respectively.

- PSAs

49.0 MW Nasulo

As of December 31, 2017, EDC's Nasulo power plant has a total of three (3) PSAs as follows:

Customers	Contract Start	Contract Expiration
San Miguel Electric Cooperative (SMEC)	November 26, 2014	December 25, 2024
Unified Leyte Geothermal Energy Inc.	August 26, 2015	August 25, 2021
FGES	August 26, 2016	between Dec. 25, 2018 to March 25, 2019

Revenue from sale of electricity covered by the PSAs amounted to \$10.7 million, \$2.4 million and \$2.3 million in 2017, 2016 and 2015, respectively.

- Ancillary Services Procurement Agreement (ASPA)

On January 24, 2017, EDC entered into an agreement with the NGCP after being certified and accredited by NGCP as capable of providing Regulating Reserve Services. Under the agreement, EDC through the Nasulo power plant shall provide the above-stated ancillary service to NGCP.

The ASPA is effective for a period of five (5) years, commencing on January 24, 2017. The ASPA was provisionally approved by the ERC on June 6, 2017.



GCGI

- PSAs

With GCGI's takeover of Palinpinon and Tongonan Power Plants effective October 23, 2009, the Asset Purchase Agreement with PSALM provides for the assignment of 12 NPC Power Supply Contracts (PSCs) to GCGI. On December 25, 2017, the PSC with Leyte IV Electric Cooperative, Inc. (LEYECO IV) has expired.

As of December 31, 2017, GCGI has the following PSAs:

Customers	Contract Start	Contract Expiration
<u>Leyte</u>		
Leyte II Electric Cooperative, Inc. (LEYECO II)*	December 26, 2010	December 25, 2040
LEYECO II*	December 26, 2011	December 25, 2040
Leyte III Electric Cooperative, Inc. (LEYECO III)*	December 26, 2011	December 25, 2040
<u>Cebu</u>		
Visayan Electric Company, Inc. (VECO)*	December 26, 2010	December 25, 2024
Balamban Enerzone Corporation (BEZ)*	December 26, 2010	December 25, 2025
Mactan Enerzone Corporation (MEZ)	September 26, 2015	December 25, 2025
<u>Bohol</u>		
Bohol II Electric Cooperative, Inc. (BOHECO II)*	January 26, 2013	December 25, 2040
<u>Negros</u>		
Central Negros Electric Cooperative, Inc. (CENECO)*	December 26, 2011	December 25, 2040
Negros Oriental I Electric Cooperative, Inc. (NORECO I)*	December 26, 2010	December 25, 2030
Negros Oriental II Electric Cooperative, Inc. (NORECO II)*	December 26, 2010	December 25, 2035
Northern Negros Electric Cooperative, Inc. (NONECO)*/**	December 26, 2010	June 25, 2040
Dumaguete Coconut Mills, Inc. (DUCOM)	October 26, 2010	December 25, 2040
<u>Panay</u>		
Aklan Electric Cooperative, Inc. (AKELCO)*	March 26, 2010	December 25, 2040
Antique Electric Cooperative, Inc. (ANTECO)	December 26, 2014	December 25, 2040
Capiz Electric Cooperative, Inc. (CAPELCO)*	January 27, 2010	December 25, 2040
Iloilo I Electric Cooperative, Inc. (ILECO I)*	March 26, 2010	December 25, 2040
Iloilo II Electric Cooperative, Inc. (ILECO II)*	December 26, 2010	December 25, 2030
Iloilo III Electric Cooperative, Inc. (ILECO III)*	December 26, 2012	December 25, 2030
Guimaras Electric Cooperative, Inc. (GUIMELCO)*	December 26, 2012	December 25, 2040
FGES***	October 26, 2016	December 25, 2020
FDC Retail Electricity Sales Corp.	March 26, 2017	March 25, 2021

* With Provisional Authority from the ERC as of December 31, 2017.

** NONECO is formerly known as V.M.C. Rural Electric Service Cooperative, Inc. (VRESCO).

*** FGES supplies various customers in Luzon and Visayas.

Coordination with the ERC is ongoing to secure the Final Authority for the filed applications for the approval of the PSAs with the distribution utility customers. Preparations are ongoing for the filing with the ERC of the applications for the approval of the PSA with ANTECO.

BEZ PSA was mutually terminated last December 25, 2016 by both Parties due to the transfer of its various locators to Retail Electricity Suppliers.

Total revenue from sale of electricity under the PSCs and PSAs amounted to \$179.2 million, \$234.6 million and \$246.6 million in 2017, 2016 and 2015, respectively.

- ASPA

On January 24, 2017, GCGI entered into an agreement with the NGCP after being certified and accredited by NGCP as capable of providing Regulating Reserve Services. Under the agreement, GCGI through the Palinpinon Power Plant II shall provide the above-stated ancillary service to NGCP.



The ASPA is effective for a period of five (5) years, commencing on January 24, 2017. The ASPA was provisionally approved by the ERC on June 6, 2017.

BGI

As of December 31, 2017, BGI's outstanding PSAs are as follows:

Customers	Contract Start	Contract Expiration
First Philippine Industrial Corp. (FPIC)	January 26, 2013	December 25, 2018
Camarines Sur II Electric Cooperative, Inc. (CASURECO II)	January 26, 2013	January 25, 2019
ULGEI	August 26, 2015	December 25, 2025
FGES	February 1, 2016	December 25, 2018
FG Hydro	February 26, 2016	August 25, 2018
ULGEI (for supply to CASURECO IV)	March 26, 2016	December 25, 2018
Pampanga II Electric Cooperative, Inc. (PELCO 2)	June 26, 2016	December 25, 2018
Ilocos Norte Electric Cooperative, Inc. (INEC)	September 30, 2016	December 25, 2018
Mt. Province Electric Cooperative, Inc. (MOPRECO)	September 30, 2016	December 25, 2018
Kalinga Apayao Electric Cooperative, Inc. (KAELCO)	September 30, 2016	December 25, 2018
Hoc Po Feeds Corp. (HPFC)	September 26, 2017	July 25, 2018
Green Era Bio-Tech Corporation (GEBTC)	September 26, 2017	December 25, 2018
Pilipinas Kyohritsu Inc. (PKI)	September 26, 2017	December 25, 2018
De La Salle Health Science, Inc. (DLS HSI)	September 26, 2017	December 25, 2018
De La Salle University Dasmariñas (DLSU D)	September 26, 2017	December 25, 2018
Rockwell Land Corporation - Edades Tower and Green (Rockwell Edades)	September 26, 2017	February 25, 2019
Rockwell Land Corporation - The Grove (Rockwell The Grove)	September 26, 2017	February 25, 2019
RFM Corporation (RFM Cabuyao)	October 26, 2017	February 25, 2019
Dulce Cupcakes Corp. (DCC)	November 26, 2017	November 25, 2019
Oceanaire Residences (Oceanaire)	December 26, 2017	December 26, 2019
Santeh Feeds Corporation (SFC)	December 26, 2017	December 26, 2019

BGI entered into various PSAs with FGES for the supply of power to various Contestable Customers of FGES with varying contract periods ending from August 25, 2018 to December 25, 2026.

Total revenue from the sale of electricity amounted to \$92.8 million, \$66.5 million and \$93.2 million in 2017, 2016 and 2015, respectively. The costs of purchases of electricity from WESM were offset against revenues from sale of electricity. Any excess revenue from or excess cost of sale of electricity is presented as revenues from sale of electricity or cost of sale of electricity, respectively.

ULGEI

As of December 31, 2017, ULGEI's outstanding PSAs are as follows:

Customers	Contract Start	Contract Expiration
Bohol Light Company, Inc. (BLCI)	August 26, 2015	August 25, 2021
Camarines Sur IV Electric Cooperative Inc. (CASURECO IV)	August 26, 2015	December 25, 2025
Bohol II Electric Cooperative, Inc.	April 4, 2016	December 25, 2018
Bohol I Electric Cooperative, Inc.	April 4, 2016	December 25, 2018
BGI	December 26, 2017	December 25, 2018

The total revenue from the sale of electricity under PSA's amounted to \$30.9 million, \$17.5 million and \$9.0 million in 2017, 2016 and 2015, respectively.



EDC Siklab

Solar Rooftop Power Purchase Agreement (Solar Rooftop PPA)

In July 2016, EDC Siklab entered into a Solar Rooftop PPA with FGES, and Heva Management and Development Corporation (HEVA). The Solar Rooftop PPA provides, among others, that FGES will supply to HEVA the electricity generated by the EDC Siklab's 1,030 kW solar rooftop system located in Gaisano Capital's mall in La Paz District, Iloilo. The contract is for a period of two (2) years, which commenced in March 2017.

Solar Rooftop Lease Agreements (SLRA)

In 2017, EDC Siklab entered into four (4) SLRA with HEVA. These SLRAs provide, among others, that EDC Siklab will construct, install, test, commission, operate and maintain solar power facilities in Gaisano Capital's mall in Kalibo, Oton and Balasan, and HEVA will lease these facilities for a period of 25 years. As of December 31, 2017, these contracts have not yet commenced.

FGES

Retail Supply Contract (RSC)

In 2016, FGES entered into various RSC with contestable customers ranging from a contract period of 2 to 10 years. These agreements provide for the supply of electricity at an agreed price on a per kWh basis to contestable customers. Under the respective RSCs, FGES charges the customer for both the basic energy and pass through charges, as may be applicable. As of December 31, 2017 and 2016, FGES has outstanding RSCs with 26 and 22 contestable customers, respectively.

Total revenue from sale of electricity relating to the agreements amounted to \$42.7 million, \$13.7 million and \$8.4 million in 2017, 2016 and 2015, respectively. Customer's deposit to guarantee the obligations in the form of escrow, shown as part of "Other noncurrent assets" account, amounted to \$2.4 million and \$1.2 million as of December 31, 2017 and 2016, respectively.

Power Supply General Framework Agreement (PSGFA)

In 2017 and 2016, FGES entered into a PSGFA with several generation companies (GenCo's) for a total of 27.99 MW and 67.25 MW contracted demand, respectively. The said contracted demand is intended to serve the contracted energy requirement of the various RSCs entered into by FGES. In 2017, seven (7) contracts totaling 11.54 MW contracted energy were assigned to BGI RES.

Total purchases from GenCo's, consisting of renewable and non-renewable energy, amounted to \$32.4 million and \$11.8 million for 2017 and 2016, respectively.

Registration with Philippine Economic Zone Authority

On November 15, 2016, the PEZA approved FGES application for registration as an Ecozone Utilities Enterprise engaged in establishing, operating and maintaining its RES project. As a PEZA registered entity, FGES is entitled to VAT zero rating on its transactions with its local supplier of goods, properties, and services for its RES project inside the Cebu Light Industrial Park (CLIP) Special Economic Zone.

FGES has also contracted with contestable customers operating within First Philippine Industrial Park (FPIP) and Gateway Business Park (GBP) Special Economic Zone. On February 9, 2017, FGES entered into a supplemental agreement with the PEZA to increase its scope of authority to supply electricity to the said Economic Zones and entitlement to zero-VAT rating incentive.



Total revenue from zero rated sale of electricity inclusive of passed through distribution and wheeling charges to PEZA contestable customer amounted \$15.8 million and \$0.4 million for the years ended December 31, 2017 and 2016, respectively.

b. Stored Energy Commitment of EDC

In 1996 and 1997, EDC entered into Addendum Agreements to the PPA related to the Unified Leyte power plants, whereby any excess generation above the nominated energy or take-or-pay volume will be credited against payments made by NPC for the periods it was not able to accept electricity delivered by EDC. As of December 31, 2017 and 2016, the commitment for stored energy is equivalent to 4,326.6 GWh.

c. GSCs/GRESCs of EDC

GSCs

Under P.D. 1442, all geothermal resources in public and/or private lands in the Philippines, whether found in, on or under the surface of dry lands, creeks, rivers, lakes, or other submerged lands within the waters of the Philippines, belong to the State, inalienable and imprescriptible, and their exploration, development and exploitation. Furthermore, the Philippine Government may enter into service contracts for the exploration, development and exploitation of geothermal resources in the Philippines.

Pursuant to P.D. 1442, EDC entered into several GSCs with the Philippine Government through the DOE granting EDC the right to explore, develop, and utilize the country's geothermal resource subject to sharing of net proceeds with the Philippine Government. The net proceeds is what remains after deducting from the gross proceeds the allowable recoverable costs, which include development, production and operating costs. The allowable recoverable costs shall not exceed 90% of the gross proceeds. EDC pays 60% of the net proceeds as share of the Philippine Government and retains the remaining 40%. The 60% Philippine Government share is comprised of government share and income taxes. The government share is split between the DOE (60%) and the LGUs (40%) where the project is located.

GRESCs and Geothermal Operating Contracts

The RE Law, which became effective in January 2009, mandates the conversion of existing GSCs under P.D. 1442 into GRESCs to avail of the incentives under the RE Law. EDC submitted its letter of intent to register with the DOE as an RE Developer on May 20, 2009 and the conversion contracts negotiation with the DOE started in August 2009. On September 10, 2009, EDC was granted the Provisional Certificate of Registration as an RE Developer for its existing projects. With the receipt of the certificates of provisional registration as geothermal RE Developer, the fiscal incentives of the RE Law was availed of by EDC retroactive from the effective date of such law on January 30, 2009. Fiscal incentives include among others, the change in the applicable corporate tax rate from 30% to 10% for RE-registered activities. Aside from the tax incentives, the significant terms of the service concessions under the GRESCs are similar to the GSCs except that EDC has control over any significant residual interest over the steam fields, power plants, and related facilities throughout the concession period and even after the concession period.



The GSCs were fully converted to GRESCs upon signing of the parties on October 23, 2009; thereby EDC is now the holder of five (5) GRESCs and the corresponding DOE Certificate of Registration as an RE Developer for the following geothermal projects:

- 1) GRESC 2009-10-001 for Tongonan Geothermal Project;
- 2) GRESC 2009-10-002 for Southern Negros Geothermal Project;
- 3) GRESC 2009-10-003 for Bacon-Manito Geothermal Project;
- 4) GRESC 2009-10-004 for Mt. Apo Geothermal Project; and
- 5) GRESC 2009-10-005 for Northern Negros Geothermal Project

On February 19, 2010, EDC's GSC in Mt. Labo in Camarines Norte and Sur was converted to GRESC 2010-02-020, and on March 24, 2010, the DOE issued to EDC a new GRESC of Mainit Geothermal Project under DOE Certificate of Registration No. GRESC 2010-03-021.

In 2015, EDC recognized loss on direct write-off of exploration and evaluation assets related to the Mt. Labo and Mainit Geothermal Projects totaling to \$0.3 million (₱11.3 million) due to issues on productivity and sustainability of geothermal resources in the area.

The remaining service contract of EDC covered by P.D. 1442 as of December 31, 2013 is the Mt. Cabalian in Southern Leyte with a term of 25 years from the effective date of the contract on January 31, 1997 and for an additional period of 25 years if EDC has not been in default in its obligations under the GSC.

In 2014, after thorough assessment, EDC surrendered to the DOE the GSC covering the Southern Leyte Geothermal Project located in Cabalian, Southern Leyte. EDC has found the project not viable after considering the size of the resource and the risks associated with the development and sustainability thereof. EDC wrote-off the allowance recognized for the Cabalian project amounting to \$13.0 million (₱574.8 million).

EDC also holds geothermal resource service contracts, each with a five-year pre-development period expiring in 2017 and a 25-year contract period expiring between 2037 and 2040, for the following prospect areas:

- 1) Ampiro Geothermal Project
- 2) Mandalagan Geothermal Project
- 3) Mt. Zion Geothermal Project
- 4) Lakewood Geothermal Project
- 5) Balingasag Geothermal Project
- 6) Mt. Zion 2 Geothermal Project
- 7) Amacan Geothermal Project

In 2017, the exploration and evaluation costs incurred for Mt. Ampiro, Lakewood and certain foreign projects totaling to \$0.8 million (₱38.5 million) were directly written-off due to issues on productivity and sustainability of geothermal resources in the area.

Under the GRESCs, EDC pays the Philippine Government a government share equivalent to 1.5% of the gross income from the sale of geothermal steam produced and such other income incidental to and arising from generation, transmission, and sale of electric power generated from geothermal energy within the contract areas. Under the GRESCs, gross income derived from business is an amount equal to gross sales less sales returns, discounts and allowances, and cost of goods sold. Cost of goods sold includes all business expenses directly incurred to produce the steam used to generate power under a GRESC.



The RE Law also provides that the exclusive right to operate geothermal power plants shall be granted through a Renewable Energy Operating Contract with the Philippine Government through the DOE. On May 8, 2012, EDC, through its subsidiaries GCGI and BGI secured three (3) Geothermal Operating Contracts (GOCs), each with a 25-year contract period expiring in 2037 and renewable for another 25 years, covering the following power plant operations:

- 1) Tongonan Geothermal Power Plant under DOE Certificate of Registration No. GOC 2012-04-038;
- 2) Palinpinon Geothermal Power Plant under DOE Certificate of Registration No. GOC 2012-04-037;
- 3) Bacon-Manito Geothermal Power Plant under DOE Certificate of Registration No. GOC No. 2012-04-039

The Government share, presented as “Government share” under the “Costs of sale of electricity” account, for both the GRESCs and GOCs is allocated between the DOE (60%) and the LGUs (40%) within the applicable contract area (see Note 13).

d. SSAs of EDC

Under the SSA, NPC agrees to pay EDC a base price per kWh of gross generation, subject to inflation adjustments, and based on a guaranteed take-or-pay (TOP) rate at certain percentage plant factor. The SSA is for a period of 20 to 25 years.

Details of the existing SSAs are as follows:

Contract Area	Guaranteed TOP	End of Contract
BacMan I	75% plant factor	May 2018
BacMan II	50% for the 1st year, 65% for the 2nd year, 75% for the 3rd and subsequent years	March 2019

Following the commercial operations of the BacMan units, PSALM/NPC, EDC, and BGI have agreed to allow EDC bill BGI directly, on behalf of PSALM/NPC, starting October 1, 2013 for BacMan II and January 28, 2014 for BacMan I.

e. GSPAs

FGP and FGPC

FGP and FGPC each has an existing GSPA with the consortium of Shell Philippines Exploration B.V., Chevron Malampaya, LLC and PNOC Exploration Corporation (collectively referred to as Gas Sellers), for the supply of natural gas in connection with the operations of the power plants. The GSPAs, now on their sixteenth Contract Year, are for a total period of approximately 22 years.

Total cost of natural gas purchased amounted to \$172.9 million in 2017, \$172.8 million in 2016, and \$201.8 million in 2015, for FGP; and \$343.1 million in 2017, \$293.9 million in 2016, and \$408.3 million in 2015, for FGPC.

Under the GSPA, FGP and FGPC are obligated to purchase and take (or pay for, if not taken) a minimum quantity of gas for each Contract Year (which runs from December 26 of a particular year up to December 25 of the immediately succeeding year), called the Take-Or-Pay Quantity (TOPQ). Thus, if the TOPQ is not taken within a particular Contract Year, FGP and FGPC incur an “Annual Deficiency” for that Contract Year equivalent to the total volume of unused gas (i.e., the TOPQ less the actual quantity of gas taken). FGP and FGPC are required to make



payments to the Gas Sellers for such Annual Deficiency after the end of the Contract Year. After paying for Annual Deficiency gas, FGP and FGPC can, subject to the terms of the GSPA, “make-up” such Annual Deficiency by taking the unused-but-paid-for gas (without further charge) within 10-Contract Years after the Contract Year for which the Annual Deficiency was incurred, in the order that it arose.

Included in the June 9, 2010 Settlement Agreement is the GSPA amendment in which FGP, FGPC and the Gas Sellers agreed that where the Gas Sellers reschedule, reduce or cancel Scheduled Maintenance and fail to provide a rescheduling notice within the period required under clause 17.1.2 of the respective GSPAs of FGP and FGPC, Gas Sellers shall be permitted, subject to clause 17.5, to carry forward to succeeding Contract Years the number of Days within the originally scheduled period where no actual maintenance is carried out by the Gas Sellers provided that Gas Sellers tender for delivery, and FGP and FGPC actually take, gas equivalent to at least 61.429 Terajoules (TJ) and 122.9 TJ for San Lorenzo and Santa Rita, respectively. FGP and the Gas Sellers likewise agreed that references to “the Base TOPQ divided by 350” in certain clauses of the San Lorenzo GSPA shall be replaced by “61.429 TJ”.

FNPC and Prime Meridian

On April 12, 2017, FNPC and Prime Meridian each executed new GSPAs with the Gas Sellers. Pursuant to their respective GSPAs, the Gas Sellers shall supply natural gas fuel until the aggregate natural gas deliveries reach their respective Total Contract Quantity (TCQ) of 12.458 PJ (NCV) for Prime Meridian and 80.499 PJ (NCV) for FNPC, or on February 23, 2024, whichever comes earlier.

Under their respective GSPAs, each Seller shall sell and tender for delivery to the buyer, and the buyer shall purchase and take from each Seller the quantity of natural gas nominated by the buyer in accordance with the terms and subject to the conditions specified in the agreement.

In 2017, the total cost of natural gas purchased amounted to \$2.6 million for FNPC; and \$0.3 million for Prime Meridian.

f. WESC of EDC

On September 14, 2009, EDC entered into a WESC 2009-09-004 with the DOE granting EDC the right to explore and develop the Burgos Wind Project for a period of 25 years from effective date. The pre-development stage under the WESC shall be two years which can be extended for another one year if EDC does not default in its exploration or work commitments and provides a work program for the extension period upon confirmation by the DOE. The WESC also provides that upon submission of the declaration of commercial viability, as confirmed by the DOE, the WESC shall remain in force for the balance of the 25-year period for the development/commercial stage. The DOE shall approve the extension of the WESC for another 25 years under the same terms and conditions, provided that EDC is not in default in any material obligations under the WESC, and has submitted a written notice to the DOE for the extension of the contract not later than one (1) year prior to the expiration of the 25-year period. The WESC provides that all materials, equipment, plants and other installations erected or placed on the contract area by EDC shall remain the property of EDC throughout the term of the contract and after its termination.

On May 26, 2010, the BOD of EDC approved the assignment and transfer to EBWPC of all the contracts, assets, permits and licenses relating to the establishment and operation of the Burgos Wind Project under DOE Certificate of Registration No. WESC 2009-09-004. On May 16, 2013, EBWPC was granted a Certificate of Confirmation of Commerciality by the DOE.



As of December 31, 2017, EBWPC holds ten (10) WESC's with the DOE. Each WESC has a contract period of 25 years and will expire between 2034 and 2040. The WESC's cover the following projects:

Projects	DOE Certificates of Registration
1) 150 MW wind project in Burgos, Ilocos Norte	WESC 2009-09-004 (expiring in 2034)
2) 84 MW wind project in Pagudpud, Ilocos Norte	WESC 2010-02-040 (expiring in 2035)
3) Burgos 1 wind project in Burgos, Ilocos Norte	WESC 2013-12-063 (expiring in 2038)
4) Burgos 2 wind project in Burgos, Ilocos Norte	WESC 2013-12-064 (expiring in 2038)
5) Matnog 1 wind project in Matnog & Magdalena, Sorsogon	WESC 2014-07-075 (expiring in 2039)
6) Matnog 2 wind project in Matnog, Sorsogon	WESC 2014-07-076 (expiring in 2039)
7) Matnog 3 wind project in Matnog, Sorsogon	WESC 2014-07-077 (expiring in 2039)
8) Iloilo 1 wind project in Batad & San Dionisio, Iloilo	WESC 2014-07-078 (expiring in 2039)
9) Burgos 3 wind project in Burgos and Pasuquin, Ilocos Norte	WESC 2015-09-085 (expiring in 2040)
10) Burgos 4 wind project in Burgos, Ilocos Norte	WESC 2015-09-086 (expiring in 2040)

g. SESCOs of EDC

As of December 31, 2017, EDC holds six (6) SESCO's with the DOE. Each SESCO has a contract period of 25 years. The WESC's cover the following projects:

Projects	DOE Certificates of Registration
1) 6.82 MW Burgos Solar Project in Burgos, Ilocos Norte	SESC No. 2014-07-088 (expiring in 2039)
2) President Roxas Solar Project in President Roxas, North Cotabato*	SESC No. 2015-03-114 (expiring in 2040)
3) Kilada - Matalam Solar Project in Matalam, North Cotabato*	SESC No. 2015-03-119 (expiring in 2040 and renewable for another 25 years)
4) Bogo Solar Project in Bogo, Cebu**	SESC No. 2015-06-234 (expiring in 2040 and renewable for another 25 years)
5) Iloilo Solar Project in Iloilo City	SESC No. 2016-06-306 (expiring in 2041 and renewable for another 25 years)
6) Gaisano Iloilo, Iloilo City Solar Rooftop Project	SESC No. 2016-11-352 (expiring in 2042 and renewable for another 25 years)

*Cancellation letter has been submitted with DOE dated March 2016, awaiting confirmation reply.

**Cancellation letter has been submitted with DOE dated July 2017, awaiting confirmation reply.

h. Operations and Maintenance (O&M) Agreements

O&M Agreements of FGP and FGPC

FGP and FGPC have separate full scope O&M Agreements with SPOI mainly for the operation, maintenance, management and repair services of their respective power plants. As stated in the respective O&M Agreements of FGP and FGPC, SPOI is responsible for maintaining adequate inventory of spare parts, accessories and consumables. SPOI is also responsible for replacing and repairing the necessary parts and equipment of the power plants to ensure the proper operation and maintenance of the power plants to meet the contractual commitments of FGP and FGPC under their respective PPAs and in accordance with the Good Utility Practice.

Each signed contract took effect on August 1, 2010 (the Commencement Date) and will expire on the earlier of (i) the 20th anniversary of the Commencement Date, or (ii) the satisfactory completion of the major inspections of all units of the San Lorenzo and Santa Rita power plants, in each case nominally scheduled at 200,000 equivalent operating hours, as stipulated in their respective O&M Agreements. The monthly O&M charges include Euro, U.S. dollar and Philippine peso components.



FGPC and FGP total O&M costs (shown as part of the “Power plant operations and maintenance” in the “Costs of sale of electricity” account in the consolidated statement of income) amounted to \$30.6 million in 2017, \$24.1 million in 2016, and \$27.7 million in 2015.

In 2017 and 2016, prepaid major spare parts amounting to \$60.8 million and \$30.5 million, respectively were reclassified to “Property, plant and equipment” account as a result of the completion of the scheduled maintenance outages of San Lorenzo and Santa Rita power plants (see Note 10). As of December 31, 2017 and 2016, certain O&M charges amounting to \$30.8 million and \$65.5 million, respectively, which relate to major spare parts that are expected to be replaced during the next scheduled major maintenance outage, were presented as part of the “Other noncurrent assets” account in the consolidated statement of financial position (see Note 12).

O&M Agreement of FNPC

On December 16, 2013, FNPC signed an O&M Agreement with SPOI for the operation, maintenance, management and repair services of San Gabriel power plant for a period of 10 years. SPOI is responsible for the day-to-day administration of the power plant, maintaining adequate inventory of spare parts, accessories and consumables, and shall operate, maintain and repair the plant in accordance with Good Utility Practice.

In 2016, O&M costs incurred during commissioning phase of the San Gabriel power plant amounting to \$1.3 million was presented under “Property, plant equipment” account in the consolidated statement of financial position.

Following the commercial operations of the San Gabriel power plant, total O&M costs (shown as part of the “Power plant operations and maintenance” in the “Costs of sale of electricity” account in the consolidated statement of income) amounted to \$8.5 million and \$2.0 million in 2017 and 2016, respectively.

O&M Agreement of EBWPC with Vestas

EBWPC will operate and maintain the wind farm under a 10-year O&M agreement with Vestas. The Vestas O&M contract is a service and energy-based availability agreement based on Vestas’ AOM 5000 product. The agreement is a full-scope maintenance contract covering both scheduled and unscheduled maintenance with an energy-based availability on the wind turbines. The agreement covers the wind turbines, wind farm electrical balance-of-plant systems, the wind turbine yaw back-up generators, and the Burgos Substation as opposed to a traditional O&M contract that provides a guarantee that the turbines in a wind power plant are operational for a defined period of time on an annual basis (referred to as time-based availability), the AOM 5000 model provides an energy-based guarantee, which encourages the contractor to ensure that the turbines are fully-operational when the wind is blowing.

Maintenance Service Agreement (MSA) of Prime Meridian

On August 1, 2017, Prime Meridian has executed a MSA with Maintenance Berlin Brandenburg (MTU) for a three (3) year period. The MSA covers the provision of several maintenance services to the Avion power plant which include the: (i) provision of a resident engineer, (ii) supply and installation of a remote monitoring system (including monthly reporting), (iii) performance of Scheduled Maintenance Services, (iv) carry out a Condition-based Maintenance Services, (v) supply of spare parts and (vi) other related services. Total cost pertaining to the MSA with MTU (shown as part of the “Power plant operations and maintenance” in the “Costs of sale of electricity” account in the consolidated statement of income) amounted to \$0.5 million in 2017. No similar charges were incurred in 2016 and 2015.



i. SIA

FGPC has an agreement with Meralco and NPC for: (a) the construction of substation upgrades at the NPC substation in Calaca and the donation of such substation upgrades to NPC; (b) the construction of a 35-kilometer transmission line from the power plant to the NPC substation in Calaca and subsequent donation of such transmission line to NPC; (c) the interconnection of the power plant to the NPC Grid System; and (d) the receipt and delivery of energy and capacity from the power plant to Meralco's point of receipt.

Following the assignment by NPC to the National Transmission Corporation (TransCo) of all of NPC's rights, title, interests and obligations in and to the SIA, FGPC on July 15, 2015 agreed to give, transfer and convey to TransCo, by way of donation, the Substation Improvements amounting to \$1.2 million (see Note 11). As of March 15, 2018, FGPC is still in the process of transferring the 230 kilovolts (kV) Santa Rita to Calaca transmission line to TransCo.

Maintenance services related to the transmission line were initially rendered by Miescor, a subsidiary of Meralco, on the 230 kV Santa Rita to Calaca transmission line in Batangas under a Transmission Line Maintenance Agreement (TLMA). The TLMA required a monthly payment of \$0.02 million (₱0.8 million) as retainer fee and \$0.08 million (₱3.4 million) for every six-month period as service fee, with both fees subject to periodic adjustment as set forth in the agreement. Total operations and maintenance expense (shown as part of the "Power plant operations and maintenance" in the "Costs of sale of electricity" account in the consolidated statement of income) amounted to \$0.4 million and \$0.6 million in 2016 and 2015, respectively. The TLMA with Miescor was terminated in October 2016.

Following the termination of the TLMA with Miescor in October 2016, a new TLMA between FGPC and Hansei Corporation (Hansei) was signed and effective dated January 10, 2017. The new TLMA required a monthly payment of \$0.03 million (₱1.3 million) for the routine services and a monthly payment of \$0.006 million (₱0.30 million) as retainer fee, with both fees subject to periodic adjustment as set forth in the agreement. Total operations and maintenance expense (shown as part of the "Power plant operations and maintenance" in the "Costs of sale of electricity" account in the consolidated statement of income) amounted to \$0.4 million in 2017.

j. Interim Interconnection Agreements

FGP

FGP has an agreement with NPC and Meralco whereby NPC will be responsible for the delivery and transmission of all energy and capacity from FGP's power plant to Meralco's point of receipt.

FNPC and PMPC

On November 26, 2015, ERC approved FNPC's application for authority to develop, own and operate a dedicated point to point transmission facility to connect to the existing San Lorenzo (SL) Switchyard. The San Gabriel to SL Connection Facility, an approximately 200-meter transmission line from the San Gabriel plant to the existing SL Switchyard, is connected to the transmission system of NGCP via the existing SL Switchyard.

FNPC and PMPC each have a Metering Service Agreement (MSA) and Transmission Service Agreement (TSA) with NGCP. Pursuant to the MSA, NGCP agreed to provide revenue metering facilities and services for measuring the energy consumed by San Gabriel and Avion power plants. Under the TSA, NGCP agreed to provide transmission services to the aforementioned power plants. Both the TSA and MSA between NGCP and FNPC and PMPC took effect last May 2016 and will continue until May 2026.



k. REPA

Under Section 2.2 of the ERC Resolution No. 24, Series of 2013, *A Resolution Adopting the Guidelines on the Collection of the FIT Allowance (FIT-All) and the Disbursement of the FIT-All Fund* (the FIT-All Guidelines), all eligible renewable energy (RE) plant shall enter into a REPA with the TransCo for the payment of the FIT.

Pursuant to the FIT-All Guidelines, EBWPC entered into a REPA with TransCo for its Burgos Wind power plants. The REPA became effective after all the documents enumerated in Section 3.1 of the REPA have been submitted to and certified complete by TransCo. Included in those required documents is the FIT COC issued by the ERC on April 13, 2015.

Similarly, on April 24, 2015, EDC entered into a REPA for its 4.16 MW Solar power plants with TransCo.

In accordance with the REPA, all actual RE generation from the commercial operations date (COD) until the effective date of the REPA (effective date) were billed to and collected from the Philippine Electricity Market Corporation (PEMC) at market price.

After the effective date, billings for all actual RE generation have been submitted directly to and collected from the TransCo at the applicable FIT rate as approved by the ERC. In addition, the actual FIT differential from the COD until the effective date was also billed to TransCo over the number of months which lapsed during that period.

Total revenues from TransCo recognized in 2017, 2016 and 2015 under the REPAs amounted to \$64.9 million, \$59.6 million and \$45.8 million, respectively.

Total revenue from PEMC recognized in 2017, 2016 and 2015 from the Burgos Wind and Burgos Solar power plants amounted to nil, \$0.1 million and \$6.2 million, respectively.

l. Franchise

The Parent Company, through FGHC, has a franchise granted by the 11th Congress of the Philippines through R.A. No. 8997 to construct, install, own, operate and maintain a natural gas pipeline system for the transportation and distribution of the natural gas throughout the island of Luzon (the “Franchise”). The Franchise is for a term of 25 years until February 25, 2026. As of March 15, 2018, FGHC, through its subsidiary FG Pipeline, has an ECC for the Batangas to Manila pipeline project and has undertaken substantial pre-engineering works and design and commenced preparatory works for the right-of-way acquisition activities, among others.

m. Tax Contingencies

Deficiency Income Tax

FGPC was assessed by the BIR on July 19, 2004 for deficiency income tax for taxable years 2001 and 2000. FGPC filed its Protest Letter with the BIR on October 5, 2004. On account of the BIR’s failure to act on FGPC’s Protest within the prescribed period, FGPC filed with the CTA on June 30, 2005 a Petition against the Final Assessment Notices and Formal Letters of Demand issued by the BIR. On February 20, 2008, the CTA granted FGPC’s Motion for Suspension of Collection of Tax until the final resolution of the case.

In a Decision dated September 25, 2012, the 3rd Division of the CTA granted the Petition and ordered the cancellation and withdrawal of the Final Assessment Notices and Formal Letters of



Demand. Subsequently, the BIR filed with the CTA en banc a Petition for Review dated January 16, 2013, to which FGPC filed its Comment in March 2013. The CTA en banc again requested both parties to submit a Memorandum not later than July 6, 2013, which FGPC complied with accordingly.

On August 14, 2013, the CTA en banc issued a resolution that the case is deemed submitted for decision based on the respective Memorandums. On October 7, 2014, the CTA En Banc denied the Motion for Reconsideration filed by the BIR and affirmed the tax position of FGPC mainly due to the legal infirmities on statutory waiver of prescription and validity of assessment forms issued by the BIR. On December 7, 2014, the BIR filed an appeal with the SC within the 30-day extension requested by the BIR.

On April 3, 2015, FGPC filed its Comment on the Petition for Review filed by the BIR with the SC last December 7, 2014, in compliance with the SC's Resolution dated February 16, 2015. The appeal filed by the BIR was its remaining legal recourse against the CTA En Banc's decision affirming the tax position of FGPC mainly due to the legal infirmities on statutory waiver of prescription and validity of assessment forms issued by the BIR. On August 12, 2015, the SC issued a Resolution requiring the Office of the Solicitor General (OSG) to file a Reply to FGPC's Comment within ten (10) days from notice. However, the OSG requested for an additional period of thirty (30) days or until November 8, 2015 within which to file their Reply. On December 7, 2015, FGPC's legal counsel received from the SC a copy of the OSG's reply dated November 27, 2015 in response to FGPC's Comment filed in April 2015. On January 11, 2016, the SC issued a Resolution noting the filing of the BIR's Reply. As of March 15, 2018, FGPC's legal counsel has not received the foregoing or any other resolution from the SC and the case remains pending.

Management believes that the resolution of this assessment will not materially affect First Gen Group's consolidated financial statements.

Real Property Tax (RPT)

In June 2003, FGPC received various Notices of Assessment and Tax Bills from the Provincial Government of Batangas, through the Office of the Provincial Assessor, imposing an annual RPT on steel towers, cable/transmission lines and accessories (the T-Line) amounting to \$0.2 million (₱12 million) per year. FGPC, claiming exemption from said RPT, appealed the assessment to the Provincial LBAA and filed a Petition in August 2003 praying (1) that the Notices of Assessment and Tax Bills issued by the Provincial Assessor be recalled and revoked; and (2) that the Provincial Assessor drop from the Assessment Roll the 230 kV transmission lines from Sta. Rita to Calaca in accordance with Section 206 of the Local Government Code (LGC). FGPC argued that the T-Line does not constitute real property for RPT purposes and even assuming that the T-Line is regarded as real property, FGPC is still not liable for RPT as it is NPC/TransCo, a government-owned and controlled corporation (GOCC) engaged in the generation and/or transmission of electric power, which has actual, direct and exclusive use of the T-Line. Pursuant to Section 234 (c) of the LGC, a GOCC engaged in the generation and/or transmission of electric power and which has actual, direct and exclusive use thereof, is exempt from RPT.



FGPC sought, and was granted, a preliminary injunction by the Regional Trial Court (Branch 7) of Batangas City (RTC) to enjoin the Provincial Treasurer of Batangas City from collecting the RPT pending the decision of the LBAA. Despite the injunction, the LBAA issued an Order requiring FGPC to pay the RPT within 15 days from receipt of the Order. FGPC filed an appeal before the CBAA assailing the validity of the LBAA order. The CBAA in December 2006 set aside the LBAA Order and remanded the case to the LBAA. The LBAA was directed to proceed with the case on the merits without requiring FGPC to first pay the RPT on the questioned assessment. The LBAA case remains pending.

On May 23, 2007, the Province filed with the Court of Appeals (CA) a Petition for Review of the CBAA Resolution. The CA dismissed the petition in June 2007; however, it issued another Resolution in August 2007 reinstating the petition filed by the Province. In a decision dated March 8, 2010, the CA dismissed the petition for lack of jurisdiction.

In connection with the prohibition case pending before the RTC which issued the preliminary injunction, the Province filed a Motion to Dismiss in May 2011 which was denied by the RTC. FGPC was directed to amend its petition to include the Provincial Assessor as a party respondent, and in November 2012 FGPC filed its Compliance with Amended Petition.

As of March 15, 2018, the case remains pending.

n. Lease Commitments

- In June 2015, First Gen and certain subsidiaries each executed a non-cancelable lease agreement with Rockwell on its new office space at Rockwell Business Center Tower 3. The term of the lease is for a period of five years commencing on July 1, 2015 to June 30, 2020, and has an option to extend the lease term for an additional 5 years at mutually acceptable terms and conditions. The lease agreement is subject to an annual escalation rate of 5%.
- First Gen Group had a non-cancelable lease agreement with FPRC on its occupied office space. The lease agreement with FPRC expired on July 31, 2015.
- FGPC has a non-cancelable annual foreshore lease agreement with the DENR (“Foreshore Lease Contract”) for the lease of a parcel of land in Sta. Rita, Batangas where the power plant complex is located. The term of the lease is for a period of 25 years starting May 26, 1999 for a yearly rental of \$0.05 million (₱3.0 million) and renewable for another 25 years at the end of the term. The land will be appraised every ten (10) years and the annual rental after every appraisal shall not be less than 3% of the appraised value of the land plus 1% of the value of the improvements, provided that such annual rental cannot be less than \$0.05 million (₱3.0 million).
- FGP and FGPC entered into a Sublease Agreement to sublease and use the parcel of land located in Sta. Rita, Batangas (“Leased Property”) which is covered by a Foreshore Lease Contract executed by and between FGPC and the DENR in May 1999. Under the Sublease Agreement, FGPC subleases, sublets and grants FGP the right to use the Leased Property in connection with and as may be necessary for the construction, operation and maintenance of the San Lorenzo plant on a non-exclusive basis. Such Sublease Agreement was approved by the DENR in November 1999 in accordance with the Seventh Paragraph of the Foreshore Lease Contract. The sublease term is for a period of 23 years or until May 25, 2023 or upon termination of the Foreshore Lease Contract. The term may be extended upon mutual agreement between the parties subject to an extension of the term of the Foreshore Lease Contract for an equivalent or greater period. FGP agrees to pay FGPC a yearly rental of



\$0.01 million (₱0.31 million), subject to an equitable increase pursuant to the Foreshore Lease Contract.

- FG Bukidnon has a non-cancelable lease agreement with PSALM on the land occupied by its power plant. The term of the lease is for a period of 20 years commencing on March 29, 2005, renewable for another period of 10 years or the remaining corporate life of PSALM, whichever is shorter. The rental paid in advance by FG Bukidnon for the entire term is \$0.02 million (₱1.12 million).
- EDC's lease commitments pertain to rentals on the drilling rigs, head office and various office space and warehouse for steam/electricity projects in Leyte, Northern Negros, Albay, Sorsogon, Southern Negros, Mindanao and Burgos. Rent expense amounted to \$7.0 million (₱352.5 million), \$4.56 million (₱215.7 million), and \$4.6 million (₱209.1 million), in 2017, 2016 and 2015, respectively.

As of December 31, 2017 and 2016, First Gen Group's future minimum rental payments under the non-cancelable operating leases are as follows:

	2017	2016
Within one year	\$3,766	\$4,069
After one year but not more than five years	9,410	14,574
After five years	56	118
	\$13,232	\$18,761

o. Impact of Leyte Earthquake

On July 6, 2017, a magnitude 6.5 earthquake hit Leyte and nearby provinces prompting EDC to shut down the Leyte Geothermal Power Plants. Inspection showed damages to various components of Tongonan and Malitbog's power plants.

No loss on property damaged was recognized as most of the significant assets that were damaged were already fully depreciated before the earthquake. As of December 31, 2017, total rehabilitation costs capitalized as part of "Property, plant and equipment" account amounted to \$7.6 million (₱393.2 million), while the costs of repairs and minor construction activities charged to expense amounted to \$22.1 million (₱1,114.6 million) in 2017.

EDC received insurance proceeds relating to property damaged caused by the Leyte earthquake amounting to \$7.7 million (₱387.0 million) in 2017, presented as part of "Other income (charges)" account in the consolidated statement of income.

p. Impact of Typhoons

Urduja

In December 2017, certain assets of EDC located in Leyte were affected by Typhoon Urduja. Inspection showed that the pipelines and marshaling station sustained majority of the impact of the typhoon. As of December 31, 2017, no loss on property damaged has been recognized as most of the activities relating to Typhoon Urduja pertain only to the restoration of these assets to their original condition. Total cost of repairs and minor construction activities charged to expense amounted to \$0.5 million (₱26.4 million). No insurance proceeds pertaining to Typhoon Urduja was received in 2017.



Yolanda

In November 2013, certain assets of EDC located in Leyte sustained damage due to Typhoon Yolanda. As of December 31, 2015, total rehabilitation costs capitalized as part of “Property, plant and equipment” account amounted to \$6.4 million, while the costs of repairs and minor construction activities charged to expense amounted to \$15.8 million in 2015.

EDC received insurance proceeds relating to the property damaged caused by from Typhoon Yolanda amounting to \$5.1 million (₱256.5 million), \$0.03 million (₱1.8 million), and \$17.1 million (₱774.8 million) for the years ended December 31, 2017, 2016 and 2015, respectively. Proceeds from insurance received were presented as part of “Other income (charges)” account in the consolidated statement of income.

Glenda

In July 2014, Typhoon Glenda caused damage to certain assets of EDC located in Albay, Sorsogon and Leyte. In 2015, EDC received insurance proceeds amounting to \$1.0 million (₱46.3 million) which was presented as part of “Other income (charges)” account in the consolidated statement of income.

Seniang

In December 2014, certain assets of EDC located in Leyte were damaged due to Typhoon Seniang. EDC received insurance proceeds amounting to nil, \$0.3 million (₱12.0 million) and \$1.8 million (₱81.2 million) in 2017, 2016 and 2015, respectively, which were presented as part of “Other income (charges)” account in the consolidated statement of income.

Sendong

In December 2011, certain assets of EDC located in Southern Negros were damaged due to Typhoon Sendong. In 2015, EDC received insurance proceeds amounting to \$0.4 million (₱17.6 million) were presented as part of “Other income (charges)” account in the consolidated statement of income.

Others

EDC likewise received other insurance proceeds in 2017, 2016 and 2015 amounting to nil, \$5.5 million (₱259.4 million) and \$0.4 million (₱17.1 million), respectively. Such proceeds pertain to property damages and machinery breakdowns in prior years.

q. BGI Insurance Claims

On August 12, 2016, EDC and BGI entered into a settlement agreement with their Insurers in relation to BGI’s claims involving Unit 2 at the Bac-man I Plant in Palayan, Bayan, Manito, Albay which occurred on February 26, 2013. The Insurers were required to pay a total of \$32.2 million (₱1,525.0 million) in full and final settlement of the claims.

BGI received insurance proceeds relating to machinery breakdown of Unit 2 of Bac-man I Plant located in Palayan, Sorsogon amounting to \$26.2 million (₱1,238.9 million) and \$5.2 million (₱235.8 million) in 2016 and 2015, respectively. Proceeds from insurance claims received were presented as part of “Proceeds from insurance claims” account in the consolidated statement of income.



r. FGP Insurance Claims

In 2015, FGP likewise received insurance proceeds from various insurers for the business interruption and machinery breakdown totaling to \$8.5 million. Such amount was recognized as part of “Proceeds from insurance claims” account in the consolidated statement of income.

s. Other Legal Proceedings

West Tower Condominium Corporation, et al. vs.
First Philippine Industrial Corporation, et al.
G.R. No. 194239, Supreme Court of the Philippines

On November 15, 2010, a Petition for the Issuance of a Writ of Kalikasan was filed before the SC by the West Tower Condominium Corporation, et al., against respondents First Philippine Industrial Corporation (FPIC), the Parent Company, their respective boards of directors and officers, and John Does and Richard Roes. The petition was filed in connection with the oil leak which is being attributed to a portion of FPIC’s white oil pipeline located in Bangkal, Makati City.

The petition was brought by the West Tower Condominium Corporation purportedly on behalf of its unit owners and in representation of the inhabitants of Barangay Bangkal, Makati City. The petitioners sought the issuance of a Writ of Kalikasan to protect the constitutional rights of the Filipino people to a balanced and healthful ecology, and prayed that the respondents permanently cease and desist from committing acts of negligence in the performance of their functions as a common carrier; continue to check the structural integrity of the entire 117-km white oil pipeline and replace the same; make periodic reports on findings with regard to the said pipeline and their replacement of the same; be prohibited from opening the white oil pipeline and allowing its use until the same has been thoroughly checked and replaced; rehabilitate and restore the environment, especially Barangay Bangkal and West Tower Condominium, at least to what it was before the signs of the leak became manifest; open a special trust fund to answer for similar contingencies in the future; and be temporarily restrained from operating the said pipeline until final resolution of the case.

On November 19, 2010, the SC issued a Writ of Kalikasan with Temporary Environmental Protection Order (TEPO) directing the respondents to: (i) make a verified return of the Writ within a non-extendible period of ten days from receipt thereof; (ii) cease and desist from operating the pipeline until further orders from the court; (iii) check the structural integrity of the whole span of the pipeline, and in the process apply and implement sufficient measures to prevent and avert any untoward incident that may result from any leak in the pipeline; and (iv) make a report thereon within 60 days from receipt thereof.

The Parent Company and its impleaded directors and officers filed a verified Return in November 2010, and a Compliance in January 2011, explaining that the Company is not the owner and operator of the pipeline, and is not involved in the management, day-to-day operations, maintenance and repair of the pipeline. For this reason, neither the Company nor any of its directors and officers has the capability, control, power or responsibility to do anything in connection with the pipeline, including to cease and desist from operating the same.

For the purpose of expediting the proceedings and the resolution of all pending incidents, the SC reiterated its order to remand the case to the Court of Appeals to conduct subsequent hearings within a period of 60 days, and after trial, to render a report to be submitted to the SC.



On December 21, 2012, the former 11th Division of the Court of Appeals rendered its Report and Recommendation in which the following recommendations were made to the SC: (i) that certain persons/organizations be allowed to be formally impleaded as petitioners subject to the submission of the appropriate amended petition; (ii) that FPIC be ordered to submit a certification from the DOE that the white oil pipeline is safe for commercial operation; (iii) that the petitioners' prayer for the creation of a special trust fund to answer for similar contingencies in the future be denied for lack of sufficient basis; (iv) that respondent Company not be held solidarily liable under the TEPO; and (v) that without prejudice to the outcome of the civil and criminal cases filed against respondents, the individual directors and officers of FPIC and the Parent Company not be held liable in their individual capacities.

Petitioners filed a Motion for Partial Reconsideration in January 2013, in which they prayed, among others, that the Department of Science and Technology (DOST), specifically its Metal Industry Research and Development Center, be tasked to chair the monitoring of FPIC's compliance with the directives of the court and issue the certification required to prove that the pipeline is safe to operate before commercial operation is resumed; that stakeholders be consulted before a certification is issued; that a trust fund be created to answer for future contingencies; and that the Company and the directors and officers of the Parent Company and FPIC also be held liable under the Writ of Kalikasan and the TEPO.

In a Compliance dated January 25, 2013, FPIC submitted to the SC a Certification signed by then DOE Secretary Carlos Jericho L. Petilla stating that the black oil pipeline is safe for commercial operation.

On July 30, 2013, the SC resolved to adopt the recommendations of the CA in its December 2012 resolution. Specifically, the SC ordered FPIC to secure a certification from the DOE that the white oil pipeline is safe to resume commercial operations, as well as consider FPIC's adoption of an appropriate leak detection system used in monitoring the entire pipeline's mass input versus mass output and the necessity of replacing pipes with existing patches and sleeves. On October 25, 2013 the DOE issued a certification that the white oil pipeline is safe to return to commercial operations. FPIC submitted the DOE certification to the SC on October 29, 2013. On June 16, 2015, the SC issued another resolution recognizing the powers of the DOE to oversee the operation of the pipelines. The resolution also stated that the DOE is fully authorized by law to issue an order for the return to commercial operations of the pipeline following integrity tests. Petitioners have filed several motions for the SC to reconsider this resolution. As of March 15, 2018, the final resolution of the Writ remains pending with the SC.

West Tower Condominium Corporation, et al. vs. First Philippine Industrial Corporation, et al.
Civil Case No. 11-256, Regional Trial Court, Makati Branch 58

On March 24, 2011, a civil case for damages was filed by the West Tower Condominium Corporation and some residents of the West Tower Condominium against FPIC, the FPIC directors and officers, the Parent Company, Pilipinas Shell Petroleum Corporation, and Chevron Philippines, Inc. before the Makati City RTC. In their complaint, the Plaintiffs alleged that FPIC, its directors and officers, and the Company violated R.A. No. 6969 (Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990), R.A. 8749 (Philippine Clean Air Act of 1999) and Its Implementing Rules and Regulations, and R.A. 9275 (Philippine Clean Water Act of 2004). The complaint sought payment by the Defendants of actual damages comprising incurred rentals for alternative dwellings, incurred additional transportation and gasoline expenses and deprived rental income; recompense for diminished or lost property values to enable the buying of new homes; incurred expenses in dealing with the emergency; moral damages; exemplary damages; a medical fund; and attorney's fees.



First Gen filed its Answer in May 2011, in which it was argued that the case is not an environmental case under the Rules of Procedure for Environmental Cases, but an ordinary civil case for damages under the Rules of Court for which the appropriate filing fees should be paid before the court can acquire jurisdiction thereof. In an Order dated August 22, 2011, Makati City RTC (Branch 158) Judge Eugene Paras ruled that the complaint is an ordinary civil action for damages and that the Plaintiff should pay the appropriate filing fees in accordance with the Rules of Court within 10 days from receipt of the Order. The other individual plaintiffs were ordered dropped as parties in the case. The Plaintiffs filed a Motion to Inhibit Judge Paras as well as a Motion for Reconsideration of the Order. In an Order dated October 17, 2011, the court reiterated that it has no jurisdiction over the case and ordered the referral of the case to the Executive Judge for re-raffle.

In an Order dated December 1, 2011, Judge Elpidio Calis of the Makati City RTC (Branch 133) declared that the records of the case have been transferred to his court. In an Order dated March 29, 2012, Judge Calis denied the plaintiffs' Motion for Reconsideration for lack of merit, and ordered the plaintiffs to pay the appropriate filing fees within ten (10) days from receipt of the Order, with a warning that non-compliance will constrain the court to dismiss the case for lack of jurisdiction. Instead of paying the filing fees, the plaintiffs filed a Petition for Certiorari with the CA to nullify the order of Branch 133.

In a resolution dated June 30, 2014, the CA denied the petition of West Tower and affirmed the trial court's recognition of the case as being an ordinary action for damages. The CA, however, also ruled that the individual residents who joined West Tower in the civil case need not file separate cases, but instead can be joined as parties in the present case. West Tower and FPIC each filed a motion for partial reconsideration, with West Tower arguing that the case is an ordinary action for damages, and FPIC assailing the ruling that the individual residents can be joined as parties in the present case. Both motions were denied in a CA resolution dated December 11, 2014. Both parties subsequently filed separate Petitions for Certiorari with the SC assailing the CA's resolution. As of March 15, 2018, the case remains pending.

West Tower Condominium Corporation vs. Leonides Garde, et al.
NPS No. XV-05-INV-11J- 02709
Office of the City Prosecutor
Makati City

This is a criminal complaint for negligence under Article 365 of the Revised Penal Code against FPIC directors and some of its officers, as well as directors of the Parent Company, Pilipinas Shell Petroleum Corporation and Chevron Philippines, Inc.

On December 14, 2011, a Counter-Affidavit with Verified Manifestation was filed by Francis Giles B. Puno, Director, President and Chief Operating Officer of First Gen and one of the Respondents. The other Respondent-Directors of the Company verified the Verified Manifestation and adopted the factual allegations and defenses in the Counter-Affidavit of Respondent Puno.

Makati City Prosecutor Feliciano Aspi *motu proprio* (on his own) inhibited himself from the case on the ground that he had previously worked for the counsel of the Parent Company. Complainant then filed with the Department of Justice (DOJ) a petition for change of venue, which petition was granted by way of Department Order No. 63 dated January 18, 2012, which designated Manila Senior Assistant City Prosecutor Raymunda Apolo as special investigating prosecutor for the case.

In an Order dated February 3, 2012, Makati City Prosecutor Aspi ordered the consolidation of the case with another case entitled Anthony M. Mabasa et al. vs. Roberto B. Dimayuga et al. for violation of Article 183 of the Revised Penal Code.



In a Resolution dated February 22, 2018, the complaint was dismissed for lack of probable cause. The prosecutor held that considering that the respondent-directors and officers of FPIC, the Parent Company, Shell and Chevron were not personally, directly or in supervisory capacity assigned to perform acts of operation, maintenance and control over the pipeline, they cannot be held criminally liable for negligence under Article 365 of the Revised Penal Code.

Bayan Muna Representatives, et al. vs. ERC and Meralco (G.R. No. 210245)
NASECORE, et al. vs. Meralco, ERC and DOE (G.R. No. 210255)
Meralco vs. Philippine Electricity Market Corporation (PEMC), et al (G.R. No. 210502)
Supreme Court
Manila

In these cases, the SC issued separate Temporary Restraining Orders (TROs) restraining Meralco from increasing the generation charge rate it charges to its consumers during the November 2013 billing period, and similarly restraining PEMC and other generation companies, including certain subsidiaries of First Gen, namely, FGPC, FGP, FG Hydro, BGI, and BEDC, from demanding and collecting from Meralco the deferred amounts representing the costs raised by the latter. The TROs will remain effective until April 22, 2014, unless renewed or lifted ahead of such date.

On February 26, 2014, FGPC, FGP, FG Hydro, BGI and BEDC filed with the SC a Memorandum with Motion to Lift TRO. It is First Gen Group's position that its right to the payment of the generation charges owed by Meralco is neither dependent nor conditional upon Meralco's right to collect the same from its consumers. In the case of FGPC and FGP, Meralco's obligation to pay is contractual and thus governed by the terms and conditions of their respective PPAs. Ultimately, Meralco is bound to comply with its contractual obligations to FGPC and FGP, whether via the pass-through mechanism or some other means.

On April 22, 2014, the subject TRO was extended indefinitely and until further orders from the SC.

In the meantime, the SC ordered the parties to comment on the March 2014 Order of ERC declaring void the WESM prices for November and December 2013, and imposing regulated prices for the said months to be calculated by the PEMC. First Gen Group filed its Comment in May 2014, where it noted that the ERC has not made any adverse finding against the group or any ruling that the group committed an abuse of market power or anti-competitive behavior.

There has been no further substantial movement in the case since then.

27. Other Matters

FG Hydro

a. Hydropower Operating Contract (RE Contract) with Department of Energy (DOE)

On February 22, 2017, the DOE approved FG Hydro's application for registration as an RE Developer and signed the RE Contract with FG Hydro for PAHEP. On February 27, 2017, the RE Contract for MAHEP was also signed by FG Hydro and the DOE. As a result, FG Hydro is now subject to 10% statutory income tax rate on its RE operations as an RE Developer in 2017.



b. O&M Agreement

In 2006, FG Hydro entered into an O&M Agreement with the NIA, with the conformity of NPC. Under the O&M Agreement, NIA will manage, operate, maintain and rehabilitate the Non-Power Components of the PAHEP/MAHEP in consideration for a service fee based on actual cubic meter of water used by FG Hydro for power generation. FG Hydro has fully funded the required Trust Fund amounting to \$2.2 million (₱100.0 million) since October 2008.

The O&M Agreement is effective for a period of 25 years commencing on November 18, 2006 and renewable for another 25 years under the terms and conditions as may be mutually agreed upon by both parties.

c. ASPA

FG Hydro entered into an agreement with the NGCP on April 10, 2017 after being certified and accredited by NGCP as capable of providing Contingency Reserve Service, Dispatchable Reserve Service, Regulative Reserve Service, Reactive Power Support Service and Black Start Service. Under the agreement, FG Hydro through the PAHEP facility shall provide any of the above-stated ancillary services to NGCP.

The ASPA is effective for a period of three (3) years, commencing upon approval of ERC. The ASPA is still to be provisionally approved by the ERC.

d. Memorandum of Agreement with NGCP (MOA with NGCP)

FG Hydro entered into a MOA with NGCP on August 31, 2011 for the performance of services on the operation of the PAHEP 230 kV switchyard and its related appurtenances (Switchyard). NGCP shall pay FG Hydro a monthly fixed operating cost of ₱0.1 million and monthly variable charges representing energy consumed at the Switchyard.

The MOA is effective for a period of five (5) years and renewable for another three (3) years under such terms as may be agreed by both parties.

e. MOA with Protected Area Management Board (MOA with PAMB)

PSALM entered into a MOA with PAMB. Under the MOA, PAMB granted FG Hydro the right to use the Masiway land, where the MAHEP power plant is situated in consideration for an annual user's fee. The MOA shall be effective for 25 years and renewable for a similar period subject to terms and conditions as may be mutually agreed upon by both parties.

FG Bukidnon

On October 23, 2009, FG Bukidnon entered into a Hydropower Service Contract (HSC) with the DOE, which grants FG Bukidnon the exclusive right to explore, develop, and utilize the hydropower resources within the Agusan river contract area.

FG Bukidnon shall furnish the services, technology, and financing for the conduct of its hydropower operations in the contract area in accordance with the terms and conditions of the HSC. The HSC is effective for a period of 25 years from the date of execution, or until October 2034. Pursuant to the RE Law and the HSC, the National Government and LGU's shall receive the Government's share equal to 1.0% of FG Bukidnon's preceding fiscal year's gross income for the utilization of hydropower resources within the Agusan river contract area.



FG Mindanao

On October 23, 2009, FG Mindanao also signed five HSCs with the DOE in connection with the following projects: (1) Puyo River Hydropower Project in Jabonga, Agusan del Norte; (2) Cabadbaran River Hydropower Project in Cabadbaran, Agusan del Norte; (3) Bubunawan River Hydropower Project in Baungon and Libona, Bukidnon; (4) Tumalaong River Hydropower Project in Baungon, Bukidnon; and (5) Tagoloan River Hydropower Project in Impasugong and Sumilao, Bukidnon. The five (5) HSCs give FG Mindanao the exclusive right to explore, develop, and utilize renewable energy resources within their respective contract areas, and will enable FG Mindanao to avail itself of both fiscal and non-fiscal incentives pursuant to the RE Law.

The pre-development stage under each of the HSCs is two years from the time of execution of said contracts (the “Effective Date”) and can be extended for another one year if FG Mindanao has not been in default of its exploration or work commitments and has provided a work program for the extension period upon confirmation by the DOE. Each of the HSCs also provides that upon submission of declaration of commercial viability, as confirmed by the DOE, it is to remain in force during the remaining life of the of 25-year period from the Effective Date.

On July 2, 2013 and July 3, 2013, FG Mindanao obtained from the DOE the Certificate of Confirmation of Commerciality confirming the conversion of the five (5) HSCs from Pre-development to Development stage.

On August 5, 2013, FG Mindanao entered into respective Deeds of Assignments with FGen Bubunawan, FGen Puyo, FGen Cabadbaran, FGen Tagoloan and FGen Tumalaong to assign and transfer FG Mindanao’s full rights and obligations over the five (5) HSCs. On March 11, 2014, the DOE approved the assignment of Puyo, Bubunawan and Tagoloan hydro projects and issued the corresponding Certificates of Registration and Certificates of Confirmation of Commerciality under FGen Puyo, FGen Bubunawan, and FGen Tagoloan, respectively. On November 13, 2015 and December 9, 2015, the DOE approved the assignment of Cabadbaran and Tumalaong hydroelectric power projects, respectively, and issued the corresponding Certificates of Registration which FG Mindanao received on February 11, 2016.

On June 8, 2016, FGen Tumalaong notified the DOE regarding its intention to surrender the entire contract area covered by the HSC 2009-10-007 for the 9 MW Tumalaong Hydro Project in the Municipality of Baungon, Bukidnon. After several years of project development and considering the plans of NIA to develop its Bubunawan River Irrigation Project, FGen Tumalaong has concluded that the Tumalaong hydro project is no longer viable for future development. Such request was acknowledged by the DOE on October 24, 2016, and informed FGen Tumalaong that the said HSC was hereby terminated and requested to settle the remaining financial obligations pursuant to the HSC to fully and satisfactorily comply all obligations in view of the termination of the HSC. As of March 15, 2018, FGen Tumalaong continues to coordinate with the DOE for the settlement of its remaining obligations.

On November 10, 2016, the DOE has issued three Certificates of Registration to FG Mindanao as an RE Developer of 175 MW Binongan-Tineg, 160 MW Cagayan 1N and 17.5 MW Cateel River hydroelectric power projects which are covered by HSCs executed between the DOE and FG Mindanao. On November 9, 2017, following viability assessment of the projects for future development, FG Mindanao notified the DOE regarding its intention to surrender the entire contract areas covered by HSC 2016-06-658 and HSC 2016-06-660 for the 175 MW Binongan-Tineg Hydro Project in the Municipalities of Tineg and Lagayan, Abra and the 17.5 MW Cateel Hydro Project in the Municipality of Baganga, Davao Oriental, respectively. As of March 15, 2018, the Cagayan 1N project remains and is still under pre-development stage.



FG Prime and FG Premier

On March 29, 2012, the DOE awarded to FG Prime and FG Premier an HSC to develop a 300 MW Pump Storage Hydroelectric Power Plant in Pantabangan, Nueva Ecija and the 300 MW Angat (Pump Storage) Hydro Project in Norzagaray, Bulacan, respectively. The respective HSCs provide the companies with the exclusive right to explore, develop, and utilize renewable energy resources within FG Prime's and FG Premier's respective contract areas, and will enable FG Prime and FG Premier to avail itself of both fiscal and non-fiscal incentives pursuant to the RE Law. On April 22, 2013, FG Prime and FG Premier each engaged an international engineering consultancy firm to conduct feasibility study for their respective projects. After the site selection review, the consultancy firm recommended to FG Prime to pursue the development of an alternative project site, while the consultancy firm has recommended to FG Premier to pursue the development of the identified initial project site. The DOE has already approved FG Prime's request to amend the contract area under the HSC. In 2014, FG Prime continued to conduct preliminary engineering surveys and investigations based on the amended contract area in the new project site. With the support of the Company, FG Premier continued to conduct preliminary engineering surveys on the 300 MW Angat Pump Storage in 2014.

The pre-development stage under the HSC is two years from the time of execution of the said contract. This was extended by the DOE on October 13, 2014 for another year at the respective requests of FG Prime and FG Premier. On November 24, 2014, in accordance with DOE Department Order No. DO2014-06-0010, FG Prime and FG Premier submitted separate requests for the application of a non-extendible period of five years pre-development stage under the HSC. On October 20, 2015, FG Prime notified the DOE on its request to amend the capacity of 300 MW Pump Storage Hydroelectric Power Plant to 600 MW. On October 28, 2016, the DOE amended the HSC of FG Prime considering the non-extendible period of five years pre-development stage and the new capacity of 600 MW. On March 23, 2017, FG Prime notified the DOE of the project's commercial feasibility.

On March 28, 2016, FG Premier notified the DOE regarding its intention to surrender the entire contract area covered by the HSC 2012-01-195 for the 300 MW Angat (Pump Storage) Hydro Project in Norzagaray, Bulacan due to the non-viability of the project. Such request was acknowledged by the DOE on May 20, 2016, and informed FG Premier that the said HSC was hereby terminated and has requested to settle the remaining financial obligations pursuant to the HSC to fully and satisfactorily comply all obligations in view of the termination of the HSC. As of March 15, 2018, FG Premier continues to coordinate with the DOE for the settlement of its remaining obligations.

FG Luzon

On March 10, 2011, a MOA covering the development of the proposed Balintingan Reservoir Multi-Purpose Project ("BRMPP") was signed among the Company's wholly owned subsidiary, FG Luzon, the Province of Nueva Ecija and the Municipality of General Tinio. The project will involve the development construction and operation of a new hydro reservoir and a new hydroelectric power plant in the Municipality of General Tinio, Nueva Ecija for purposes of power generation, irrigation and domestic water supply.

A MOA was executed on November 16, 2011 between FG Luzon and NIA for the conduct of a comprehensive study on the economic, financial and technical viability of the project.

On March 29, 2012, the project was awarded an HSC under the DOE Certificate of Registration No. HSC 2012-01-194.



FGES

a. Distribution Wheeling Service Agreement

In 2016, FGES has entered into various Distribution Wheeling Service (DWS) agreement with distribution utilities such as Meralco, Mactan Electric Company (MECO), Batangas II Electric Cooperative, Inc. (BATELEC II), Bohol I Electric Cooperative, Inc. (BOHECO), and Bohol Light Company, Inc. (BLCI). In 2017, FGES has entered into a DWS agreement with Lima Enerzone Corporation. The DWS also requires FGES to post refundable security deposits equivalent to one month estimated billing period. The said bill deposit shall be adjusted annually to reflect the actual billing charges. The refundable deposit, shown as part of “Other noncurrent assets” account, amounted to \$1.1 million and \$0.8 million as of December 31, 2017 and 2016, respectively.

Based on the agreement, FGES shall pass on all applicable distribution service and wheeling charges, transmission and ancillary charges, taxes and others charges as billed by distribution utilities to FGES. The revenues from sale of electricity in the consolidated statements of income for the years ended December 31, 2017 and 2016 includes passed-on distribution and transmission charges amounted to \$7.5 million and \$0.8 million, respectively.

b. Marketing Service Agreement (MS Agreement)

On June 15, 2017, FGES has entered into various MS agreements with EDC, BGI and GCGI engaging FGES to market electricity and assist and facilitate the sale of the various companies’ available capacity to third party buyers and the WESM.

Total revenue from sale relating to the MS agreements amounted to \$0.02 million in 2017.

ELECTRIC POWER INDUSTRY REFORM ACT of 2001 (EPIRA)

R.A. No. 9136, otherwise known as the EPIRA, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector, which include among others: the functional unbundling of the generation, transmission, distribution and supply sectors; the privatization of the generating plants and other disposable assets of the NPC, including its contracts with IPP; the unbundling of electricity rates; the creation of a WESM; and the implementation of open and nondiscriminatory access to transmission and distribution systems.

WESM

WESM Luzon has already been commercially operating for almost 10 years since its commencement on June 26, 2006. Annual average Luzon spot prices ranged from approximately ₱3.28/kWh, ₱2.82/kWh, and ₱3.52/kWh for 2017, 2016 and 2015, respectively.

On the other hand, WESM Visayas was operated and integrated with the Luzon grid on December 26, 2010. Annual average Visayas spot prices ranged from approximately ₱2.45/kWh, ₱2.76/kWh, and ₱3.70/kWh for 2017, 2016 and 2015, respectively.

Meanwhile in Mindanao, the WESM started its trial operations and live parallel operations last June 28, 2017. WESM participants were encouraged to actively participate in the enhanced WESM system. To get familiarized with WESM, participant’s line-up of activities included registration, customer and generator enrolment, and introduction to a new registration and settlement system. Commercial operations in Mindanao will depend on readiness of all market participants and is targeted to start by fourth quarter of 2018.



Retail Competition and Open Access (RCOA)

The EPIRA provides for a system of RCOA. With RCOA, the end users will be given the power to choose its energy source. Prior to RCOA, distribution utilities procured power supply in behalf of its consumers. With RCOA, the Retail Electricity Supplier (RES) chosen by the consumer will do the buying and selling of power and the distribution utility shall deliver the same.

RCOA shall be implemented in phases. During the first phase only end users with an average monthly peak demand of 1 MW for the 12 months immediately preceding the start of RCOA, shall have a choice of power supplier, as a contestable customer. Later, in the second phase, the peak demand threshold will be lowered to 0.75 MW, and will continue to be periodically lowered until the household demand level is reached.

In a joint statement issued by the DOE and ERC, dated September 27, 2012, the 1st phase implementation of RCOA was prescribed. December 26, 2012 was marked as the Open Access date. This signaled the beginning of the six-month transition period until June 25, 2013. The transition period involved the contracting of the retail supply contracts, metering installations, registration and trainings, trial operations by March 2013, and supplier of last resort service or disconnection.

The initial commercial operations of the RCOA commenced on June 26, 2013. For this, ERC issued Resolution No. 11, Series of 2013 providing that a contestable customer can stay with its respective distribution utility until such time that it is able to find a RES. In case a contestable customer decides to participate in the competitive retail market, it should advise the distribution utility that it will be leaving the distribution utility's regulated service at least 60 days prior to the effectivity of its RSC with a RES.

The current RCOA is governed by the Transitory Rules for the Implementation of Open Access and Retail Competition (ERC Resolution No. 16, Series of 2012) that was established last December 17, 2012 to ensure the smooth transition from the existing structure to a competitive market.

In June 2015, the Department of Energy released a Circular (DC2015-06-0010) that provided policies that will facilitate the full implementation of RCOA in the Philippines. This was supplemented by four (4) resolutions issued by ERC, namely:

1. ERC Resolution No. 5, Series of 2016 - Resolution Adopting the 2016 Rules Governing the Issuances of Licenses to Retail Electricity Suppliers and Prescribing the Requirements and Conditions Therefor;
2. ERC Resolution No. 10, Series of 2016 - Resolution Adopting the Revised Rules for Contestability;
3. ERC Resolution No. 11, Series of 2016 - Resolution Imposing Restrictions on the Operations of Distribution Utilities and Retail Electricity Suppliers in the Competitive Retail Electricity Market; and
4. ERC Resolution No. 28, Series of 2016 - Resolution on the Revised Timeframe for Mandatory Contestability, amending Resolution No. 10.

According to ERC Res. No. 28 Series of 2016, the mandatory switch dates are February 26, 2017 for contestable customers with an average monthly peak demand of at least 1 MW and June 26, 2017 for contestable customers with an average monthly peak demand of at least 750 kW.

On February 21, 2017, however, the SC issued a TRO on the DOE Circular 2015-06-0010 and the 4 recent ERC resolutions. As a result, the switching of 750-999 kW contestable customers is put on hold. Contestable Customers with 1 MW and up demand may still voluntarily switch. The DOE, ERC and PEMC are expected to release general guidelines on many other issues concerning the SC-issued TRO on RCOA implementation.



Last Nov. 29, 2017, DOE issued RCOA DCs 2017-12-0013 and 2017-12-0014. DC2017-12-0013 repealed mandatory contestability in previous RCOA DCs and changed it to voluntary participation for CCs with peak demand of 750kW and above. Subsequently, CCs with peak demand of 500kW and 749kW can voluntarily participate in RCOA by June 26. DC2017-12-0014 repealed Sec. 5 (h) of DC2015-06-0010 which prohibits DUs to participate as Local RES upon expiration of their RSCs.

Proposed Amendments to the EPIRA

Below are proposed amendments to the EPIRA that, if enacted, may have a material effect on First Gen Group's electricity generation business, financial condition and results of operations.

In the Philippine Congress, pending for committee approval as of December 31, 2017 are the following:

1. SBN-1719: Solar Rooftop Adoption Act of 2017
2. SBN-1623: Recoverable System Loss Act
3. SBN-1574: Philippine Energy Research and Policy Institute Act of 2017
4. SBN-1531: Energy Efficiency and Conservation Act of 2017
5. SBN-1490: Energy Regulatory Commission Governance Act of 2017
6. SBN-1439: Energy Virtual One Stop Shop Act of 2017
7. SBN-1371: Philippine Pipeline Act of 2017
8. SBN-1308: Energy Procurement Act of 2016
9. SBN-1303: Benefits to Host Communities Act of 2016
10. SBN-1293: Magna Carta of Public Energy Workers
11. HR00656: Resolution Calling For An Investigation In Aid Of Legislation By The Appropriate Committee Of The House Of Representatives To Review Sections 4, 5, 6, 7, And 8 Of Rule 29 A Of The Implementing Rules And Regulations (IRR) Of Republic Act 9136 Otherwise Known As EPIRA And Other Related Laws

The aforementioned bills passed their respective first readings and are currently being deliberated in the committees.

First Gen Group cannot provide any assurance whether these proposed amendments will be enacted in their current form, or at all, or when any amendment to the EPIRA will be enacted. Proposed amendments to the EPIRA, including the above bills, as well as other legislation or regulation could have a material impact on First Gen Group's business, financial position and financial performance.

RENEWABLE ENERGY (RE) LAW OF 2008 (RE Law)

On January 30, 2009, R.A. No. 9513, "An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes," otherwise known as the "RE Law of 2008" or the "RE Law", became effective. On May 25, 2009, DOE Circular No. DC2009-05-0008, otherwise known as the "Implementing Rules and Regulations (IRR) of Republic Act (R.A.) No. 9513, was issued and became effective on June 12, 2009.

The RE Law aims to accelerate the exploration and development of RE resources, increase the utilization of renewable energy resources, increase the utilization of renewable energy, encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions, and establish the necessary infrastructure and mechanism to carry out mandates specified in the RE Law.



The RE Law also provides various fiscal and non-fiscal incentives to RE developers and manufacturers, fabricators, and suppliers of locally-produced RE equipment and components. The incentives to RE developers include, among others, the Renewable Portfolio Standards (RPS). Last Dec. 22, 2017, DOE issued DC2017-12-0015 or the DOE circular promulgating the rules and guidelines governing the establishment of the RPS. The RPS will require DUs, RESs, and Genco's for Directly Connected Customers to achieve a minimum annual incremental RE Percentage equal to 1% of Net Electricity Sales from the previous year. This is in view of the long-term objective to achieve at least 35% Renewable Energy share in the energy mix by 2030.

Renewable Energy Law: Feed-In Tariff (FIT) Scheme

The Philippine FIT Scheme is a renewable energy policy mechanism that allows electricity generated from emerging RE technologies to be included in the supply of power at a guaranteed fixed rate per kWh, applicable for a period of 20 years. The FIT scheme involves a uniform charge to all electricity end consumers called the FIT All (Renewables) and the corresponding market prices of each eligible RE Plant to finance payments to actual electricity generated and delivered to the grid by FIT Eligible RE Plants.

This policy mechanism aims to accelerate the development of emerging RE resources such as wind, solar, ocean, run-of-river hydropower, and biomass energy resources in order to lessen our dependence on imported fossil fuels.

The following are the relevant approvals and issuances in the development and implementation of the FIT Scheme:

1. FIT Rules were issued by the ERC last July 12, 2010 under ERC Resolution No. 16, Series of 2010.
2. Resolution Approving the FIT Rates was approved by the ERC last July 27, 2012 under ERC Resolution No. 10 Series of 2012
3. Guidelines for the Selection Process of Renewable Energy Projects Under FIT System and the Award of Certificate for FIT Eligibility were approved by the DOE last May 28, 2013
4. Guidelines on the Collection of the Feed-in Tariff Allowance ("FIT All") and Disbursement of the FIT All Fund were adopted by the ERC last December 16, 2013 under Resolution No. 24 Series of 2013
5. Provisional Authority for Collection of Feed-in Tariff Allowance and Disbursement of the FIT Allowance Fund was granted to TransCo last October 10, 2014 under ERC Case No. 2014-19 RC, FIT All (Renewables) was set at ₱0.0406 / kWh for 2014 and 2015

RE Technology	Installation targets (MW)	Approved Rates¹ (₱/kWh)
Solar PV	50	₱9.68
	450	₱8.69 ²
Ocean	10	Deferred
Wind	200	₱8.53
	200	₱7.40 ³
Biomass	250	₱6.60
Run-of-river Hydro	250	₱5.90

¹ Initial FIT Rates were approved by the ERC under ERC Resolution No. 10 Series of 2012

² Solar FIT 2 was approved by the ERC under ERC Resolution No. 06 Series of 2015

³ Wind FIT 2 was approved by the ERC under ERC Resolution No. 14 Series of 2015



Certificates of Compliance (COCs)

FGP, FGPC, FG Hydro and FG Bukidnon successfully renewed their relevant COCs on September 6, 2010, October 29, 2013, December 1, 2010, and February 8, 2010, respectively. The COCs, which are valid for a period of five (5) years, signify that the companies in relation to their respective generation facilities have complied with all the requirements under relevant ERC guidelines, the Philippine Grid Code, the Philippine Distribution Code, the WESM rules, and related laws, rules and regulations. Subsequently, FGP, FGPC, FG Hydro and FG Bukidnon successfully renewed their relevant COCs on October 29, 2013, September 1, 2015, March 1, 2016, and February 2, 2015, respectively. On September 26, 2016 and November 7, 2016, Prime Meridian and FNPC received their respective COCs from the ERC which enables both plants to sell power to the WESM. Such COCs are valid for a period of five (5) years from the date of issuance.

FGES was first granted a Wholesale Aggregator's Certificate of Registration on May 17, 2007, effective for a period of five years, and the RES License on February 27, 2008, effective for a period of three (3) years. Subsequently, FGES was issued a Wholesale Aggregator Certificate on May 22, 2012 and an RES License on May 9, 2011. The ERC approved the renewal which is effective for a period of five years. On February 14, 2017, the ERC approved BGI's application for a RES license which grants BGI the right to engage in the supply of electricity to end-users in the contestable market.

Pursuant to the provisions of Section 36 of the EPIRA, Electric Power Industry Participants prepare and submit for approval of the ERC their respective Business Separation and Unbundling Plan (BSUP) which requires them to maintain separate accounts for, or otherwise structurally and functionally unbundle, their business activities.

Since each of FGP, FGPC, FG Bukidnon and FG Hydro is engaged solely in the business of power generation, to the exclusion of the other business segments of transmission, distribution, supply and other related business activities, compliance with the BSUP requirement on maintaining separate accounts is not reasonably practicable. Based on assessments of FGP, FGPC, FG Bukidnon, FG Hydro and FGES, they are in the process of complying with the provisions of the EPIRA and its IRR.

Clean Air Act

On November 25, 2000, the IRR of the Philippine Clean Air Act (PCAA) took effect. The IRR contain provisions that have an impact on the industry as a whole, and on FGP and FGPC in particular, that need to be complied with within 44 months (or July 2004) from the effectivity date, subject to approval by the DENR. The power plants of FGP and FGPC use natural gas as fuel and have emissions that are way below the limits set in the National Emission Standards for Sources Specific Air Pollution and Ambient Air Quality Standards. Based on FGP's and FGPC's initial assessments of the power plants' existing facilities, the companies believe that both are in full compliance with the applicable provisions of the IRR of the PCAA.



28. Changes in Liabilities Arising from Financing Activities

	January 1, 2017	Cash flows	Foreign exchange movement	Others	December 31, 2017
Current and non-current portion of long-term debts*	\$2,678,132	(\$172,639)	(\$5,665)	\$12,859	\$2,512,687
Accrued interest payable	28,797	(162,028)	19,126	145,056	30,951
Dividends payable	14,719	(53,459)	411	52,807	14,478
Other non-current liabilities	41,048	4,781	(1,778)	(726)	43,325
Total liabilities from financing activities	\$2,762,696	(\$383,345)	\$12,094	\$209,996	\$2,601,441

* Cash flow movement presented is net of availment and payments of long-term debts.

“Others” include the effect of reclassification of non-current portion of long-term debts, accrual of dividends that were not yet paid at year-end, and the effect of accrued but not yet paid interest on long-term debts. First Gen Group classifies interest paid as part of cash flows from operating activities.

29. Events After the Financial Reporting Date

Parent Company

As of March 15, 2018, the Parent Company purchased from the open market 6,091,200 common stocks amounting to ₱90.5 million (\$1.8 million).

On March 15, 2018, the BOD of the Parent Company approved the amendment to the Article Seventh of the Parent Company’s Amended Articles of Incorporation to increase the authorized capital stock from ₱8,600.0 million to ₱11,600.0 million by way of creating 300.0 million Series "H" preferred stocks with a par value of ₱10.0 a share. This amends the March 12, 2015 resolution of the BOD increasing the authorized capital stock for ₱8,600.0 million to ₱10,200.0 million by creation of 160.0 million Series "H" preferred stocks.

FNPC

On March 12, 2018, FNPC entered into a PSA with Meralco for the sale and purchase of approximately 414MW of baseload capacity. The power will be sourced from the already constructed and currently operational 414 MW San Gabriel combined cycle natural gas-fired power plant which is located within the First Gen Clean Energy Complex in Batangas City. The term of the PSA is 6 years using gas from the Malampaya field, but, in the event that liquefied natural gas (LNG) becomes available, the term of the PSA could be extended upon mutual agreement with Meralco. Under the terms of the PSA, power from San Gabriel is actually available for purchase by Meralco immediately; however, the sale of electricity to Meralco will only commence upon its approval by the ERC. The PSA is set to expire on February 23, 2024, unless otherwise extended by the parties.





First Gen Corporation

6th Floor Rockwell Business Center Tower 3, Ortigas Avenue, Pasig City 1604, Philippines
Tel Nos.: +63 (2) 528 3200 / +63 (2) 449 6400 / Fax: +63 (2) 631 4691 / www.firstgen.com.ph

March 15, 2018

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

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

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

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

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

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


Federico R. Lopez
Chairman and Chief Executive Officer


Francis Giles B. Puno
President and Chief Operating Officer


Emmanuel P. Singson
SVP, CFO and Treasurer



First Gen Corporation

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Tel Nos.: +63 (2) 528 3200 / +63 (2) 449 6400 / Fax: +63 (2) 631 4691 / www.firstgen.com.ph

SUBSCRIBED AND SWORN TO before me this MAR 26 2018 day of April 2018, affiants exhibited to me their Community Tax Certificate Nos. as follows:

	<u>CTC/SSS NOS.</u>	<u>Date/Place Issued</u>
Federico R. Lopez	11312222 SSS 0372789020	January 25, 2018 / Pasig City
Francis Giles B. Puno	11312221 SSS 3355362021	January 25, 2018 / Pasig City
Emmanuel P. Singson	7871315 SSS 388564598	January 26, 2018 / Pasig City

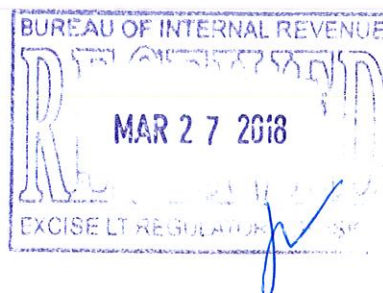
Doc. No. 455
Page No. 092
Book No. III
Series of 2018.




JASON S. JIMENEZ
NOTARY PUBLIC
FOR AND IN THE CITIES OF PASIG AND SAN JUAN
AND IN THE MUNICIPALITY OF PATEROS, METRO MANILA
UNTIL DECEMBER 31, 2018
PTR NO. 3897606; 1/30/18; PASIG CITY
IBP NO. 1060948; RSM CHAPTER; LIFETIME MEMBER
ROLL NO. 65776 / APPOINTMENT NO. 113 (2017-2018)
6F ROCKWELL BUSINESS CENTER TOWER 3
ORTIGAS AVENUE, PASIG CITY

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
First Gen Corporation
6th Floor, Rockwell Business Center Tower 3
Ortigas Avenue, Pasig City



Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of First Gen Corporation (the Company), which comprise the parent company statements of financial position as at December 31, 2017 and 2016, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for 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 Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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





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

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

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

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

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

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



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

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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 23 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of First Gen Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is
Jhoanna Feliza C. Go.

SYCIP GORRES VELAYO & CO.



Jhoanna Feliza C. Go

Partner

CPA Certificate No. 0114122

SEC Accreditation No. 1414-AR-1 (Group A),

March 2, 2017, valid until March 1, 2020

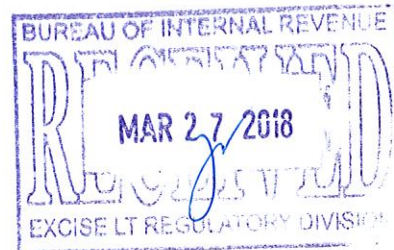
Tax Identification No. 219-674-288

BIR Accreditation No. 08-001998-103-2017,

January 31, 2017, valid until January 30, 2020

PTR No. 6621266, January 9, 2018, Makati City

March 15, 2018



FIRST GEN CORPORATION**PARENT COMPANY STATEMENTS OF FINANCIAL POSITION**

(Amounts in U.S. Dollars and in Thousands)

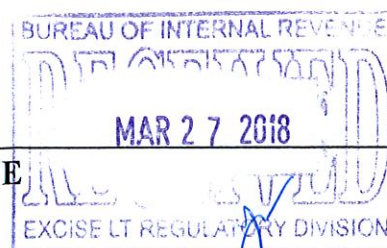


	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 18 and 19)	\$365,076	\$129,351
Due from related parties (Notes 14, 18 and 19)	52,475	45,516
Financial assets at fair value through profit or loss (FVPL) (Notes 6, 18 and 19)	21	2,049
Other current assets (Notes 7, 14, 18 and 19)	13,991	9,920
Total Current Assets	431,563	186,836
Noncurrent Assets		
Investments and deposits (Notes 8 and 14)	2,535,325	2,722,588
Property and equipment (Notes 9 and 15)	849	963
Other noncurrent assets (Note 16)	324	882
Total Noncurrent Assets	2,536,498	2,724,433
TOTAL ASSETS	\$2,968,061	\$2,911,269
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 10, 11, 18 and 19)	\$6,586	\$10,564
Dividends payable (Notes 12, 18 and 19)	14,478	14,719
Due to related parties (Notes 14, 18 and 19)	448,979	145,732
Current portion of:		
Long-term debts (Notes 11, 18 and 19)	19,794	5,787
Advances from subsidiaries (Notes 14, 18 and 19)	76,110	57,131
Total Current Liabilities	565,947	233,933
Noncurrent Liabilities		
Long-term debts - net of current portion (Notes 11, 18 and 19)	258,209	484,356
Advances from subsidiaries - net of current portion (Notes 14, 18 and 19)	64,181	160,964
Total Noncurrent Liabilities	322,390	645,320
Total Liabilities	888,337	879,253
Equity (Notes 12 and 13)		
Redeemable preferred stock	69,345	69,345
Common stock	75,123	75,123
Additional paid-in capital	1,165,366	1,165,366
Deposit for future stock subscriptions	2,139	2,139
Retained earnings	870,748	817,872
Cost of redeemable preferred stocks held in treasury	(102,997)	(97,829)
Total Equity	2,079,724	2,032,016
TOTAL LIABILITIES AND EQUITY	\$2,968,061	\$2,911,269

See accompanying Notes to Parent Company Financial Statements.



FIRST GEN CORPORATION
PARENT COMPANY STATEMENTS OF INCOME
(Amounts in U.S. Dollars and in Thousands)



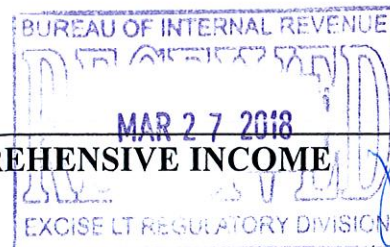
	Years Ended December 31	
	2017	2016
REVENUES		
Dividend income (Note 14)	\$160,377	\$116,308
Consultancy fee (Note 14)	7,851	8,481
	168,228	124,789
GENERAL AND ADMINISTRATIVE EXPENSES		
(Notes 9, 14, 15 and 16)	(13,144)	(14,989)
FINANCIAL INCOME (EXPENSES)		
Interest income (Note 5)	2,823	1,985
Interest expense and financing charges (Notes 11, 14 and 15)	(38,916)	(42,625)
	(36,093)	(40,640)
OTHER INCOME (CHARGES)		
Gain on sale of Energy Development Corporation (EDC) common stocks (Note 8)	13,050	—
Foreign exchange gains (losses) - net	2,857	(1,437)
Loss on extinguishment of long-term debt (Note 11)	(14,415)	—
Mark-to-market loss on financial assets at FVPL (Notes 6, 18 and 19)	(17)	(18)
Others (Notes 8, 11 and 14)	(14,355)	20,141
	(12,880)	18,686
INCOME BEFORE INCOME TAX	106,111	87,846
PROVISION FOR INCOME TAX (Note 17)	126	534
NET INCOME	\$105,985	\$87,312
Earnings per Share for Net Income Attributable to the Equity Holders of the Parent Company (Note 12)		
Basic and Diluted	\$0.02	\$0.02

See accompanying Notes to Parent Company Financial Statements.



FIRST GEN CORPORATION**PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME**

(Amounts in U.S. Dollars and in Thousands)



	Years Ended December 31	
	2017	2016
NET INCOME	\$105,985	\$87,312
OTHER COMPREHENSIVE INCOME		
<i>Other comprehensive income not to be reclassified to profit and loss in subsequent periods -</i>		
Re-measurement gains on retirement benefits (Note 16)	133	204
TOTAL COMPREHENSIVE INCOME	\$106,118	\$87,516

See accompanying Notes to Parent Company Financial Statements.

FIRST GEN CORPORATION

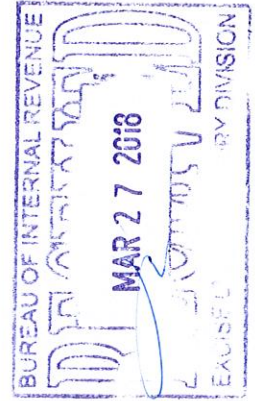
PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Amounts in U.S. Dollars and in Thousands)

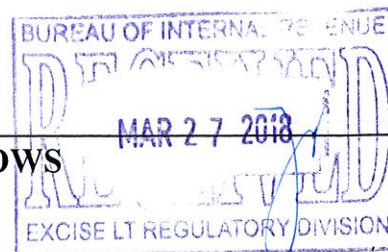
Capital Stock (Notes 12 and 13)									
	Redeemable Preferred Stock	Common Stock	Additional Paid-in Capital	Deposits for Future stock Subscriptions	Re-measurement of Retirement Benefits (Note 16)	Retained Earnings (Note 12)	Held in Treasury Stock (Notes 12 and 13)	Total Equity	Cost of Redeemable Preferred Stock
BALANCES AT DECEMBER 31, 2016									
Total comprehensive income	\$69,345	\$75,123	\$1,165,366	\$2,139	\$—	\$817,872	(\$97,829)	\$2,032,016	
Buyback of Series F preferred stocks (Note 12)	—	—	—	—	133	105,985	—	106,118	
Buyback of Series G preferred stocks (Note 12)	—	—	—	—	—	—	(919)	(919)	
Re-measurement gains on retirement benefits closed	—	—	—	—	—	—	(4,249)	(4,249)	
to retained earnings (Note 16)	—	—	—	—	(133)	133	—	—	
Cash dividends on common stocks (Note 12)	—	—	—	—	—	(25,170)	—	(25,170)	
Cash dividends on preferred stocks (Note 12)	—	—	—	—	—	(28,072)	—	(28,072)	
BALANCES AT DECEMBER 31, 2017									
	\$69,345	\$75,123	\$1,165,366	\$2,139	\$—	\$870,748	(\$102,997)	\$2,079,724	
BALANCES AT DECEMBER 31, 2015									
Total comprehensive income	\$69,345	\$75,123	\$1,165,366	\$—	\$—	\$788,218	(\$85,639)	\$2,012,413	
Deposit for future stock subscriptions (Note 12)	—	—	—	—	204	87,312	—	87,516	
Buyback of Series F preferred stocks (Note 12)	—	—	—	2,139	—	—	—	2,139	
Buyback of Series G preferred stocks (Note 12)	—	—	—	—	—	—	(23)	(23)	
Re-measurement gains on retirement benefits closed	—	—	—	—	—	—	(12,167)	(12,167)	
to retained earnings (Note 16)	—	—	—	—	(204)	204	—	—	
Cash dividends on common stocks (Note 12)	—	—	—	—	—	(27,463)	—	(27,463)	
Cash dividends on preferred stocks (Note 12)	—	—	—	—	—	(30,399)	—	(30,399)	
BALANCES AT DECEMBER 31, 2016									
	\$69,345	\$75,123	\$1,165,366	\$2,139	\$—	\$817,872	(\$97,829)	\$2,032,016	

See accompanying Notes to Parent Company Financial Statements.



FIRST GEN CORPORATION**PARENT COMPANY STATEMENTS OF CASH FLOWS**

(Amounts in U.S. Dollars and in Thousands)



	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$106,111	\$87,846
Adjustments for:		
Interest expense and financing charges (Note 15)	38,916	42,625
Depreciation and amortization (Notes 9 and 15)	317	322
Mark-to-market loss on financial assets at FVPL (Note 6)	17	18
Dividend income (Note 14)	(160,377)	(116,308)
Gain on sale of EDC common stocks (Note 8)	(13,050)	—
Interest income (Note 5)	(2,823)	(1,985)
Unrealized foreign exchange losses (gains)	(2,618)	3,217
Gain on sale of property and equipment	(5)	—
Operating income (loss) before working capital changes	(33,512)	15,735
Decrease (increase) in:		
Due from related parties	(6,997)	(596)
Net retirement benefits asset	690	628
Other current assets	(2,891)	(2,732)
Decrease in accounts payable and accrued expenses	(5,375)	(6,376)
Net cash from (used in) operations	(48,085)	6,659
Interest received	2,823	1,985
Income taxes paid	(126)	(534)
Net cash flows from (used in) operating activities	(45,388)	8,110
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received (Note 14)	159,004	116,308
Sale of financial assets at FVPL (Note 6)	151,361	34,357
Proceeds from EDC stocks tender offer (Note 8)	119,354	—
Return of investment in Northern Terracotta Power Corp. (Northern Terracotta) redeemable preferred stocks	95,107	—
Proceeds from disposal of property and equipment	41	14
Additions to:		
Investment in financial assets at FVPL (Note 6)	(149,259)	(27,777)
Investments and deposits (Note 8)	(14,148)	(106,058)
Property and equipment (Note 9)	(239)	(403)
Net cash flows from investing activities	361,221	16,441
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Long-term debts (Note 11)	(214,310)	(6,000)
Interest expense and financing charges	(30,893)	(29,388)
Cash dividends to preferred shareholders (Note 12)	(28,768)	(31,674)
Cash dividends to common shareholders (Note 12)	(25,170)	(27,463)
Buyback of Series "F" and "G" preferred stocks (Note 12)	(5,168)	(12,190)

(Forward)



	Years Ended December 31	
	2017	2016
Net advances (payments) to subsidiaries and related parties	\$220,997	(\$12,976)
Net cash flows used in financing activities	(83,312)	(119,691)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	3,204	(727)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	235,725	(95,867)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	129,351	225,218
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	\$365,076	\$129,351

See accompanying Notes to Parent Company Financial Statements.

