

**SMC GLOBAL POWER HOLDINGS CORP.
AND SUBSIDIARIES**
(A Wholly-owned Subsidiary of San Miguel Corporation)

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017, 2016 and 2015



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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
SMC Global Power Holdings Corp.
155 EDSA, Brgy. Wack-Wack
Mandaluyong City, Metro Manila

Opinion

We have audited the consolidated financial statements of SMC Global Power Holdings Corp. and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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



Key Audit Matter

Key audit matter is a matter that, in our professional judgment, is of most significance in our audit of the consolidated financial statements of the current period. This matter is addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of Trade and Other Receivables

The risk -

The Group's disclosures about the measurement and impairment assumptions to determine the recoverability and carrying amount of trade and other receivables are included in the significant accounting policies in Notes 3, 4 and 8 to the consolidated financial statements. As required by Philippine Accounting Standards No. 39, an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets measured at amortized cost is impaired. The determination of the recoverable amounts is subject to significant management's judgment and estimation. As a result, we assessed that the impairment testing is a key audit matter. Given the significant management's judgment and estimation, there is a risk that potential impairment loss on trade and other receivables may not be adequately recognized resulting in over valuation of the Group's trade and other receivables.

Our response -

Our audit procedures included, among others, the identification of any events and objective evidence that impairment may exist individually for trade and other receivables that are individually significant and collectively for trade and other receivables that are not individually significant. We evaluated the possible impact that these indications might have on the recoverability of trade and other receivables.

We have:

- Discussed with management regarding the level and aging of trade and other receivables and recoverability of amounts due from customers.
- Assessed the recoverability of trade and other receivables with reference to the historical levels of bad debt expense and credit history of the counterparties.
- Evaluated the calculations of the impairment testing as well as the presentation and the relevant disclosures within the consolidated financial statements.
- Performed retrospective review of the impairment losses recognized and assumptions made by the management in previous years.
- Considered the consistency of judgments by the management regarding the recoverability of trade and other receivables to consider whether there is evidence of management bias through discussions with management on their rationale and obtaining evidence to support their judgments.



Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A as at and for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A as at and for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



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

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

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

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



From the matters communicated with those charged with governance, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe the matter in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Mr. Darwin P. Virocel.

R.G. MANABAT & CO.

DARWIN P. VIROCEL

Partner

CPA License No. 0094495

SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-31-2016

Issued October 18, 2016; valid until October 17, 2019

PTR No. 6615157MD

Issued January 3, 2018 at Makati City

March 9, 2018

Makati City, Metro Manila

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(In Thousands)

	<i>Note</i>	2017	2016
ASSETS			
Current Assets			
Cash and cash equivalents	7, 30, 31	P28,655,359	P21,491,385
Trade and other receivables - net	4, 6, 8, 20, 30, 31	20,435,068	22,342,846
Inventories	4, 6, 9, 20	3,147,668	2,272,289
Prepaid expenses and other current assets	6, 10	17,791,915	17,683,020
		70,030,010	63,789,540
Assets held for sale	11, 13	-	184,324
Total Current Assets		70,030,010	63,973,864
Noncurrent Assets			
Investments and advances - net	4, 12	16,621,131	16,245,454
Property, plant and equipment - net	4, 6, 13	250,961,307	246,488,027
Deferred exploration and development costs	4, 6, 14	699,001	693,379
Intangible assets and goodwill - net	4, 6, 14, 15	2,594,136	2,572,119
Deferred tax assets	4, 27	1,316,926	2,955,570
Other noncurrent assets - net	16, 20, 30, 31	7,950,484	1,020,771
Total Noncurrent Assets		280,142,985	269,975,320
		P350,172,995	P333,949,184
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	17, 30, 31	P5,930,000	P -
Accounts payable and accrued expenses	18, 20, 30, 31	31,074,714	37,729,415
Finance lease liabilities - current portion	4, 6, 30, 31	16,844,431	16,344,246
Income tax payable		151,906	127,198
Current maturities of long-term debt - net of debt issue costs	19, 30, 31	1,139,631	1,040,690
Total Current Liabilities		55,140,682	55,241,549
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	19, 30, 31	89,589,070	65,283,036
Deferred tax liabilities	27	7,324,111	4,785,217
Finance lease liabilities - net of current portion	4, 6, 30, 31	137,949,259	153,745,290
Other noncurrent liabilities	4, 6, 20, 21, 30, 31	404,361	223,468
Total Noncurrent Liabilities		235,266,801	224,037,011
Total Liabilities		290,407,483	279,278,560

Forward

	Note	2017	2016
Equity	22		
Capital stock		P1,062,504	P1,062,504
Additional paid-in capital		2,490,000	2,490,000
Undated subordinated capital securities		26,933,565	26,933,565
Equity reserves		785,279	785,279
Equity reserve for retirement plan	21	(23,632)	(26,371)
Retained earnings		28,517,796	23,425,647
Total Equity		59,765,512	54,670,624
		P350,172,995	P333,949,184

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Thousands, Except Per Share Data)

	<i>Note</i>	2017	2016	2015
REVENUES	5, 20, 23, 33	P82,790,575	P77,972,430	P77,506,691
COST OF POWER SOLD	24	53,678,763	45,002,440	48,899,927
GROSS PROFIT		29,111,812	32,969,990	28,606,764
SELLING AND ADMINISTRATIVE EXPENSES	25	4,835,532	6,239,650	4,904,135
INCOME FROM OPERATIONS		24,276,280	26,730,340	23,702,629
INTEREST INCOME	7, 16	460,958	200,502	414,444
GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT	13	-	116,357	-
EQUITY IN NET LOSSES OF ASSOCIATES AND JOINT VENTURES	12	(40,396)	(294,795)	(528,445)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	6, 17, 19	(13,244,581)	(12,354,229)	(13,130,252)
OTHER INCOME (CHARGES) - Net	6, 26	2,944,165	(6,881,754)	(5,926,050)
INCOME BEFORE INCOME TAX		14,396,426	7,516,421	4,532,326
INCOME TAX EXPENSE	27, 28	6,179,510	3,365,759	2,703,408
NET INCOME		P8,216,916	P4,150,662	P1,828,918
Basic/Diluted Earnings (Loss) Per Share	29	P4.11	P0.97	(P0.07)

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Thousands)

	<i>Note</i>	2017	2016	2015
NET INCOME		P8,216,916	P4,150,662	P1,828,918
OTHER COMPREHENSIVE INCOME				
Item that will not be reclassified to profit or loss				
Equity reserve for retirement plan	21	3,913	(15,319)	(22,354)
Income tax benefit (expense)	27	(1,174)	4,596	6,706
		2,739	(10,723)	(15,648)
TOTAL COMPREHENSIVE INCOME		P8,219,655	P4,139,939	P1,813,270

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Thousands)

	<i>Note</i>	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Equity Reserves	Equity Reserve for Retirement Plan	Retained Earnings	Total Equity
Balance as of January 1, 2017		P1,062,504	P2,490,000	P26,933,565	P785,279	(P26,371)	P23,425,647	P54,670,624
Net income for the year		-	-	-	-	-	8,216,916	8,216,916
Equity reserve for retirement plan - net of tax	21	-	-	-	-	2,739	-	2,739
Total comprehensive income for the year		-	-	-	-	2,739	8,216,916	8,219,655
Share issuance costs		-	-	-	-	-	(50,563)	(50,563)
Distributions:								
Undated subordinated capital securities	22	-	-	-	-	-	(3,074,204)	(3,074,204)
Transactions with owners		-	-	-	-	-	(3,124,767)	(3,124,767)
Balance as of December 31, 2017		P1,062,504	P2,490,000	P26,933,565	P785,279	(P23,632)	P28,517,796	P59,765,512
Balance as of January 1, 2016		P1,062,504	P2,490,000	P26,933,565	P785,279	(P15,648)	P25,179,558	P56,435,258
Net income for the year		-	-	-	-	-	4,150,662	4,150,662
Equity reserve for retirement plan - net of tax	21	-	-	-	-	(10,723)	-	(10,723)
Total comprehensive income for the year		-	-	-	-	(10,723)	4,150,662	4,139,939
Cash dividends and distributions:								
Common	22	-	-	-	-	-	(3,000,000)	(3,000,000)
Undated subordinated capital securities	22	-	-	-	-	-	(2,904,573)	(2,904,573)
Transactions with owners		-	-	-	-	-	(5,904,573)	(5,904,573)
Balance as of December 31, 2016		P1,062,504	P2,490,000	P26,933,565	P785,279	(P26,371)	P23,425,647	P54,670,624
Balance as of January 1, 2015		P1,062,504	P2,490,000	P13,110,066	P785,279	P -	P29,301,328	P46,749,177
Net income for the year		-	-	-	-	-	1,828,918	1,828,918
Equity reserve for retirement plan - net of tax	21	-	-	-	-	(15,648)	-	(15,648)
Total comprehensive income for the year		-	-	-	-	(15,648)	1,828,918	1,813,270
Issuance of undated subordinated capital securities	22	-	-	13,823,499	-	-	-	13,823,499
Cash dividends and distributions:								
Common	22	-	-	-	-	-	(4,500,000)	(4,500,000)
Undated subordinated capital securities	22	-	-	-	-	-	(1,450,688)	(1,450,688)
Transactions with owners		-	-	-	-	-	(5,950,688)	(5,950,688)
Balance as of December 31, 2015		P1,062,504	P2,490,000	P26,933,565	P785,279	(P15,648)	P25,179,558	P56,435,258

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Thousands)

	<i>Note</i>	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P14,396,426	P7,516,421	P4,532,326
Adjustments for:				
Interest expense and other financing charges	6, 17, 19	13,244,581	12,354,229	13,130,252
Depreciation and amortization	6, 13, 15, 24, 25	6,064,931	6,341,931	6,539,813
Equity in net losses of associates and joint venture	12	40,396	294,795	528,445
Retirement benefit expense	21	12,653	8,388	6,611
Unrealized marked - to - market gain on derivatives		(61,903)	-	-
Interest income	7, 16	(460,958)	(200,502)	(414,444)
Unrealized foreign exchange (gains) losses - net		(786,921)	7,446,813	7,505,369
Impairment losses on trade and other receivables	8, 25, 26	-	1,210,451	374,801
Impairment losses on property, plant and equipment	13	-	323,788	-
Impairment losses on concession assets		-	20,460	-
Gain on sale of property, plant and equipment	13	-	(116,357)	-
Operating income before working capital changes		32,449,205	35,200,417	32,203,173
Decrease (increase) in:				
Trade and other receivables - net	8	2,114,023	(657,993)	(749,571)
Inventories	9	(875,379)	(1,009,071)	101,815
Prepaid expenses and other current assets	10	(982,825)	(2,614,273)	(6,647,768)
Increase (decrease) in:				
Accounts payable and accrued expenses	18	(4,864,843)	5,130,812	4,686,593
Other noncurrent liabilities		14,521	49,479	(565,860)
Cash generated from operations		27,854,702	36,099,371	29,028,382
Interest income received		395,960	203,493	426,480
Income taxes paid		(1,242,012)	(2,640,580)	(1,517,632)
Finance cost paid		(5,163,304)	(3,182,682)	(2,907,116)
Net cash flows provided by operating activities		21,845,346	30,479,602	25,030,114

Forward

	Note	2017	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment	13	P54,184	P13,820,388	P -
Additions to deferred exploration and development costs	14	(5,622)	(3,831)	(17,765)
Additions to intangible assets	6, 15	(132,474)	(271,991)	(117,735)
Net additions to investments and advances	12	(416,073)	(5,927,312)	(529,105)
Additions to other noncurrent assets		(6,867,810)	1,227,455	(32,811)
Additions to property, plant and equipment	13, 17, 19	(8,911,531)	(14,862,133)	(33,832,759)
Net cash flows used in investing activities		(16,279,326)	(6,017,424)	(34,530,175)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from short-term borrowings	17, 32	113,419,200	14,364,000	-
Proceeds from long-term debt	19, 32	77,000,000	30,684,375	8,825,000
Proceeds from issuance of undated subordinated capital securities	22	-	-	13,823,499
Cash dividends paid	22	-	(3,000,000)	(4,500,000)
Payment of stock issuance costs		(50,563)	-	-
Distributions to undated subordinated capital securities holders	22	(3,074,204)	(2,904,573)	(1,450,688)
Payments of finance lease liabilities	6, 32	(24,874,993)	(23,873,363)	(22,280,118)
Payments of long-term debt	19, 32	(53,110,468)	(26,348,700)	(1,373,100)
Payments of short-term borrowings	17, 32	(107,782,255)	(14,155,500)	-
Net cash flows provided by (used in) financing activities		1,526,717	(25,233,761)	(6,955,407)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		71,237	21,607	392,535
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		7,163,974	(749,976)	(16,062,933)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		21,491,385	22,241,361	38,304,294
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	7	P28,655,359	P21,491,385	P22,241,361

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Per Share Data and Number of Shares)

1. Reporting Entity

SMC Global Power Holdings Corp. (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 23, 2008, and its primary purpose of business is to purchase, sell, lease, develop and dispose of all properties of every kind and description, and shares of stocks or other securities or obligations, created or issued by any corporation or other entity. The Parent Company's registered office address is located at 155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila.

The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the Group) and the Group's interests in associates and joint ventures.

The Parent Company is a wholly-owned subsidiary of San Miguel Corporation (SMC). The ultimate parent company of the Group is Top Frontier Investment Holdings, Inc. (Top Frontier). SMC and Top Frontier are public companies under Section 17.2 of the Securities Regulation Code and whose shares are listed on The Philippine Stock Exchange, Inc. (PSE).

2. Basis of Preparation

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on March 9, 2018.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis except for the following items which are measured on an alternative basis on each reporting date:

Items	Measurement Basis
Derivative financial instruments	Fair value
Defined benefit retirement liability	Present value of the defined benefit retirement obligation

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the functional currency of the Parent Company. All financial information are rounded off to the nearest thousand (P000), except when otherwise indicated.

Basis of Consolidation

The Parent Company's subsidiaries, primarily engaged in power generation, retail and other power-related services and coal mining are incorporated in the Philippines and registered with the Philippine SEC. The consolidated financial statements include the accounts of the Parent Company and its Subsidiaries as follows:

	Percentage of Ownership	
	2017	2016
Power Generation		
San Miguel Energy Corporation (SMEC)	100	100
South Premiere Power Corp. (SPPC)	100	100
Strategic Power Devt. Corp. (SPDC)	100	100
SMC PowerGen Inc. (SPI)	100	100
Limay Power Generation Corporation ^(c)	100	100
SMC Consolidated Power Corporation (SCPC) ^{(g) (i)}	100	100
San Miguel Consolidated Power Corporation (SMCPC) ^(b)	100	100
Central Luzon Premiere Power Corp. (CLPPC) ^(e)	100	100
Limay Premiere Power Corp. (LPPC) ^{(e) (i)}	100	100
PowerOne Ventures Energy Inc. (PVEI) ^(h)	100	100
Prime Electric Generation Corporation ^(k)	100	-
Oceantech Power Generation Corporation ^(k)	100	-
Retail and Other Power-related Services		
San Miguel Electric Corp. (SMELC)	100	100
Albay Power and Energy Corp. (APEC)	100	100
SMC Power Generation Corp. (SPGC) ⁽ⁱ⁾	100	100
Coal Mining		
Daguma Agro-Minerals, Inc. (DAMI) ^(a)	100	100
Sultan Energy Phils. Corp. (SEPC) ^(a)	100	100
Bonanza Energy Resources, Inc. (BERI) ^(a)	100	100
Others		
Mantech Power Dynamics Services Inc.	100	100
Safetech Power Services Corp.	100	100
Ondarre Holding Corporation (OHC) ^(d)	100	100
Golden Quest Equity Holdings Inc. ^(a)	100	100
Grand Planters International, Inc. (GPPI) ^(f)	100	100

(a) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as of December 31, 2017.

(b) In July 2017, SMCPC started commercial operations for Unit 1 of its 2 x 150 Mega Watt (MW) Coal-fired Power Plant in Malita, Davao.

(c) Indirectly owned by the Parent Company through SPI and has not yet started commercial operations as of December 31, 2017.

(d) Acquired in February 2015 and has not yet started commercial operations as of December 31, 2017.

(e) Incorporated in 2015 and has not yet started commercial operations as of December 31, 2017.

(f) Acquired in September 2015.

(g) In May and September 2017, SCPC started commercial operations of Unit 1 and Unit 2, respectively, of its initial 2 x 150 MW Coal-fired Power Plant in Limay, Bataan.

(h) PVEI owns 60% of the outstanding capital stock of Angat Hydropower Corporation and KWPP Holdings Corporation as joint ventures.

(i) SPGC owns 35% of the outstanding capital stock of Olongapo Electricity Distribution Company, Inc., as an associate.

(j) On June 22, 2017, LPPC sold its 2 x 150 MW Coal-fired Power Plant under construction to SCPC.

(k) Incorporated in 2017 and has not started commercial operations as of December 31, 2017.

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statements of income; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of New and Amended Standards and Interpretation

The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards Adopted in 2017

The Group has adopted the following amendments to PFRS starting January 1, 2017 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative (*Amendments to PAS 7, Statement of Cash Flows*). The amendments resulted in improved disclosures about the net debt of an entity relevant to the understanding of its cash flows. The amendments require entities to provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g., by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

- Recognition of Deferred Tax Assets for Unrealized Losses (*Amendments to PAS 12, Income Taxes*). The amendments clarify that: (a) the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset; (b) the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences; (c) the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and (d) an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.
- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PFRS 12, Disclosure of Interests in Other Entities*, on clarification of the scope of the standard is applicable to the Group. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

Except as otherwise indicated, the adoption of amendments to standards did not have a material effect on the consolidated financial statements.

New and Amended Standards and Interpretations Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing the consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

The Group will adopt the following new and amended standards and interpretations on the respective effective dates:

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PAS 28, Investments in Associates*, on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss (FVPL). This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

The amendments are to be applied retrospectively on or after January 1, 2018, with early application permitted.

- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Group will adopt the new standard on the effective date and will not restate comparative information. The Group has performed an assessment which is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. The adoption of PFRS 9 will have no significant effect on the classification and measurement of financial assets and liabilities of the Group. The Group does not expect any impact on its consolidated statement of financial position except for the possible effect of applying the expected credit loss model in estimating impairment.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity can apply the new standard using either the retrospective or the cumulative effect method. Under the retrospective method, each comparative period presented is retrospectively adjusted, with a choice of practical expedients. While under the cumulative effect method, the cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative periods, with a choice of practical expedients.

The Group will adopt the new standard on the effective date using the cumulative effect method. The cumulative impact of the adoption will be recognized in retained earnings as of January 1, 2018 and comparative information will not be restated. As of March 9, 2018, the Group is in the process of finalizing its assessment on the impact of adopting PFRS 15 on the Group's revenue recognition policies, but it does not expect any significant impact on its consolidated financial position and consolidated net income.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*. The amendments clarify that the transaction date to be used for translation of foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. The Group is currently assessing the potential impact of the new standard.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*, clarifies how to apply the recognition and measurement requirements in PAS 12 when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Group's chosen tax treatment. If it is not probable that the tax authority will accept the Group's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted.

- Long-term Interests in Associates and Joint Ventures (*Amendments to PAS 28*). The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests (LTIs) that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PFRS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any prior years' PAS 28 loss absorption. If necessary, prior years' PAS 28 loss allocation is trued-up in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (*Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28*). The amendments address an inconsistency in the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business whether it is housed in a subsidiary or not. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when it is: (a) expected to be settled in the normal operating cycle; (b) held primarily for trading; (c) due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs.

'Day 1' Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Assets

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, available-for-sale (AFS) financial assets and held-to-maturity (HTM) investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no AFS financial assets and HTM investments as of December 31, 2017 and 2016.

Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair values in accordance with the documented risk management or investment strategy of the Group. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Fair value changes and realized gains or losses are recognized in the consolidated statements of income. Any interest earned is recognized as part of "Interest income" account in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL is recognized in the consolidated statements of income when the right to receive payment has been established.

The Group's derivative assets and financial assets at FVPL are classified under this category (Notes 30 and 31).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in the consolidated statements of income when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The Group's cash and cash equivalents, trade and other receivables, noncurrent receivables and restricted cash are included under this category (Notes 7, 8, 16, 30 and 31).

Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income.

The Group has no financial liabilities at FVPL as of December 31, 2017 and 2016.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, finance lease liabilities and other noncurrent liabilities are included under this category (Notes 6, 17, 18, 19, 30 and 31).

Derivative Financial Instruments and Hedging

Freestanding Derivatives

For the purpose of hedge accounting, hedges are classified as either:

- (a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk);
- (b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
- (c) hedges of a net investment in foreign operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair Value Hedge. Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in the consolidated statements of income. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in the consolidated statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

The Group discontinues fair value hedge accounting if:

- (a) the hedging instrument expires, is sold, is terminated or is exercised;
- (b) the hedge no longer meets the criteria for hedge accounting; or
- (c) the Group revokes the designation.

The Group has no outstanding derivatives and financial instruments accounted for as a fair value hedge as of December 31, 2017 and 2016.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. The ineffective portion is immediately recognized in the consolidated statements of income.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in the consolidated statements of changes in equity are transferred and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in the consolidated statements of changes in equity are transferred to the consolidated statements of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects the consolidated statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in the consolidated statements of changes in equity is retained until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in the consolidated statements of changes in equity is recognized in the consolidated statements of income.

The Group has no outstanding derivatives and financial instruments accounted for as a cash flow hedge as of December 31, 2017 and 2016.

Net Investment Hedge. Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the consolidated statements of income. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in the consolidated statements of changes in equity is transferred to and recognized in the consolidated statements of income.

The Group has no hedge of a net investment in a foreign operation as of December 31, 2017 and 2016.

Changes in fair values of derivatives that do not qualify for hedge accounting are recognized directly in the consolidated statements of income.

Embedded Derivatives

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

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

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

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

The Group has no embedded derivatives as of December 31, 2017 and 2016.

Derecognition of Financial Assets and Financial Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group is required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of income.

Impairment of Financial Assets

The Group assesses, at the reporting date, whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the period is recognized in the consolidated statements of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated statements of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using specific identification method or weighted average method for coal inventories, weighted average method for fuel oil and other consumables and specific identification method for spare parts. Net realizable value is the current replacement cost.

Any write-down of inventories to net realizable value and all losses of inventories are recognized as expense in the year of write-down or loss occurrence. The amount of reversals, if any, of write-down of inventories arising from an increase in net realizable value are recognized as reduction in the amount of inventories recognized as expense in the year in which the reversal occurs.

Business Combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statements of income.

▪ *Goodwill in a Business Combination*

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

- *Intangible Assets Acquired in a Business Combination*

The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in the consolidated statements of income.

Transactions under Common Control

Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using book value accounting.

Investments in Shares of Stock of Associates and Joint Ventures

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in shares of stock of associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in shares of stock of an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in profit or loss of an associate or joint venture is recognized as "Equity in net losses of associates and joint ventures" account in the consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate or joint venture arising from changes in the associate or joint venture's other comprehensive income. The Group's share on these changes is recognized in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in the shares of stock of an associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of an associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of an associate or joint venture and then recognizes the loss as part of "Equity in net losses of associates and joint ventures" account in the consolidated statements of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in an associate or joint venture upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statements of income.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CPIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Power plants	10 - 43
Leasehold improvements	5 - 25 or term of the lease, whichever is shorter
Other equipment	2 - 20
Building	10 - 25

The remaining useful lives, residual values, and depreciation and amortization methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

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

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the consolidated statements of income in the period of retirement and disposal.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the consolidated statements of income in the year in which the related expenditures are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of intangible assets with finite lives:

	Number of Years
Power concession right	25
Computer software and licenses	3

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

Power Concession Assets and Obligations

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entity in the Group can provide with the infrastructure, to whom it can provide them, and at what price; and (b) the grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of the Interpretation if the conditions in (a) are met.

The Interpretation applies to both: (a) infrastructure that the entity in the Group construct or acquire from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the entity in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of the Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of the contractual arrangements within the scope of the Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

The Group's power concession right pertains to the right granted by the Government to the Parent Company, through APEC, to operate and maintain the franchise of Albay Electric Cooperative, Inc. (ALECO). The Group's power concession right is carried at cost less accumulated amortization and any accumulated impairment losses.

The useful life of power concession right is assessed to be either finite or indefinite. Power concession right arising from a service concession arrangement is amortized using straight-line method over the concession period, which is 25 years from the first day of the commencement of operations, or the estimated useful lives of the infrastructure, whichever is shorter, and assessed for impairment whenever there is an indication that the asset may be impaired. The amortization period and method are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of income in the expense category consistent with the function of the concession assets.

The power concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the power concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

An entity recognizes and measures revenue in accordance with PAS 11 and PAS 18 for the services it performs. If an entity performs more than one service under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date, to estimated total costs for each contract. The applicable entity accounts for revenue and costs relating to operation services in accordance with PAS 18.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entity has contractual obligations to fulfill as a condition of its license: (i) to maintain the infrastructure to a specified level of serviceability; or (ii) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures the contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

In accordance with PAS 23, *Borrowing Costs*, borrowing costs attributable to the arrangement are recognized as expenses in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

Concession payable is recognized at the date of inception of the concession agreement. Fixed concession fees are recognized at present value using the discount rate at the inception date. This account is debited upon payment of fixed fees and such payments are apportioned between interest payment and payment of the principal. Interest arising from the accretion of concession payable is presented under "Interest expense and other financing charges" account in the consolidated statements of income.

Concession payable that are expected to be settled within 12 months after the reporting date are classified as current liabilities. Otherwise, these are classified as noncurrent liabilities.

Mining Rights

The Group's mining rights have finite lives and are carried at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in the consolidated statements of income as incurred.

Amortization of mining rights is recognized in the consolidated statements of income based on the units of production method utilizing only recoverable coal reserves as the depletion base. In applying the units of production method, amortization is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable reserves. The amortization of mining rights will commence upon commercial operations.

Gain or loss from derecognition of mining rights is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Deferred Exploration and Development Costs

Deferred exploration and development costs comprise of expenditures which are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Deferred exploration and development costs also include expenditures incurred in acquiring mining rights, entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration assets are reassessed on a regular basis and tested for impairment provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

If the project proceeds to development stage, the amounts included within deferred exploration and development costs are transferred to property, plant and equipment.

Impairment of Non-financial Assets

The carrying amounts of investments and advances, property, plant and equipment, deferred exploration and development costs and intangible assets with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. An impairment loss with respect to goodwill is not reversed.

Fair Value Measurements

The Group measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

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

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

ARO. The Company records a provision for asset retirement costs of its power plants. Asset retirement costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of property, plant and equipment. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the retirement liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statements of income as "Interest expense and other financing charges". The estimated future costs of asset retirement are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the power plants. If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the statement of income.

Capital Stock and Additional Paid-in Capital

Common Shares. Common shares are measured at par and are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

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

Undated Subordinated Capital Securities

Undated subordinated capital securities (USCS) are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or financial liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of USCS are recognized as a deduction from equity, net of tax. The proceeds received, net of any directly attributable transaction costs, are credited to USCS.

Retained Earnings

Retained earnings represent the accumulated net income or losses, net of any dividend, distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenues are stated at amounts invoiced to customers, inclusive of pass-through charges, net of value-added tax (VAT) and other taxes.

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

Sale of Power. Revenue from power generation and trading is recognized in the period when actual power or capacity is generated, transmitted and/or made available to the customers, net of related discounts and adjustments.

Retail and Other Power-related Services. Revenues are recognized upon the supply of electricity to the customers. The Uniform Filing Requirements on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) system loss charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) currency exchange rate adjustments, where applicable and (h) interclass and life subsidies. Feed-in tariffs allowance, VAT, local franchise tax and universal charges are billed and collected on behalf of the national and local government and do not form part of the Group's revenue. Generation, transmission and system loss charges, which are part of revenues, are pass-through charges.

Others

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Management income is recognized when earned in accordance with the terms of the agreement.

Rent income from operating lease is recognized on a straight-line basis over the related lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Construction revenue related to the Group's recognition of intangible asset on the right to operate and maintain the franchise of ALECO, which is the fair value of the intangible asset, is earned and recognized as the construction progresses. The Group recognizes the corresponding amount as intangible asset as it recognizes the construction revenue. The Group assumes no profit margin in earning the right to operate and maintain the franchise of ALECO.

The Group uses the cost to cost percentage-of-completion method to determine the appropriate amount of revenue to be recognized in a given period. The stage of completion is measured by reference to the costs incurred related to the construction of ALECO infrastructure up to the end of the reporting period as a percentage of total estimated cost of the construction.

Cost and Expense Recognition

Costs and Expenses. Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost of power sold is debited for the direct costs related to power generation, retail and distribution of electricity, and/or trading. Expenses are recognized when incurred.

Interest Expense and Other Financing Charges. Interest expense and other financing charges comprise finance charges on finance lease liabilities, loans, concession payable and other borrowings. Finance charges on finance lease liabilities, loans, and concession payable are recognized in consolidated statements of income using the effective interest rate method.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Finance Lease

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in the consolidated statements of income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating Lease

Group as Lessee. Leases which do not transfer to the Group substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Employee Benefits

Short-term Employee Benefits. Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Costs. The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement obligation is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning projected salaries of employees. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Defined benefit costs comprise the following:

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

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

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the consolidated statements of income.

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

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statements of income. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

Foreign Currency Translations

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Nonmonetary assets denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Nonmonetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income.

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred Tax. Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

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

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

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

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax are recognized in the consolidated statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

VAT. Revenues, expenses and assets are recognized net of the amount of VAT, except:

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

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Accounts payable and accrued expenses" accounts in the consolidated statements of financial position.

Assets Held for Sale

Noncurrent assets, or disposal groups comprising assets and liabilities, are classified as held for sale if their carrying amount will be recovered primarily through sale rather than through continuing use.

The assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the consolidated statements of income. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn.

Property and equipment once classified as held for sale are not amortized or depreciated. In addition, equity accounting of equity accounted investees ceases once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statements of financial position.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of distributions to the holders of USCS, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effect of all potential dilutive debt or equity instruments.

As of December 31, 2017, 2016 and 2015, the Group has no dilutive equity instruments as disclosed in Note 29 to the consolidated financial statements.

Operating Segments

The Group's operating segments are organized and managed separately according to the services provided, with each segment representing a strategic business unit that offers different economic characteristic and activities. Financial Information on operating segments is presented in Note 5 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker; CODM) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

Contingencies

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

Events After the Reporting Date

Post year-end events that provide additional information about the Group's financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

In the process of applying the accounting policies, the Group has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the consolidated financial statements:

Finance Lease - Group as Lessee. The Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM) provide the Group with a right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out. In accounting for the Group's IPPA Agreements, the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

The Group's management has also made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants. Accordingly, the Group accounted for the agreements as a finance lease and recognized the power plants and finance lease liabilities at the present value of the agreed monthly payments to PSALM (Notes 6 and 13).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P154,793,690 and P170,089,536 as of December 31, 2017 and 2016, respectively (Notes 6, 30 and 31).

The combined carrying amounts of power plants under finance lease amounted to P172,573,492 and P177,759,894 as of December 31, 2017 and 2016, respectively (Note 13).

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either as a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties and related parties are retained by the lessors (Note 6).

Rent income recognized in the consolidated statements of income amounted to P10,686, P21,147 and P28,104 in 2017, 2016 and 2015, respectively (Notes 6 and 26).

Rent expense recognized in the consolidated statements of income amounted to P376,499, P351,091 and P360,091 in 2017, 2016 and 2015, respectively (Notes 6 and 25).

Applicability of Philippine Interpretation IFRIC 12. In accounting for the Group's transactions in connection with its Concession Agreement with ALECO, significant judgment was applied to determine the most appropriate accounting policy to use.

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the Interpretation. Management determined that the consideration receivable, in exchange for the fulfillment of the Group's obligation under the Concession Agreement, is an intangible asset in the form of a right (license) to charge fees to users. Judgment was further exercised by management in determining the costs components of acquiring the right (Notes 3, 6 and 15).

Power Concession Right. The Group's power concession right represents the right to operate and maintain the franchise of ALECO; i.e., the right to collect electricity fees from the consumers of ALECO. At the end of the concession period, all assets and improvements shall be returned to ALECO and any additions and improvements to the system shall be transferred to ALECO.

Difference in judgment in respect to the accounting treatment of the transactions would materially affect the assets, liabilities and operating results of the Group.

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms, and other facts and circumstances of the arrangement. As such, the Group classified its joint arrangements in Angat Hydropower Corporation (AHC) and KWPP Holdings Corporation (KWPP) as joint venture (Note 12).

Adequacy of Tax Liabilities. The Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Classifying Financial Instruments. The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

Contingencies. The Group is currently involved in various pending claims and cases which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and cases has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and cases will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 33).

Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon the Group's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Note 31.

Allowance for Impairment Losses on Trade and Other Receivables. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded selling and administrative expenses and decrease current assets.

The allowance for impairment losses on trade and other receivables amounted to P2,451,818 as of December 31, 2017 and 2016. The carrying amount of trade and other receivables amounted to P20,435,068 and P22,342,846 as of December 31, 2017 and 2016, respectively (Note 8).

Write-down of Inventory. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The Group assessed that no write-down of inventories to net realizable value is necessary as of December 31, 2017 and 2016.

The carrying amount of inventories amounted to P3,147,668 and P2,272,289 as of December 31, 2017 and 2016, respectively (Note 9).

Estimated Useful Lives of Property, Plant and Equipment. The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded cost of power sold and selling and administrative expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation and amortization, amounted to P250,961,307 and P246,488,027 as of December 31, 2017 and 2016, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P42,776,912 and P36,822,438 as of December 31, 2017 and 2016, respectively (Note 13).

Estimating Coal Reserves. Coal reserve estimates are based on measurements and geological interpretation obtained from natural outcrops, trenches, tunnels and drillholes. In contrast with “coal resource” estimates, profitability of mining the coal during a defined operating period or “mine-life” is a necessary attribute of “coal reserve”. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors, including product prices, contract terms or development plans. Estimates of reserves for undeveloped areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted.

The Philippine Department of Energy (DOE) is the government agency authorized to implement coal operating contracts (COC) and regulate the operation of contractors pursuant to DOE Circular No. 81-11-10: Guidelines for Coal Operations in the Philippines. For the purpose of the 5-year development and production program required for each COC, the agency classifies coal reserves, according to increasing degree of uncertainty, into (i) positive, (ii) probable, and (iii) inferred. The DOE also prescribes the use of “total in-situ reserves” as the sum of positive reserves and 2/3 of probable reserve; and “mineable reserve” as 60% of total in-situ reserve for underground, and 85% for surface (including open-pit) coal mines (Note 14).

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group's assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group's mining activities remain in the preparatory stages as of December 31, 2017. All related costs and expenses from the mining activities are currently deferred as exploration and development costs, which will be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2017 and 2016.

Deferred exploration and development costs amounted to P699,001 and P693,379 as of December 31, 2017 and 2016, respectively (Note 14).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or an indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

The Group estimates the useful life of intangible assets with finite useful life based on the period over which the asset are expected to be available for use. The estimated useful life of intangible asset with finite useful life is reviewed periodically and is updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful life of intangible assets with finite useful life is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful life of intangible assets with finite useful life would increase recorded cost and expenses and decrease noncurrent assets.

There is no change in estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property based on management's review at the reporting date.

Intangible assets with finite useful lives such as mining rights and computer software and licenses amounted to P1,803,386 and P1,874,279 as of December 31, 2017 and 2016, respectively (Note 15).

Intangible assets with indefinite useful life amounted to P8,866 as of December 31, 2017 and 2016 (Note 15).

Estimated Useful Lives of Intangible Assets - Power Concession Right. The Group estimates the useful life of power concession right based on the period over which the assets are expected to be available for use. The Group has not included any renewal period on the basis of uncertainty of the probability of securing renewal contract at the end of the original contract term as of the reporting date.

The amortization period and method are reviewed when there are changes in the expected term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset.

The carrying amount of power concession right amounted to P781,884 and P688,974 as of December 31, 2017 and 2016, respectively (Notes 6 and 15).

Impairment of Goodwill. The Group determines whether the goodwill acquired in business combination is impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to P8,866 as of December 31, 2017 and 2016 (Note 15).

Acquisition Accounting. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The carrying amount of goodwill and mining rights as a result of the business combination amounted to P8,866 and P1,719,726, respectively, as of December 31, 2017 and 2016 (Note 15).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets arising from MCIT and NOLCO have not been recognized because the management believes that it is not probable that future taxable income will be available against which the Group can utilize the benefits therefrom (Note 27).

Deferred tax assets from temporary differences amounted to P1,316,926 and P2,955,570 as of December 31, 2017 and 2016, respectively (Note 27).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, deferred exploration and development costs and intangible assets with finite useful lives when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

The Group assessed that its non-financial assets are not impaired as of December 31, 2017 and 2016.

The combined carrying amounts of investments and advances, property, plant and equipment, deferred exploration and development costs and intangible assets with finite useful lives amounted to P270,866,709 and P265,990,113 as of December 31, 2017 and 2016, respectively (Notes 12, 13, 14 and 15).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 21 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's defined benefit retirement obligation.

The present value of defined benefit retirement obligation amounted to P78,104 and P69,364 as of December 31, 2017 and 2016, respectively (Note 21).

ARO. Determining ARO requires estimation of the costs of dismantling and restoring leased properties to their original condition. The Group recognizes an obligation to retire the power plants of SMCP and SCPC at the end of their respective lease term or operating life, whichever comes earlier. This represents the best estimate of the expenditures required to settle the present obligation, as adjusted for the effects of inflation, at the end of the current reporting date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using the credit-adjusted risk-free rate of 8.371% at reporting date to take into account the timing of payments. Changes in ARO that result from a change in the current best estimate of cash flows required to settle the obligation or a change in the discount rate are added to or deducted from the amount recognized in the related asset.

While the Group has made its best estimate in establishing the asset retirement obligation, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete the retirement activities, the ultimate provision requirements could either increase or decrease significantly from the Group's current estimates.

The Group's ARO presented under "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to P157,632 as at December 31, 2017.

5. Segment Information

Operating Segments

The Group's operations are segmented into four businesses: a) power generation, b) retail and other power-related services, c) coal mining and d) others consistent with the reports prepared internally for use by the Group's CODM in reviewing the business performance of the operating segments. The differing economic characteristics and activities of these power plants make it more useful to users of the consolidated financial statements to have information about each component of the Group's profit or loss, assets and liabilities.

The coal mining companies, which were acquired in 2010, have not yet started commercial operations and remain in the preparatory stages of mining activities (Note 14). The mining companies' total assets do not exceed 10% of the combined assets of all operating segments. Accordingly, management believes that as of December 31, 2017 and 2016, the information about this component of the Group would not be useful to the users of the consolidated financial statements.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment except investments and advances, intangible assets and goodwill and deferred tax assets. Segment liabilities include all operating liabilities except long-term debt, deferred tax liabilities and income tax payable. Capital expenditures consist of additions to property, plant and equipment of each reportable segment.

Inter-segment Transactions

The Group's inter-segment sales are accounted for based on contracts entered into by the parties and are eliminated in the consolidation. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in consolidation.

The Group operates only in the Philippines which is treated as a single geographical segment.

Major Customers

The Group sells, retails and distributes power, through power supply agreements, retail supply contracts, concession agreement and other power-related service agreements (Note 6), either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale, retail and/or distribution of power to individual external customers that represents 10% or more of the Group's total revenues is as follows:

	2017	2016	2015
Manila Electric Company (Meralco)	P43,404,148	P39,565,977	P40,889,098
WESM	4,467,399	4,153,980	6,217,243

For management reporting purposes, the Group's operating segments are organized and managed separately as follows:

Operating Segments

Financial information about reportable segments follows:

	For the Years Ended December 31																	
	Power Generation			Retail and Other Power-related Services			Coal Mining			Others			Eliminations			Consolidated		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Revenues																		
External	P70,494,762	P72,250,309	P73,849,465	P12,295,813	P5,722,121	P3,657,226	P -	P -	P -	P -	P -	P -	P -	P -	P -	P82,790,575	P77,972,430	P77,506,691
Inter-segment	14,258,684	8,964,899	6,769,834	98,501	14,629	-	-	-	-	309,330	132,000	-	(14,666,515)	(9,111,528)	(6,769,834)	-	-	-
	84,753,446	81,215,208	80,619,299	12,394,314	5,736,750	3,657,226	-	-	-	309,330	132,000	-	(14,666,515)	(9,111,528)	(6,769,834)	82,790,575	77,972,430	77,506,691
Costs and Expenses																		
Cost of power sold	56,942,906	48,198,409	51,933,914	11,694,501	5,711,781	3,723,643	-	-	-	-	-	-	(14,958,644)	(8,907,750)	(6,757,630)	53,678,763	45,002,440	48,899,927
Selling and administrative expenses	4,763,396	6,111,655	4,791,985	218,091	849,499	226,397	22,663	28,495	17,831	2,177,596	1,599,204	1,294,215	(2,346,214)	(2,349,203)	(1,426,293)	4,835,532	6,239,650	4,904,135
	61,706,302	54,310,064	56,725,899	11,912,592	6,561,280	3,950,040	22,663	28,495	17,831	2,177,596	1,599,204	1,294,215	(17,304,858)	(11,256,953)	(8,183,923)	58,514,295	51,242,090	53,804,062
Segment Result	P23,047,144	P26,905,144	P23,893,400	P481,722	(P824,530)	(P292,814)	(P22,663)	(P28,495)	(P17,831)	(P1,868,266)	(P1,467,204)	(P1,294,215)	P2,638,343	P2,145,425	P1,414,089	P24,276,280	P26,730,340	P23,702,629
Interest income																460,958	200,502	414,444
Gain on sale of power plant and other equipment																-	116,357	-
Equity in net losses of associates and joint ventures																(40,396)	(294,795)	(528,445)
Interest expense and other financing charges																(13,244,581)	(12,354,229)	(13,130,252)
Other income (charges) - net																2,944,165	(6,881,754)	(5,926,050)
Income tax expense - net																(6,179,510)	(3,365,759)	(2,703,408)
Consolidated Net Income																P8,216,916	P4,150,662	P1,828,918

For the Years Ended December 31											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Other Information											
Segment assets	P317,738,519	P300,511,384	P4,791,648	P2,765,423	P723,848	P734,328	P36,352,591	P34,520,658	(P29,965,804)	(P26,355,752)	P329,640,802
Investments and advances - net	9,836,060	9,832,438	177,219	196,723	-	-	53,297,475	52,595,284	(46,689,623)	(46,378,991)	16,621,131
Intangible assets and goodwill - net											2,594,136
Deferred tax assets											1,316,926
Consolidated Total Assets											P350,172,995
Segment liabilities	P219,179,600	P232,894,743	P5,262,850	P3,704,565	P788,714	P776,554	P1,460,026	P751,230	(P34,488,425)	(P30,084,673)	P192,202,765
Long-term debt											90,728,701
Income tax payable											151,906
Deferred tax liabilities											7,324,111
Consolidated Total Liabilities											P290,407,483
Capital expenditures	P8,870,396	P14,849,968	P -	P -	P -	P -	P41,135	P12,165	P -	P -	P8,911,531
Depreciation and amortization of property, plant and equipment and intangible assets	5,911,084	6,201,578	31,005	25,639	10,760	15,229	112,082	99,485	-	-	6,064,931
Noncash items other than depreciation and amortization	693,563	7,755,076	(19,846)	779,891	1	(3)	72,807	769,731	-	-	746,525

6. Significant Agreements and Lease Commitments

a. Independent Power Producer (IPP) Administration (IPPA) Agreements

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the capacity of the following power plants, the Group was declared the winning bidder to act as IPP Administrator through the following appointed subsidiaries:

Subsidiary	Power Plant	Location
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
SPDC	San Roque Hydroelectric Multi-purpose Power Plant (San Roque Power Plant)	San Roque, Pangasinan Province
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	Ilijan, Batangas Province

The IPPA Agreements are with the conformity of the National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for so long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The IPPA Agreements include, among others, the following common salient rights and obligations:

- i. the right and obligation to manage and control the capacity of the power plant for its own account and at its own cost and risks;
- ii. the right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own cost and risks. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
- iii. the right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out;
- iv. for SMEC and SPPC, the right to receive an assignment of NPC's interest in existing short-term bilateral power supply contracts;
- v. the obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;
- vi. maintain the performance bond in full force and effect with a qualified bank; and
- vii. the obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P23,726,459, P20,477,903 and P23,224,178 in 2017, 2016 and 2015, respectively (Note 24). SMEC and SPDC renewed their performance bonds in United States dollar (US\$) amounting to US\$58,187 and US\$20,305 which will expire on November 3, 2018 and January 25, 2018, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2019.

On June 16, 2015, SPPC renewed its performance bond amounting to US\$60,000 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 33).

The finance lease liabilities are carried at amortized cost using the US dollar and Philippine peso discount rates as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPPC	3.85%	8.05%
SPDC	3.30%	7.90%

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P9,074,226, P9,667,662 and P10,212,753 in 2017, 2016 and 2015, respectively.

The future minimum lease payments for each of the following periods are as follows:

2017	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US\$255,784	P12,771,279	P12,249,270	P25,020,549
More than 1 year and not later than 5 years	1,114,370	55,640,495	53,374,792	109,015,287
Later than 5 years	567,483	28,334,431	27,214,567	55,548,998
	1,937,637	96,746,205	92,838,629	189,584,834
Less: Future finance charges on finance lease liabilities	244,014	12,183,624	22,607,520	34,791,144
Present values of finance lease liabilities	US\$1,693,623	P84,562,581	P70,231,109	P154,793,690

2016	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US\$252,950	P12,576,692	P12,112,310	P24,689,002
More than 1 year and not later than 5 years	1,117,374	55,555,827	53,512,338	109,068,165
Later than 5 years	820,263	40,783,474	39,326,292	80,109,766
	2,190,587	108,915,993	104,950,940	213,866,933
Less: Future finance charges on finance lease liabilities	310,216	15,423,939	28,353,458	43,777,397
Present values of finance lease liabilities	US\$1,880,371	P93,492,054	P76,597,482	P170,089,536

The present values of minimum lease payments for each of the following periods are as follows:

2017	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US\$196,709	P9,821,652	P7,022,779	P16,844,431
More than 1 year and not later than 5 years	963,978	48,131,431	39,493,581	87,625,012
Later than 5 years	532,936	26,609,498	23,714,749	50,324,247
	US\$1,693,623	P84,562,581	P70,231,109	P154,793,690

2016	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US\$191,961	P9,544,293	P6,799,953	P16,344,246
More than 1 year and not later than 5 years	770,562	38,312,364	24,671,265	62,983,629
Later than 5 years	917,848	45,635,397	45,126,264	90,761,661
	US\$1,880,371	P93,492,054	P76,597,482	P170,089,536

b. Market Participation Agreements (MPA)

SMEC, SPDC, SPPC and SCPC entered into a MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the ERC. PEMC's market fees charged to SMEC, SPDC, SPPC and SCPC recognized in the consolidated statements of income amounted to P146,550, P160,669 and P219,681 in 2017, 2016 and 2015, respectively (Note 25).

Market fees charged to SCPC during its testing and commissioning phase, recognized as part of CPIP under the "Property, plant and equipment" account in the consolidated statements of financial position, amounted to P531 as of December 31, 2016 (Note 13).

In March 2013, SMELC entered into a MPA for Supplier as Direct WESM Member - Customer Trading Participant Category with the PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. SMELC has a standby letter of credit, expiring on December 26, 2018, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

c. Power Supply Agreements (PSA)

SMEC, SPPC, SPDC, SMCP and SCPC have PSA with various counterparties, including related parties, to sell electricity produced by the power plants. Most of the agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties and applicable rules and regulations.

Certain customers, particularly electric cooperatives and industrial customers, are billed using energy-based pricing, such as time-of-use (TOU), flat generation rate or fixed energy rate, while others are billed at capacity-based rate. As stipulated in the contracts, each energy-based customer has to pay based on actual energy consumption using the basic energy charge and/or adjustments. For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month.

SMEC, SPPC, SPDC, SMCP and SCPC can also purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements. Power purchases amounted to P10,725,490, P7,836,564 and P8,330,550 in 2017, 2016 and 2015, respectively (Note 24).

The PSA of SPI with Petron Corporation (Petron), an entity under common control, was terminated effective December 23, 2016 pursuant to the sale of SPI's power plant to Petron (Note 13).

d. Memorandum of Agreement (MOA) with San Roque Power Corporation (SRPC)

On December 6, 2012, SPDC entered into a 5-year MOA with SRPC to sell a portion of the capacity of the San Roque Power Plant. Under the MOA, i) SRPC shall purchase a portion of the capacity sourced from the San Roque Power Plant; ii) SRPC shall pay a settlement amount to SPDC for the capacity; and iii) the MOA may be earlier terminated or extended subject to terms and mutual agreement of the parties. As of December 31, 2017, SPDC and SRPC are finalizing the extension of the MOA until March 25, 2020.

Revenue from sale of capacity of the San Roque Power Plant amounted to P944,139, P758,134 and P1,274,893 in 2017, 2016 and 2015, respectively, and was recognized as part of "Revenues" account in the consolidated statements of income (Note 23).

e. Coal Supply Agreements

SMEC, SMCP and SCPC have supply agreements with various coal suppliers for the coal requirements of the power plants.

f. Operations and Maintenance (O&M) Services Agreement

In exchange for the O&M services rendered by Petron, SPI pays for all the documented costs and expenses incurred in relation to the operation, maintenance and repair of its 4 x 35 MW Limay Co-generation Solid Fuel-fired Power Plant (Limay Co-gen Power Plant). The agreement is effective for 25 years from September 2013 until 2038 and was terminated upon sale of SPI's power plant to Petron on December 23, 2016 (Note 13).

g. Retail Supply Contracts

SMELC and SCPC have retail supply contracts with contestable customers, including related parties, to supply or sell electricity either produced by SCPC or purchased from WESM, SMEC or other affiliate power generators. Most contracts provide for renewals or extensions subject to terms and conditions mutually agreed upon by the parties and applicable rules and regulations.

Certain contestable customers are billed using energy-based pricing, such as TOU, flat generation rate or fixed energy rate, while others are billed at capacity-based rates. As stipulated in the contracts, each energy-based customer has to pay based on actual energy consumption using the basic energy charge and/or adjustments. For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month.

h. Distribution Wheeling Service (DWS) Agreements

SMELC and SCPC, related to its Retail Electricity Supplier (RES) licenses, entered into DWS Agreements with certain Distribution Utilities (DU) for the conveyance of electricity through its distribution systems in order to meet the demand of the contestable customers. The agreements are valid and binding upon execution unless terminated by either party.

The DWS charges from the DUs are passed on to its customers as mandated by ERC thru the "Single-Billing Policy".

i. Lease Agreements

Group as Lessee

- i. The Group has operating lease agreements with San Miguel Properties, Inc., an entity under common control, for a period of 1 to 6 years which is renewable annually or upon agreement between parties.
- ii. SPI subleases its plant premises from New Ventures Realty Corporation (NVRC), an entity under common control. The existing lease agreement is for a 25-year period up to September 30, 2038, subject to renewal. The yearly rental is subject to an automatic 3.0% per annum escalation rate for the 4 years following the negotiation under the lease terms. Pursuant to the sale of power plant to Petron, all agreements between SPI and Petron and its subsidiaries were terminated effective December 23, 2016.
- iii. SMEC entered into a lease agreement with Challenger Aero Air Corporation (Challenger), an entity under common control, for the lease of certain aircrafts for a period of 1 year from October 1, 2014 to September 30, 2015. The lease agreement was pre-terminated on April 30, 2015.

Subsequently, SMEC entered into a new lease agreement with Challenger for the lease of the same aircrafts for a period of 1 year from May 1, 2015 to April 30, 2016. The lease agreement was renewed up to December 31, 2017.

- iv. In November 2015, SCPC leased parcels of land from NVRC for the construction of its 2 x 150 MW Circulating Fluidized Bed (CFB) Coal-fired Power Plant (Phase I Limay Power Plant) and ash dump facility. This is covered by two lease agreements, each having an initial term of 25 years with an option to renew for a further 25 years. The agreements contain a clause allowing annual escalation adjustments of rental rates starting on certain anniversary dates.

- v. On December 7, 2015, LPPC leased a parcel of land from NVRC for the construction of its 2 x 150 MW CFB Coal-fired Power Plant (Phase II Limay Power Plant) for a period of 25 years from the effective date with an option to renew this lease for another 25 years. The rent shall be increased annually by 6.0% starting from the second anniversary of the lease execution. The lease agreement was assigned to SCPC pursuant to the sale of the Phase II Limay Power Plant on June 22, 2017.
- vi. DAMI leases a parcel of land in General Santos City with SMC. The existing lease agreement is for a 10-year period up to June 30, 2023, subject to renewal. The rent is subject to an automatic 10.0% per annum escalation rate. Rent for the year, capitalized in "Deferred exploration and development costs" account in the consolidated statements of financial position, amounted to P490 and P402 as of December 31, 2017 and 2016, respectively (Note 14).
- vii. In 2016, SMCPC entered into an agreement with Kyron Landholdings Inc. for the sublease of a parcel of land for the construction, erection and installation of its 2 x 150 MW CFB Coal-fired Power Plant in Malita, Davao Occidental (Malita Power Plant). The initial term of the lease is for a period of 25 years with the option to renew for a further 25 years. Beginning January 1, 2018 until the end of the term, the rental shall be increased by 5.1% per annum.
- viii. On December 13, 2017, SCPC leased a foreshore area of 465,967 square meters from the Department of Environment and Natural Resources for the construction of pier and jetty facility. The lease is for a period of 25 years with an option to renew for another 25 years. The agreement contains a clause to increase annual rental based on appraised value of land and improvements every 10 years.

Relative to the lease agreements, the Group was required to pay advance rental and security deposits which are included under "Trade and other receivables - net" or "Prepaid expenses and other current assets" accounts in the consolidated statements of financial position (Notes 8 and 10).

Future minimum lease payments under the non-cancellable operating lease agreements are as follows:

	2017	2016
Not later than 1 year	P88,782	P119,335
More than 1 year and not later than 5 years	357,321	244,067
Later than 5 years	2,293,501	1,871,061
	P2,739,604	P2,234,463

Rent expense recognized in the consolidated statements of income amounted to P376,499, P351,091 and P360,091 in 2017, 2016 and 2015, respectively (Notes 4 and 25).

Group as Lessor

- i. In 2014, the Parent Company has an operating sub-lease agreement with Clariden Holdings, Inc., an entity under common control, for a period of 2 years which is renewable upon agreement between the parties. The agreement expired on December 31, 2016.

- ii. In May 2011, GPII entered into an agreement with NVRC, for the lease of certain parcels of land located in Limay, Bataan with a total area of 612,193 square meters. The lease term is for a period of 10 years up to May 2021, with an option to renew not later than 6 months prior to expiration and a 3.0% escalation rate of the rental every year from signing of the contract. This Agreement was subsequently amended, reducing the leased area to 340,646 square meters effective October 1, 2013. This was further amended reducing the leased area to 130,980 square meters and with a corresponding reduction in the monthly rental effective on December 1, 2016. On June 20, 2017, NVRC assigned its leasehold rights to Petron.

There are no restrictions imposed on these lease agreements such as those concerning dividends, additional debt and further leasing.

Future minimum lease receivables under the non-cancellable operating lease agreements are as follows:

	2017	2016
Not later than 1 year	P6,187	P6,007
More than 1 year and not later than 5 years	15,705	21,892
	P21,892	P27,899

Rent income recognized under the "Miscellaneous income (charges) - net" account in "Other income (charges)" account in the consolidated statements of income amounted to P10,686, P21,147, and P28,104 in 2017, 2016 and 2015, respectively (Notes 4 and 26).

j. Concession Agreement

The Parent Company entered into a 25-year Concession Agreement with ALECO on October 29, 2013. It became effective upon confirmation of the National Electrification Administration on November 7, 2013.

On January 24, 2014, the Parent Company and APEC entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of the Parent Company under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations:

- i. as Concession Fee, APEC shall pay to ALECO: (1) separation pay of ALECO employees in accordance with the Concession Agreement and (2) the amount of P2,100 every quarter for the upkeep of residual ALECO (fixed concession fee);
- ii. if the net cash flow of APEC is positive within 5 years or earlier from date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,048,529;

- iii. on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and
- iv. at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO.

In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. APEC formally assumed operations as concessionaire on February 26, 2014.

The Group recognized as intangible assets all costs directly related to the Concession Agreement. The intangible assets consist of: a) concession rights, which include fixed concession fees and separation pay of ALECO employees amounting to P384,317. Fixed concession fees are recognized at present value using the discount rate at the inception date with a corresponding concession payable recognized; and b) infrastructure, which includes the costs of structures and improvements, distribution system and equipment. Cost of infrastructure amounted to P509,419 and P386,083 as of December 31, 2017 and 2016, respectively. Interest expense on concession payable is included as part of "Interest expense and other financing charges" account in the consolidated statements of income amounted to P5,993, P6,127 and P6,254 in 2017, 2016 and 2015, respectively. Amortization of concession assets recognized in the "Depreciation and amortization" account in the consolidated statements of income amounted to P30,426, P25,060 and P21,296 in 2017, 2016 and 2015, respectively.

Maturities of the carrying amount of concession payable are as follows:

	2017	2016
Not later than 1 year	P2,549	P2,407
More than 1 year and not later than 5 years	11,794	11,136
Later than 5 years	87,876	91,083
	P102,219	P104,626

Power concession assets consist of:

	Concession Rights	Completed Projects/Others	Asset Under Construction	Total
Cost				
January 1, 2016	P384,317	P159,086	P -	P543,403
Additions	-	72,824	154,173	226,997
December 31, 2016	384,317	231,910	154,173	770,400
Additions	-	115,055	8,281	123,336
December 31, 2017	384,317	346,965	162,454	893,736
Accumulated Depreciation and Amortization				
January 1, 2016	28,184	7,722	-	35,906
Additions	15,373	30,147	-	45,520
December 31, 2016	43,557	37,869	-	81,426
Additions	15,373	15,053	-	30,426
December 31, 2017	58,930	52,922	-	111,852
Carrying Amount				
December 31, 2016	P340,760	P194,041	P154,173	P688,974
December 31, 2017	P325,387	P294,043	P162,454	P781,884

The Group accounted for revenue and costs relating to construction or upgrade services in accordance with PAS 11 based on the stage of completion of work performed. The fair value of the construction and upgrade services provided is equal to the recorded cost of the intangible asset built up from day one until the construction activity ceases. Construction revenue and construction cost amounted to P123,336, P226,997 and P47,091 in 2017, 2016 and 2015, respectively (Note 26).

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	<i>Note</i>	2017	2016
Cash in banks and on hand		P3,557,558	P2,089,297
Short-term investments		25,097,801	19,402,088
	30, 31	P28,655,359	P21,491,385

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at short-term investment rates. Interest income from cash and cash equivalents amounted to P374,509, P176,681 and P261,338 in 2017, 2016 and 2015, respectively.

8. Trade and Other Receivables

Trade and other receivables consist of:

	<i>Note</i>	2017	2016
Trade		P14,332,102	P12,269,984
Non-trade		6,674,594	6,613,459
Amounts owed by related parties	6, 20	1,880,190	5,911,221
		22,886,886	24,794,664
Less allowance for impairment losses	4	2,451,818	2,451,818
	30, 31	P20,435,068	P22,342,846

Trade and other receivables are non-interest bearing, unsecured and are generally on a 30-day term or an agreed collection period. The balance of trade receivables is inclusive of VAT on the sale of power collectible from customers.

The movements in the allowance for impairment losses are as follows:

	2017	2016
Balance at beginning of year	P2,451,818	P1,241,487
Impairment losses during the year	-	1,210,451
Amounts written-off	-	(120)
Balance at end of year	P2,451,818	P2,451,818

Impairment losses are recognized in profit or loss as follows:

	Note	2016	2015
Selling and administrative expenses	25	P958,784	P142,658
Other income (charges) - net	26	251,667	232,143
		P1,210,451	P374,801

No impairment loss on trade and other receivables was recognized during the current year.

The aging of trade and other receivables as of December 31 are as follows:

	2017				2016			
	Trade	Non-trade	Amounts Owed by Related Parties	Total	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P6,824,541	P647,896	P1,106,847	P8,579,284	P5,576,247	P1,031,133	P5,282,075	P11,889,455
Past due:								
1-30 days	934,933	68,034	161,730	1,164,697	671,466	73,200	8,900	753,566
31-60 days	410,187	71,377	6,362	487,926	505,682	62,467	27,134	595,283
61-90 days	184,690	1,001	2,414	188,105	201,448	10,207	31,563	243,218
Over 90 days	5,977,751	5,886,286	602,837	12,466,874	5,315,141	5,436,452	561,549	11,313,142
	P14,332,102	P6,674,594	P1,880,190	P22,886,886	P12,269,984	P6,613,459	P5,911,221	P24,794,664

Past due trade receivables more than 30 days pertain mainly to output VAT. The Group believes that the unimpaired amounts that are past due and those that are neither past due nor impaired are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality. There were no write-offs and reversals in 2017.

Non-trade receivables include the following:

- Due from PSALM amounting to US\$60,000 which pertains to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM on September 4, 2015. The validity of PSALM's action is the subject of an ongoing case filed by SPPC with the Regional Trial Court (RTC) of Mandaluyong City (Note 33).
- As of December 31, 2017 and 2016, SMEC has receivables for the cost of fuel, market fees, and other charges related to the dispatch of the excess capacity of the Sual Power Plant amounting to P41,413 and P37,568, respectively. Likewise, SMEC has receivables arising from WESM transactions related to the excess capacity amounting to P1,198,200 and P1,245,819 as of December 31, 2017 and 2016, respectively. The issue on excess capacity is subject of ongoing cases (Note 33).
- On June 16, 2011, SMEC entered into a MOA with Hardrock Coal Mining Pty Ltd. (HCML) and Caason Investments Pty Ltd. (Caason), companies registered in Australia, for the acquisition of shares in HCML. SMEC paid Caason Australian dollars 12,000 (equivalent to P550,000), for an option to subscribe to the shares in HCML (the Deposit) with further option for SMEC to decide not to pursue its investment in HCML, which will result in the return of the Deposit to SMEC plus interest. In a letter dated July 15, 2011, SMEC notified Caason and HCML that it shall not pursue the said investment and therefore asked Caason and HCML for the return of the Deposit with corresponding interest (the Amount Due), pursuant to the terms of the MOA.

On September 2, 2014, SMEC, HCML and Caason agreed to a schedule of payment of the outstanding Amount Due to SMEC. For the years ended December 31, 2017 and 2016, HCML and Caason paid a total amount of P18,925 and nil, respectively. As of December 31, 2017 and 2016, total outstanding receivables from HCML (net of allowance for impairment losses) amounted to nil and P7,145, respectively.

- d. The balance mainly pertains to receivables from customers which will be remitted to the Government upon collection.

9. Inventories

Inventories at cost consist of:

	Note	2017	2016
Coal	6	P2,910,853	P2,120,657
Fuel oil	20	110,858	84,885
Materials and supplies		96,793	53,322
Other consumables		29,164	13,425
	4	P3,147,668	P2,272,289

There were no inventory write-downs to net realizable value for the years ended December 31, 2017 and 2016. Inventories charged to cost of power sold amounted to P13,039,144, P10,046,687 and P10,376,590 in 2017, 2016 and 2015, respectively (Note 24).

10. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	2017	2016
Input VAT		P11,792,871	P12,398,635
Prepaid tax		4,883,278	3,735,642
Prepaid rent and others	6, 20	1,115,766	1,548,743
		P17,791,915	P17,683,020

Input VAT consists of input VAT on purchases of goods and services which can be offset against the output VAT payable (Note 18).

Prepaid tax consists of creditable withholding taxes and excess tax credits which can be used as a deduction against future income tax payable.

Prepaid rent and others pertain to the following:

- Prepaid rent of the Group from various operating lease agreements amounted to P15,347 and P39,044 as of December 31, 2017 and 2016, respectively (Note 6).
- PSALM monthly fee outage credits pertain to the approved reduction in future monthly fees payable to PSALM resulting from the outages of the Sual Power Plant in 2017 and 2016.
- Professional services related to project financing of SCPC for 2016 (Note 19).

11. Assets Held For Sale

On September 15, 2016, the BOD of SPI approved the plan to sell certain machinery and equipment. Accordingly, the carrying amount, which is the fair value, of the other equipment amounting to P184,324 was reclassified as "Assets held for sale" account in the consolidated statements of financial position (Note 13). The sale of the machinery and equipment was completed in 2017.

12. Investments and Advances

Investments and advances consist of:

	2017	2016
Investments in Shares of Stock of Associates and Joint Ventures		
Cost		
Balance at beginning of year	P8,583,462	P2,074,052
Additions	-	6,509,410
Balance at end of year	8,583,462	8,583,462
Accumulated Equity in Net Losses		
Balance at beginning of year	(886,959)	(592,164)
Equity in net losses during the year	(28,302)	(293,113)
Adjustment to equity in net losses in prior year ^{(a)(c)}	(12,094)	(1,682)
Balance at end of year	(927,355)	(886,959)
	7,656,107	7,696,503
Advances	8,965,024	8,548,951
	P16,621,131	P16,245,454

Advances pertain to deposits made for future investment in land holding companies and power-related expansion projects.

The following are the developments relating to the Group's investments in shares of stock of associates and joint ventures:

a. Investment in shares of stock of associates

i. Olongapo Electricity Distribution Company, Inc. (OEDC)

In April 2013, SPGC and San Miguel Equity Investments, Inc. (SMEI), an entity under common control, entered into a Deed of Assignment of Subscription Rights whereby SMEI agreed to assign 35% ownership interest in OEDC to SPGC for a consideration of P8,750.

Subscriptions payable amounted to P28,101 as of December 31, 2017 and 2016, respectively (Note 20).

ii. Mariveles Power Generation Corporation (MPGC)

On June 16, 2016, Meralco Powergen Corporation (MGen), a subsidiary of Meralco, and Zygnnet Prime Holdings, Inc. (Zygnnet) subscribed to 2,500 and 102 common shares of MPGC, respectively. As a result, the Parent Company now holds 49% of the outstanding capital stock of MPGC while MGen and Zygnnet holds 49% and 2%, respectively. MPGC was a wholly-owned subsidiary of the Parent Company prior to the subscription of MGen and Zygnnet. Following the change in interest of ownership from 100% to 49% in MPGC, the Parent Company now has significant influence to participate in the financial and operating policy decisions of MPGC and accounts for the investment using the equity method.

MPGC shall develop, construct, finance, own, operate and maintain a 4 x 150 MW CFB Coal-fired Power Plant and associated facilities in Mariveles, Bataan.

On July 13, 2016, the Parent Company subscribed to 9,643,200 shares, representing 49% of the total shares subscribed by all shareholders out of the increase in the authorized capital stock of MPGC, at the subscription price of P100 per share.

On January 9, 2017, the SEC approved the increase in the authorized capital stock of MPGC.

The table below summarizes the financial information of investment in shares of stock of associates which is accounted for using the equity method:

December 31, 2017 (Unaudited)

Country of Incorporation	OEDC	MPGC
	Philippines	Philippines
Current assets	P337,757	P122,044
Noncurrent assets	1,175,089	1,846,654
Current liabilities	(687,732)	(22,446)
Noncurrent liabilities	(354,211)	-
Net assets	P470,903	P1,946,252
Revenue	P1,292,324	P -
Net losses/total comprehensive losses	P18,688	P10,208
Share in net losses/total comprehensive losses	P6,541	P5,002
Carrying amount of investment	P177,219^(a)	P953,717

^(a)This is net of adjustment to equity in net losses of P12,963 based on the 2016 audited balances.

December 31, 2016 (Audited)

	OEDC	MPGC
Country of Incorporation	Philippines	Philippines
Current assets	P317,664	P18,620
Noncurrent assets	1,181,537	1,945,960
Current liabilities	(881,709)	(445)
Noncurrent liabilities	(127,901)	-
Net assets	P489,591	P1,964,135
Revenue	P1,323,854	P -
Net losses/total comprehensive losses	P18,771	P4,334
Share in net losses/total comprehensive losses	P6,570	P5,851 ^(b)
Carrying amount of investment	P196,723	P958,719

^(b)The Group's share in net losses/ total comprehensive losses for the period from June 16, 2016 to December 31, 2016 of MPGC.

b. Investments in shares of stock of joint ventures

i. AHC and KWPP

The Parent Company, through PVEI, and Korea Water Resources Corporation (K-Water) entered into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-Water.

On November 18, 2014, PVEI acquired from the individual stockholders and K-Water, 2,817,270 shares or 60% of the outstanding capital stock of AHC and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock.

Subsequently, AHC and KWPP each issued shares in favor of nominee directors of PVEI and K-Water to complete their respective shareholding interest.

In accordance with the entry of PVEI into AHC and KWPP, K-Water and PVEI are jointly in control of the management and operation of AHC and KWPP.

Further, PVEI agreed to pay K-Water a support fee amounting to 3.0% of the total amount of the bridge loan facility which was obtained for the acquisition by AHC of the Angat Power Plant. This was subsequently reduced to 1.5% of the total amount of the bridge loan facility effective August 4, 2015. The obligation to pay support fee terminated on July 15, 2016 with the refinancing of the bridge loan facility.

On July 11, 2016, PVEI, subscribed to 27,724,200 shares, out of the increase in the authorized capital stock of AHC, at the subscription price of P200 per share. Total subscription amounting to P5,544,840 represents PVEI's 60% share in the additional equity infusion required by AHC from its existing stockholders as of date pursuant to AHC's project financing requirements.

AHC

AHC was incorporated on November 15, 2013 and was created to engage in the operations and maintenance of the Angat Power Plant and to supply power generated to power corporations and to electric utilities, to import hydro-electric facilities and equipment, and to do all acts necessary and incidental thereto, in accordance with RA No. 9136 or otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA).

KWPP

KWPP was incorporated on November 27, 2013 and was established for the purpose of acquiring, holding or leasing water and flowage rights.

The table below summarizes the financial information of investments in shares of stock of joint ventures which is accounted for using the equity method:

December 31, 2017 (Unaudited)

Country of Incorporation	AHC	KWPP
	Philippines	Philippines
Current assets	P2,873,159	P5,496
Noncurrent assets	18,779,052	20,253
Current liabilities	(1,689,697)	(8,837)
Noncurrent liabilities	(11,257,290)	(15,850)
Net assets	P8,705,224	P1,062
Revenue	P2,185,181	P -
Net losses/total comprehensive losses	P27,918	P13
Share in net losses/total comprehensive losses	P16,751	P8
Carrying amount of investment	P6,524,310	P861^(c)

^(c)This is net of adjustment to equity in net income of P1,188 based on the 2016 audited balances, net of unrecognized share in net losses of P319 in 2015 and 2014.

December 31, 2016 (Audited)

Country of Incorporation	AHC	KWPP
	Philippines	Philippines
Current assets	P2,784,060	P3,962
Noncurrent assets	19,302,652	20,391
Current liabilities	(13,333,995)	(7,430)
Noncurrent liabilities	(19,576)	(15,850)
Net assets	P8,733,141	P1,073
Revenue	P1,231,068	P -
Net income (losses)/total comprehensive income (losses)	(P489,424)	P1,979
Share in net income (losses)/total comprehensive income (losses)	(P293,655)	P1,188
Carrying amount of investment	P6,541,061	P -

Investment in shares of stock of subsidiaries

The following are the developments relating to the subsidiaries:

i. SCPC

In 2013, SCPC started the construction of its Phase I Limay Power Plant (comprising of Units 1 and 2). The 2 Units were successfully synchronized to the Luzon Grid in November 2016 and May 2017, respectively.

On June 22, 2017, SCPC acquired the Phase II Limay Power Plant (comprising of Units 3 and 4) from LPPC. The Unit 3 was synchronized to the Luzon Grid in November 2017 while Unit 4 is still under construction as of December 31, 2017.

Commercial operations of Units 1 and 2 commenced on May 26, 2017 and September 26, 2017, respectively, following the completion of the testing and commissioning phase and the ERC issuance of a Provisional Authority to Operate in favor of SCPC for both units.

ii. SMCP

In 2013, SMCP started the construction of its Malita Power Plant. The 2 units were successfully synchronized to the Mindanao Grid in May 2016 and February 2017, respectively.

In 2017, SMCP deferred the commercial operations of Unit 1 of the power plant until July 25, 2017 which was initially declared to commence on December 26, 2016. This is to conduct further testing of Unit 1 to ensure the stable and reliable operation and readiness of the power plant for its intended use. SMCP's Unit 1 started commercial operations on July 26, 2017.

On February 26, 2018, SMCP declared the commercial operations of its Unit 2.

iii. SPI

In 2013, SPI acquired from Petron the 2 x 35 MW Limay Co-gen Power Plant and all other pertinent machineries, equipment, facilities and structures being constructed and installed which comprise the additional 2 x 35 MW Limay Co-gen Power Plant in Bataan.

On September 15, 2016, the BOD of the Parent Company and SPI approved the sale of its 4 x 35 MW Limay Co-gen Power Plant in favor of Petron.

SPI closed the sale of the power plant and all pertinent assets to Petron effective December 23, 2016.

iv. PVEI

In January 2017, PVEI granted shareholder advances amounting to US\$31,800 (equivalent to P1,578,870) to its joint venture company, AHC. The advances bear an annual interest rate of 4.50% and are due on April 30, 2017. The due date of the advances may be extended as agreed amongst the parties.

On April 10 and December 27, 2017 PVEI partially collected the foregoing advances amounting to US\$19,703 (equivalent to P984,550). Payment date for the remaining balance of the advances amounting to US\$12,097 (equivalent to P603,987) was extended to March 31, 2018 (Notes 20, 30 and 31).

On March 1, 2018, PVEI collected an additional US\$5,766 (equivalent to P299,366) from AHC as partial payment of the advances.

13. Property, Plant and Equipment

Property, plant and equipment consist of:

	Power Plants (Note 6)	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost						
January 1, 2016	P226,788,832	P2,996,339	P1,316,545	P5,841,443	P52,426,658	P289,369,817
Additions	10,654,500	1,054,299	730,036	31,311	2,391,987	14,862,133
Disposals/Reclassifications	(12,469,072)	(332,055)	(978,469)	(5,831,097)	(1,126,468)	(20,737,161)
Transfers to Assets Held for Sale	-	-	-	-	(184,324)	(184,324)
December 31, 2016	224,974,260	3,718,583	1,068,112	41,657	53,507,853	283,310,465
Additions	112,263	715	60,252	-	8,738,301	8,911,531
Reclassifications	25,458,414	234,580	(446,381)	-	(23,730,390)	1,516,223
December 31, 2017	250,544,937	3,953,878	681,983	41,657	38,515,764	293,738,219
Accumulated Depreciation and Amortization						
January 1, 2016	32,961,313	91,079	296,640	567,789	-	33,916,821
Additions	5,826,594	51,000	141,779	229,897	-	6,249,270
Disposals/Reclassifications	(2,221,036)	(99,617)	(231,534)	(791,466)	-	(3,343,653)
December 31, 2016	36,566,871	42,462	206,885	6,220	-	36,822,438
Additions	5,811,940	43,863	95,238	3,433	-	5,954,474
December 31, 2017	42,378,811	86,325	302,123	9,653	-	42,776,912
Carrying Amount						
December 31, 2016	P188,407,389	P3,676,121	P861,227	P35,437	P53,507,853	P246,488,027
December 31, 2017	P208,166,126	P3,867,553	P379,860	P32,004	P38,515,764	P250,961,307

- a. The combined carrying amounts of power plants under finance lease amounted to P172,573,492 and P177,759,894 as of December 31, 2017 and 2016, respectively (Note 4).
- b. The capitalized asset retirement costs, net of accumulated depreciation, amounted to P151,306 as of December 31, 2017.
- c. On September 15, 2016, the BOD of the Parent Company and SPI approved the sale of its 4 x 35 MW Limay Co-gen Power Plant located in Petron Bataan Refinery in favor of Petron. Accordingly, the carrying amount of certain property, plant and equipment, amounting to P18,093,254 as of September 30, 2016 were reclassified to "Assets held for sale" account (Note 11). SPI recognized impairment loss of P323,788 at initial classification to measure its assets held for sale at lower of their carrying amount and fair value less costs to sell (Note 26).

On October 28, 2016, SPI signed an agreement with Petron for the sale of the power plant and all pertinent assets, assignment of contracts to Petron, and the transfer of all remaining inventories, tools, supplies and other working capital necessary for the operation and maintenance of the power plant, among others.

Effective December 23, 2016, SPI closed the sale of the power plant to Petron for a total consideration of P20,029,983 (inclusive of tax), payable based on the terms of the agreement. Consequently, gain of P114,447 was recognized on the sale and presented as part of "Gain on sale of property, plant and equipment" account in the consolidated statements of income.

As of December 31, 2016, SPI received P15,966,458 as initial payment, and the remaining P4,063,525 was collected in June 2017 (Notes 8 and 20).

Pursuant to the sale of the power plant, all SPI agreements mentioned in Note 6 were terminated effective December 23, 2016.

- d. Other equipment includes machinery and equipment, transportation equipment, mining equipment, office equipment and furniture and fixtures.
- e. Capital projects in progress pertains to the following:
 - i. Project of SMCPD for the construction of 2 x 150 MW (Units 1 and 2) Malita Power Plant.

Following the completion of Unit 1 and the ERC grant of a Provisional Authority to Operate in favor of SMCPD in October 2016, all CPIP costs pertaining to Unit 1 were reclassified to the appropriate property, plant and equipment account. As of December 31, 2017, CPIP pertains to costs of Unit 2 which is still in testing and commissioning phase.

- ii. Projects of SCPC for the construction of 4 x 150MW (Phase I and II) Limay Power Plant.
- Following the completion of Units 1 and 2 and the ERC grant of a Provisional Authority to Operate in favor of SCPC in 2017, all CPIP costs pertaining to Units 1 and 2 were reclassified to the appropriate property, plant and equipment account. As of December 31, 2017, CPIP pertains to costs of Unit 3 which started its testing and commissioning phase in November 2017, and the costs of the ongoing construction of Unit 4.

- iii. Plant optimization and pumped-storage hydropower projects of SPDC.
- iv. Expenditures for the 500 kilovolts connection facilities in relation to the 600 MW Pagbilao power plant project of CLPPC.

Depreciation and amortization related to property, plant and equipment are recognized in profit or loss as follows:

	Note	2017	2016	2015
Cost of power sold	24	P5,811,941	P6,139,882	P6,445,102
Selling and administrative expenses	25	142,533	109,388	67,983
		P5,954,474	P6,249,270	P6,513,085

Total depreciation and amortization recognized in the consolidated statements of income include amortization of capitalized interest and decommissioning and dismantling costs amounting to P22,451, P10,020 and P13,360 in 2017, 2016 and 2015, respectively.

The Group has borrowing costs amounting to P1,362,871, P610,707 and P105,549 which were capitalized in 2017, 2016 and 2015, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 2.75% to 6.54% and from 3.88% to 6.29% in 2017 and 2016, respectively. The unamortized capitalized borrowing costs amounted to P1,968,151 and P627,126 as of December 31, 2017 and 2016, respectively (Note 19).

14. Deferred Exploration and Development Costs

The movement in deferred exploration and development costs is as follows:

	Note	2017	2016
Balance at beginning of year		P693,379	P689,548
Additions		5,622	3,831
Balance at end of year	4	P699,001	P693,379

Deferred exploration and development costs comprise of expenditures which are directly attributable to the mining activities of DAMI, BERI and SEPC in relation to their respective COC.

In 2010, SMEC acquired DAMI, SEPC and BERI resulting in the recognition of mining rights of P1,719,726 (Notes 4 and 15).

DAMI's coal property covered by COC No. 126, issued by the DOE, is located in South Cotabato consisting of 2 coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 93 million metric tons as of December 31, 2017 and 2016.

SEPC has a coal mining property and right over an aggregate area of 7,000 hectares, more or less, composed of 7 coal blocks located in South Cotabato and Sultan Kudarat. As of December 31, 2017 and 2016, COC No. 134 has an In-situ coal resources (measured plus indicated coal resources) of about 35 million metric tons.

BERI's COC No. 138, issued by the DOE is located in Sarangani and South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 24 million metric tons as of December 31, 2017 and 2016.

Status of Operations

In 2006 and 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2006	20 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

* The term is followed by another 10-year extension, and thereafter, renewable for a series of 3 year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.

On April 27, 2012 and January 26, 2015, the DOE granted the requests by DAMI, SEPC and BERI, for a moratorium on suspension of the implementation of the production timetable as specified under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium was retrospectively effective from the dates of their respective COCs, when these were converted to Development and Production Phase, until December 31, 2016 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first. On February 1, 2017, the DOE granted another extension on the moratorium for the 3 COCs valid from January 1, 2017 to December 31, 2017. As of March 9, 2018, DAMI, SEPC and BERI are awaiting DOE's approval of their requests for another extension on the moratorium filed on October 20, 2017.

As of December 31, 2017, the mining activities of DAMI, SEPC and BERI remain in the preparatory stages. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of their commercial operations.

Based on management's assessment, there are no indicators that the carrying amount of the mining rights exceeds its recoverable amount as of December 31, 2017 and 2016.

15. Intangible Assets and Goodwill

Intangible assets and goodwill consist of:

	Note	2017	2016
Mining rights	4, 14	P1,719,726	P1,719,726
Power concession assets - net	4, 6	781,884	688,974
Computer software and licenses - net	4	83,660	154,553
Goodwill	4	8,866	8,866
		P2,594,136	P2,572,119

Goodwill

In November 2009 and March 2010, the Parent Company acquired 60% ownership interest in SMEC and SPDC, respectively. As a result of these transactions, the Parent Company recognized goodwill amounting to P8,349 and P517, respectively.

Based on management's assessment, goodwill is not impaired since the recoverable amount of the related net assets of SMEC and SPDC for which the goodwill was attributed still exceeds its carrying amount as of December 31, 2017 and 2016.

Computer Software and Licenses

The movements in computer software and licenses are as follows:

	<i>Note</i>	2017	2016
Cost			
Balance at beginning of year		P229,371	P184,377
Additions		9,138	44,994
Balance at end of year		238,509	229,371
Accumulated Amortization			
Balance at beginning of year		74,818	7,217
Amortization	25	80,031	67,601
Balance at end of year		154,849	74,818
		P83,660	P154,553

16. Other Noncurrent Assets

Other noncurrent assets consist of:

	<i>Note</i>	2017	2016
Restricted cash	30, 31	P5,578,357	P663,820
Deferred input VAT - net of current portion		2,081,126	84,876
Amounts owed by related parties	20, 30, 31	199,610	227,394
Derivative asset	20, 30, 31	61,903	-
Noncurrent receivables	30, 31	29,488	44,681
		P7,950,484	P1,020,771

Restricted cash comprises: (a) SCPC's Cash Flow Waterfall accounts (Trust Fund) with a local Trust Company, as required in its Omnibus Loan and Security Agreement (OLSA), amounting to P4,805,175 as of December 31, 2017 (Note 19); (b) the amount received from PEMC totaling to P491,242 and P475,057 as of December 31, 2017 and 2016, respectively, representing the proceeds of sale on WESM for a specific period in 2016, for the electricity generated from the excess capacity of the Sual Power Plant, which SMEC consigned with the RTC of Pasig City (Note 33); and (c) APEC's reinvestment fund for sustainable capital expenditures and contributions collected from customers for membership fees and bill deposits which are refundable amounting to P281,940 and P188,763 as of December 31, 2017 and 2016, respectively.

Amounts owed by related parties mainly pertains to loan granted by SPGC to OEDC which is collectible in equal monthly payments of principal and interest, initially pegged at 4.73% and subject to change every 6 months. The equal monthly payments of OEDC shall be made on the first day of each month commencing in January 2017 until December 2024 (Note 20).

As of December 31, 2017, the deferred input VAT mainly pertains to the input VAT on the purchase of power plant from LPPC in June 2017 (Note 13).

17. Loans Payable

Loans payable represents unsecured peso-denominated short-term loan of SMCPC obtained on June 29, 2017 from a local financial institution. Interest rates for the loan ranged from 2.75% to 3.25% in 2017 (Notes 30 and 31).

Interest expense on loans payable amounted to P93,051 (inclusive of P55,371 capitalized in CPIP, Note 13) for the year ended December 31, 2017.

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	<i>Note</i>	2017	2016
Trade	6	P14,994,454	P11,914,211
Non-trade		9,693,202	19,125,230
Output VAT		5,140,417	5,569,399
Amounts owed to related parties	20	541,428	633,436
Accrued interest	6, 17, 19	427,469	283,724
Withholding taxes		277,744	203,415
	30, 31	P31,074,714	P37,729,415

Trade payables consist of payable related to energy fees, inventories and power purchases. These are generally on a 30-day term and are non-interest bearing.

Non-trade payables include liability relating to power rate adjustments, payables to contractors and other payables to the Government except output VAT and withholding taxes.

Output VAT consists of current and deferred output VAT payable. Deferred output VAT represents the VAT on sale of power which will be remitted to the Government only upon collection from the customers (Note 8).

19. Long-term Debt

Long-term debt consists of:

	Note	2017	2016
Bonds			
Parent Company			
Peso-denominated			
Fixed interest rate of 5.3750%, 6.2500% and 6.6250% maturing in 2022, 2024 and 2027, respectively (a)		P19,784,249	P -
Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (b)		14,865,330	14,842,563
		34,649,579	14,842,563
Term Loans			
Parent Company			
Peso-denominated			
Fixed interest rate of 6.9265%, with maturities up to 2024 (c)		14,856,835	-
Foreign currency-denominated			
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2018 (d)		-	34,482,157
Subsidiary			
Peso-denominated			
Fixed interest rate of 6.2836% and 6.5362% with maturities up to 2029 (e)		41,222,287	-
Foreign currency-denominated			
Floating interest rate based on LIBOR plus margin, with maturities up to 2022 (f)		-	16,999,006
		56,079,122	51,481,163
	30, 31	90,728,701	66,323,726
Less current maturities		1,139,631	1,040,690
		P89,589,070	P65,283,036

- a. The amount represents the first tranche of the Parent Company's P35,000,000 fixed rate bonds shelf registration. The first tranche, with an aggregate principal amount of P20,000,000, were issued and listed in the Philippine Dealing and Exchange Corp. (PDEX) for trading on December 22, 2017 at the issue price of 100.00% of face value. It comes in three series, with terms and interest rates as follows:

	Term	Interest Rate Per Annum
Series D Bonds	5 years, due 2022	5.3750%
Series E Bonds	7 years, due 2024	6.2500%
Series F Bonds	10 years, due 2027	6.6250%

Interest on the Bonds shall be payable quarterly in arrears starting on March 22, 2018, for the first interest payment date, and June 22, September 22, December 22 and March 22 of each year thereafter.

Proceeds from the issuance were used by the Parent Company to refinance its P20,000,000 short-term loans obtained from local banks.

Unamortized debt issue costs amounted to P215,751 as of December 31, 2017. Accrued interest amounted to P23,536 as of December 31, 2017 and interest expense amounted to P29,420 in 2017.

- b. The amount represents issuance of the Parent Company of the fixed rate Philippine peso-denominated bonds with an aggregate principal amount of P15,000,000. The Bonds were issued and listed in the PDEX on July 11, 2016 at the issue price of 100.00% of face value in three series with terms and interest rates as follows:

	Term	Interest Rate Per Annum
Series A Bonds	5 years, due 2021	4.3458%
Series B Bonds	7 years, due 2023	4.7575%
Series C Bonds	10 years, due 2026	5.1792%

Interest is payable quarterly in arrears starting on October 11, 2016, for the first interest payment date, and January 11, April 11, July 11 and October 11 of each year thereafter.

The net proceeds were used on July 25, 2016 to refinance the US\$300,000 short-term loan provided by a local bank of which the proceeds were used for the redemption of the US\$300,000 bond in January 2016.

Unamortized debt issue costs amounted to P134,670 and P157,437 as of December 31, 2017 and 2016, respectively. Accrued interest amounted to P127,503 and P159,379 as of December 31, 2017 and 2016, respectively. Interest expense amounted to P708,349 and P336,466 in 2017 and 2016, respectively.

- c. The amount represents the availment by the Parent Company of P15,000,000 fixed rate 7-year Term Loan Facility on April 26, 2017 from a local bank. Interest is payable quarterly in arrears on the last day of the agreed interest period. Principal repayment shall be in 13 semi-annual installments starting at the end of the first year from drawdown date. The proceeds were used to fund the payment of the remaining US\$300,000 out of the US\$700,000 term loan.

Unamortized debt issue costs amounted to P143,165 as of December 31, 2017. Accrued interest amounted to P186,669 as of December 31, 2017 and interest expense amounted to P455,995 in 2017.

- d. The amount represents the Parent Company's drawdown of US\$500,000 from the US\$650,000 5-year term loan Facility Agreement with a syndicate of banks signed on September 9, 2013. Subsequently, on November 15, 2013, the US\$650,000 Facility Agreement was amended increasing the loan facility from US\$650,000 to US\$700,000. The proceeds were used by the Parent Company to refinance the US\$200,000 3-year term loan and to finance new investments in power-related assets.

In March 2015, the Parent Company made the final drawdown of US\$200,000 for the financing of ongoing construction of power plants in Malita, Davao and Limay, Bataan investments in power-related assets, and for general corporate purposes.

On March 31 and August 31, 2017, the Parent Company prepaid a total of US\$400,000 (equivalent to P20,259,000) out of the US\$700,000 term loan. The prepayments were funded by short-term loans availed in 2017 from local banks solely for this purpose.

On April 26, 2017, the Parent Company prepaid the remaining US\$300,000 (equivalent to P14,911,500), out of the US\$700,000 term loan, by availing of a P15,000,000 fixed rate 7-year term loan from a local bank to minimize exposure to foreign exchange losses brought by the continuing peso depreciation against the US dollar.

Unamortized debt issue costs amounted to P321,843 as of December 31, 2016. Accrued interest amounted to P5,128 as of December 31, 2016 and interest expense amounted to P331,817, P921,882 and P734,255 in 2017, 2016 and 2015, respectively.

- e. The amount represents the P42,000,000 drawn by SCPC on June 28, 2017 from a P44,000,000 12-year OLSA with a syndicate of banks that was signed on June 22, 2017. The proceeds were used by SCPC for the following purposes:
 - i. the settlement of the US\$360,000 short-term loan availed on May 8, 2017 from a local bank;
 - ii. to fund the acquisition of the Phase II Limay Power Plant, under construction, from LPPC, and
 - iii. the repayment of advances by the Parent Company.

Unamortized debt issue costs amounted to P777,713 as of December 31, 2017. Accrued interest amounted to P17,948 as of December 31, 2017 and interest expense amounted to P1,390,948 in 2017 (inclusive of P872,289 capitalized in CPIP in 2017, Note 13).

On January 31, 2018, SCPC has drawn the remaining P2,000,000 of the P44,000,000 12-year OLSA.

- f. The amount represents the US\$400,000 loan facility entered into by SCPC on December 29, 2015. The loan is payable within 7 years up to 2022. Series of drawdowns were made in 2016 for a total of US\$359,339 (equivalent to P17,866,304) which included an amount owed to a related party of P2,687,451. Proceeds of the loan were used to finance the construction of the Phase I Limay Power Plant.

On May 9, 2017, SCPC prepaid the US\$359,339 term loan using the proceeds of a US\$360,000 (equivalent to P17,949,600) short-term bridge financing loan availed from a local bank solely for this purpose.

Unamortized debt issue costs amounted to P867,298 as of December 31, 2016. Accrued interest amounted to P50,036 as of December 31, 2016. Interest expense amounted to P378,747 and P519,534 in 2017 and 2016, respectively, (inclusive of P354,731 and P519,534 capitalized in CPIP in 2017 and 2016, respectively, Note 13).

Valuation Technique for peso-denominated Bonds

The market value was determined using the market comparison technique. The fair values are based on PDEX. The Bonds are traded in an active market and the quotes reflect the actual transactions in identical instruments.

The fair value of the Bonds, amounting to P35,651,237 and P15,129,886 as of December 31, 2017 and 2016, respectively, has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 31).

The debt agreements of the Parent Company and SCPC impose a number of covenants including, but not limited to, maintenance of certain financial ratios throughout the duration of the term of the debt agreements. The terms and conditions of the debt agreements also contains negative pledge provision with certain limitations on the ability of the Parent Company and its material subsidiaries and SCPC to create or have outstanding any security interest upon or with respect to any of the present or future business, undertaking, assets or revenue (including any uncalled capital) of the Parent Company or any of its material subsidiaries and SCPC to secure any indebtedness, subject to certain exceptions.

The loan of SCPC is secured by real estate and chattel mortgages on all present and future assets and reserves of SCPC as well as a pledge by the Parent Company of all its outstanding shares of stock in SCPC.

As of December 31, 2017 and 2016, the Group is in compliance with the covenants of the debt agreements.

The movements in debt issue costs are as follows:

	Note	2017	2016
Balance at beginning of year		P1,346,578	P685,839
Additions		1,297,703	1,142,741
Amortization		(1,292,502)	(369,403)
Capitalized amount	13	(80,480)	(112,599)
Balance at end of year		P1,271,299	P1,346,578

Repayment Schedule

The annual maturities of the long-term debt are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2018	P1,200,000	P60,369	P1,139,631
2019	1,200,000	60,871	1,139,129
2020	1,620,000	170,832	1,449,168
2021	8,508,250	151,481	8,356,769
2022	12,477,960	207,849	12,270,111
2023 and thereafter	66,993,790	619,897	66,373,893
	P92,000,000	P1,271,299	P90,728,701

Contractual terms of the Group's interest bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 30.

20. Related Party Disclosures

The Group, in the normal course of business, purchases products and services from and sells products and renders services to related parties. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of December 31:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	25	2017	P215,004	P664,262	P87,697	P9,273	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2016	P -	P660,590	P252	P6,201		
	16	2017	-	-	61,903	-	More than 1 year; non-interest bearing	Unsecured; no impairment
		2016	-	-	-	-		
Entities Under Common Control	6, 8, 9, 18, 25	2017	2,365,748	1,134,950	741,814	484,482	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2016	10,248,500	3,300,854	1,589,923	562,408		
	8, 13	2017	-	-	-	-	180 days; non-interest bearing	Unsecured; no impairment
		2016	17,883,913	-	4,063,525	-		
Associates	8, 18	2017	902,864	-	98,556	29,643	30 days; non-interest bearing	Unsecured; no impairment
		2016	956,610	201	88,838	28,299		
	16	2017	13,458	-	250,603	-	9 years; interest bearing	Unsecured; no impairment
		2016	12,929	-	254,827	-		
Joint Venture		2017	24,183	416,058	1,937	18,522	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2016	48,357	198,244	1,929	7,741		
		2017	64,797	-	635,163	-	92 days; interest bearing	Unsecured; no impairment
		2016	-	-	-	-		
Associates of Entities Under Common Control	6, 8, 9	2017	850,515	23,880	133,236	-	30 days; non-interest bearing	Unsecured; no impairment
		2016	763,309	199,635	102,256	28,787		
	19	2017	-	-	-	-	7 years; interest bearing	Secured
		2016	-	-	-	2,687,451		
Others	8, 18	2017	45,161	-	130,794	-	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2016	84,493	-	37,065	-		
		2017	P4,481,730	P2,239,150	P2,141,703	P541,920		
		2016	P29,998,111	P4,359,524	P6,138,615	P3,320,887		

- Amounts owed by related parties consist of trade and other receivables, derivative asset and security deposits (Notes 8 and 16).
- Amounts owed to related parties consist of trade and non-trade payables, management fees, purchases of fuel, reimbursement of expenses, rent, insurance and services rendered by related parties, customers' deposits and subscriptions payable to OEDC (Notes 9, 12 and 18).
- Amounts owed by associates mainly consist of interest bearing loan granted to OEDC included as part of "Trade and other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position (Notes 8 and 16).

- d. Amounts owed by a joint venture consists of interest bearing loan granted and management fees charged to AHC by PVEI included as part of "Trade and other receivables" accounts in the consolidated statements of financial position (Notes 8, 12 and 26).
- e. The amount owed to associate of an entity under common control consists of interest bearing loan obtained from Bank of Commerce included as part of "Long-term debt" account in the consolidated statements of financial position (Note 19).
- f. The compensation of key management personnel of the Group, by benefit type, follows:

	Note	2017	2016	2015
Short-term employee benefits		P81,537	P42,432	P37,226
Retirement cost	21	1,398	1,205	283
		P82,935	P43,637	P37,509

21. Retirement Plan

The Parent Company and SMEC have unfunded, noncontributory, defined benefit retirement plans covering all of their permanent employees. Retirement benefits expense pertains to accrual of expected retirement benefits of active employees in accordance with RA No. 7641, *The Philippine Retirement Law*. Retirement benefits expense and liability is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2017. Valuations are obtained on a periodic basis.

The following table shows reconciliation of the net defined benefit retirement obligation and its component:

	2017	2016
Balance at beginning of year	P69,364	P45,657
Recognized in Profit or Loss		
Current service cost	8,942	6,174
Interest cost	3,711	2,214
	12,653	8,388
Recognized in Other Comprehensive Income		
Remeasurements:		
Actuarial (gains) losses arising from:		
Experience adjustments	23,523	17,502
Changes in financial assumptions	(2,514)	(2,183)
Changes in demographic assumptions	(24,922)	-
	(3,913)	15,319
Balance at end of year	P78,104	P69,364

Defined benefit retirement obligation included as part of "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to P78,104 and P69,364 as of December 31, 2017 and 2016, respectively.

The retirement costs amounting to P12,653, P8,388 and P6,611 in 2017, 2016 and 2015, respectively, are recognized as part of "Salaries, wages and benefits" under "Selling and administrative expenses" account in the consolidated statements of income (Note 25).

The equity reserve for retirement plan as of December 31, 2017 and 2016 includes accumulated net actuarial gains and losses recognized in other comprehensive income, net of related tax, amounting to P23,632 and P26,371, respectively.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2017	2016
Discount rate	5.70%	4.93% - 5.38%
Salary increase rate	7.00%	7.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of the defined benefit retirement obligation ranges from 7.0 to 9.5 years and 8.0 to 9.0 years as of December 31, 2017 and 2016, respectively.

Sensitivity Analysis

As of December 31, 2017 and 2016, the reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit retirement obligation by the amounts shown below:

	Defined Benefit Retirement Obligation			
	2017		2016	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	(P6,791)	P7,935	(P4,151)	P4,558
Salary increase rate	7,131	(6,260)	4,063	(3,793)

Risks and Management of Risks

The defined benefit retirement obligation exposes the Group to actuarial risks, such as longevity risk and interest rate risk.

The defined benefit retirement obligation is calculated using a discount rate set with reference to government bond yields as such is exposed to market factors including inflation. Higher inflation will lead to higher liability. Also, the defined benefit retirement obligations are to provide benefits for the life of members, so increase in life expectancy will result in an increase in the plan's liability. These risks are managed with the objective of reducing the impact of these risks to the cash flows of the Group.

The Group does not have a formal retirement plan and therefore has no plan assets to match against the liability under the defined benefit retirement obligation. Also, benefit claims under the defined benefit retirement obligation will be paid directly by the Group when they become due.

22. Equity

Capital Stock

As of December 31, 2017 and 2016, the Parent Company's authorized capital stock is P2,000,000, divided into 2,000,000,000 common shares with par value of P1 per share.

Capital stock consists of:

	2017	2016
Subscribed capital stock	P1,250,004	P1,250,004
Less subscription receivable	187,500	187,500
	P1,062,504	P1,062,504

The number of shares subscribed is 1,250,004,000 and 1,250,003,500 common shares as of December 31, 2017 and 2016, respectively.

Equity Reserves

In September 2010, the Parent Company acquired the remaining 40% non-controlling ownership interest of SMC in SMEC and SPDC. The difference between the price paid and carrying amount of net assets transferred was recognized in equity.

Retained Earnings

The Parent Company's retained earnings available for dividend declaration, calculated based on the regulatory requirements of the Philippine SEC, amounted to P3,054,068 and P508,785 as at December 31, 2017 and 2016, respectively. The difference between the consolidated retained earnings and the Parent Company's retained earnings available for dividend declaration primarily consist of undistributed earnings of subsidiaries and equity method investees. Stand-alone earnings of the subsidiaries and share in net earnings of equity method investees are not available for dividend declaration by the Parent Company until declared by the subsidiaries and equity investees as dividends.

The Parent Company's BOD declared cash dividends as follows:

December 31, 2016

Date of Declaration	Stockholders of Record	Date Payable	Dividend Per Share	Amount
June 7, 2016	June 7, 2016	June 14, 2016	P1.20	P1,500,000
August 11, 2016	August 11, 2016	August 18, 2016	1.20	1,500,000
				P3,000,000

December 31, 2015

Date of Declaration	Stockholders of Record	Date Payable	Dividend Per Share	Amount
March 25, 2015	March 25, 2015	March 31, 2015	P1.20	P1,500,000
July 2, 2015	July 2, 2015	July 9, 2015	1.20	1,500,000
November 5, 2015	November 5, 2015	November 10, 2015	1.20	1,500,000
				P4,500,000

There were no cash dividend declarations during the year ended December 31, 2017.

Parent Company

On December 23, 2015, the BOD approved the appropriation amounting to P7,700,000 for the payment of the US\$700,000, 5-year term loan that will mature in September 2018 (Note 19). Reversals during 2015 pertain to: (a) construction of power plant amounting to P2,092,750; (b) interest on bonds payable amounting to P446,250; (c) interest on loans payable amounting to P104,000; and (d) expansion projects amounting to P9,128,000.

In 2017 and 2016, reversals amounted to P1,154,000 and P2,966,000, respectively, for the debt servicing of the US\$700,000 loan, as intended.

Total appropriated retained earnings of the Parent Company amounted to P3,580,000, P4,734,000 and P7,700,000 as at December 31, 2017, 2016, and 2015 respectively.

SMEC, SPPC and SPDC

On December 23, 2015, the BOD of SMEC, SPPC and SPDC approved the appropriation of retained earnings for fixed monthly payments to PSALM amounting to P4,990,000, P1,806,300 and P352,400, respectively, pursuant to the IPPA Agreements and additional funding requirements on their expansion project.

On December 21, 2016, the BOD of SMEC and SPPC approved the appropriation of retained earnings for fixed monthly payments to PSALM amounting to P1,099,300 and P2,990,300, respectively, pursuant to the IPPA Agreements and additional funding requirements on their expansion project.

On December 18, 2017, the BOD of SMEC, SPPC and SPDC approved the appropriation of retained earnings for fixed monthly payments to PSALM amounting to P2,585,000, P3,514,050 and P474,000, respectively, pursuant to the IPPA Agreements.

The appropriations reversed in 2016 and 2015 were used for the required capital expenditures and fixed monthly payments of SMEC and SPDC to PSALM, as intended.

Total combined appropriated retained earnings of SMEC, SPPC and SPDC amounted to P27,080,250, P20,507,200 and P17,455,600 as at December 31, 2017, 2016 and 2015, respectively.

USCS

The Parent Company issued and listed on the Singapore Stock Exchange the following USCS at an issue price of 100%:

Date of Issuance	Distribution Payment Date	Initial Rate of Distribution	Step-Up Date	Amount of USCS Issued	Amount in Philippine Peso
August 26, 2015	August 26 and February 26 of each year	6.75% per annum	February 26, 2021	US\$300,000	P13,823,499
May 7, 2014	May 7 and November 7 of each year	7.5% per annum	November 7, 2019	300,000	13,110,066
				US\$600,000	P26,933,565

The holders of the USCS have conferred a right to receive distributions on a semi-annual basis from their issuance dates at the initial rate of distribution, subject to the step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The USCS have no fixed redemption date and are redeemable in whole, but not in part, at the Parent Company's option on step-up date, or any distribution payment date thereafter or upon the occurrence of certain other events at the principal amounts of the USCS plus any accrued, unpaid or deferred distribution.

The proceeds were used by the Parent Company to finance investments in power-related assets and other general corporate purposes.

Details of distributions paid to USCS holders are as follows:

	2017	2016	2015
February	P720,611	P689,223	P -
May	799,583	756,804	714,616
August	729,868	681,412	-
November	824,142	777,134	736,072
	P3,074,204	P2,904,573	P1,450,688

On February 22, 2018, the Parent Company paid distributions to holders of the US\$300,000 USCS issued in August 2015, amounting to P746,068.

On March 9, 2018, the Parent Company's BOD approved the payment of distribution in the total amount of US\$11,250, plus applicable taxes, on May 7, 2018 to the holders of the US\$300,000 USCS issued in May 2014.

23. Revenues

Revenues consist of:

	Note	2017	2016	2015
Sale of power	20	P70,494,762	P72,250,309	P73,849,465
Retail and other power-related services	6, 20	12,295,813	5,722,121	3,657,226
		P82,790,575	P77,972,430	P77,506,691

24. Cost of Power Sold

Cost of power sold consist of:

	Note	2017	2016	2015
Energy fees	5, 6	P23,726,459	P20,477,903	P23,224,178
Coal, fuel oil and other consumables	5, 6, 9, 20	13,039,144	10,046,687	10,376,590
Power purchases	5, 6	10,725,490	7,836,564	8,330,550
Depreciation and amortization	5, 6, 13, 15	5,842,367	6,164,942	6,466,398
Plant operations and maintenance fees	5, 6, 20	345,303	476,344	502,211
		P53,678,763	P45,002,440	P48,899,927

25. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	<i>Note</i>	2017	2016	2015
Taxes and licenses		P945,406	P982,855	P946,801
Salaries, wages and benefits	20, 21	708,162	361,854	222,994
Management fees	20	664,493	652,167	1,196,789
Rent	4, 6, 20	376,499	351,091	360,091
Corporate special program		349,667	384,166	245,736
Donations		303,426	738,980	59,781
Depreciation and amortization	5, 13, 15	222,564	176,989	73,414
Supplies		210,687	250,200	105,617
Outside services		189,268	212,975	749,207
Market fees	6	146,550	160,669	219,681
Professional fees		136,397	137,303	124,221
Travel and transportation		132,869	141,463	57,544
Repairs and maintenance		126,906	308,335	138,067
Advertising and promotions		70,772	119,874	59,653
Insurance		19,198	63,827	65,434
Impairment losses on trade receivables	8	-	958,784	142,658
Miscellaneous		232,668	238,118	136,447
		P4,835,532	P6,239,650	P4,904,135

Donations represent contributions to registered donee institutions for their programs on education, environment and disaster-related projects. Corporate special program pertains to the Group's corporate social responsibility projects.

26. Other Income (Charges)

Other income (charges) consist of:

	<i>Note</i>	2017	2016	2015
PSALM monthly fees reduction	6	P3,283,745	P1,509,225	P1,858,506
Construction revenue	4, 6	123,336	226,997	47,091
Construction cost	4, 6	(123,336)	(226,997)	(47,091)
Foreign exchange losses - net	30	(632,416)	(8,075,159)	(7,582,548)
Miscellaneous income (charges) - net	4, 6, 8 13, 20	292,836	(315,820)	(202,008)
		P2,944,165	(P6,881,754)	(P5,926,050)

Miscellaneous income (charges) recognized in 2017 mostly pertain to management income, rent income and sale of fly ash to related parties. In 2016, the Group recognized impairment losses on non-trade receivables and property, plant and equipment, management income and rent income charged to related parties (Notes 4, 6, 8, 13 and 20).

27. Income Taxes

The components of income tax expense are as follows:

	<i>Note</i>	2017	2016	2015
Current	28	P2,003,146	P2,668,503	P2,181,771
Deferred		4,176,364	697,256	521,637
		P6,179,510	P3,365,759	P2,703,408

Deferred tax assets (liabilities) - net arise from the following:

	<i>Note</i>	2017	2016
Items Recognized in Profit or Loss			
Allowance for impairment losses on trade and other receivables	8	P458,043	P458,043
Defined benefit retirement obligation	21	13,303	9,507
Difference of amortization of borrowing costs over payments and others		(1,410,812)	(268,192)
Difference of depreciation and other related expenses over monthly lease payments	6	(5,077,847)	(2,040,307)
Item Recognized in Other Comprehensive Income			
Equity reserve for retirement plan	21	10,128	11,302
		(P6,007,185)	(P1,829,647)

The deferred taxes are reported in the consolidated statements of financial position as follows:

	2017	2016
Deferred tax assets	P1,316,926	P2,955,570
Deferred tax liabilities	(7,324,111)	(4,785,217)
	(P6,007,185)	(P1,829,647)

The movements in deferred tax assets (liabilities) - net are as follows:

	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at End of Year
December 31, 2017				
Allowance for impairment losses on trade and other receivables	P458,043	P -	P -	P458,043
Defined benefit retirement obligation	9,507	3,796	-	13,303
Difference of amortization of borrowing costs over payments and others	(268,192)	(1,142,620)	-	(1,410,812)
Difference of depreciation and other related expenses over monthly lease payments	(2,040,307)	(3,037,540)	-	(5,077,847)
Equity reserve for retirement plan	11,302	-	(1,174)	10,128
Net liabilities	(P1,829,647)	(P4,176,364)	(P1,174)	(P6,007,185)

December 31, 2016	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at End of Year
Allowance for impairment losses on trade and other receivables	P170,443	P287,600	P -	P458,043
Defined benefit retirement obligation	6,991	2,516	-	9,507
Difference of amortization of borrowing costs over payments and others	(471,750)	203,558	-	(268,192)
Difference of depreciation and other related expenses over monthly lease payments	(849,377)	(1,190,930)	-	(2,040,307)
Equity reserve for retirement plan	6,706	-	4,596	11,302
Net liabilities	(P1,136,987)	(P697,256)	P4,596	(P1,829,647)

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

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
Year 2017	December 31, 2020	P9,509,739	P36,617
Year 2016	December 31, 2019	3,137,496	17,641
Year 2015	December 31, 2018	2,931,633	10,195
		P15,578,868	P64,453

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2017	2016	2015
Statutory income tax rate	30.00%	30.00%	30.00%
Increase (decrease) in the income tax rate resulting from:			
Unrecognized deferred tax assets	18.06%	17.85%	30.43%
Availment of optional standard deduction and others	(5.14%)	(3.07%)	(0.78%)
Effective income tax rate	42.92%	44.78%	59.65%

28. Registrations and License

Registrations with the Board of Investments (BOI)

- i. In 2013, SMCP and SCPC were granted incentives by the BOI on a pioneer status for 6 years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, (Executive Order (EO) No. 226), the rules and regulations of the BOI and the terms and conditions prescribed. On October 5, 2016, BOI granted SCPC's request to move the start of its commercial operation and Income Tax Holiday (ITH) reckoning date from February 2016 to September 2017 or when the first kilowatt-hour (kWh) of energy was transmitted after commissioning or testing, or 1 month from the date of such commissioning or testing, whichever comes earlier as certified by the National Grid Corporation of the Philippines. Subsequently, on December 21, 2016, BOI granted a similar request of SMCP to move the start of its commercial operation and ITH reckoning date from December 2015 to July 2016, or the actual date of commercial operations subject to compliance with the specific terms and conditions, due to delay in the implementation of the project for reasons beyond its control. SMCP has a pending request with BOI on the further extension of the ITH reckoning date from July 2016 to September 2017. The ITH period for Unit 1 and Unit 2 of SCPC commenced on May 26, 2017 and September 26, 2017, respectively. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of their respective BOI registrations.
- ii. On September 20, 2016, LPPC was registered with the BOI under the Omnibus Investment Code of 1987 as expanding operator of 2 x 150 MW CFB Coal-fired Power Plant (Phase II Limay Power Plant) on a non-pioneer status. The BOI categorized LPPC as an "Expansion" based on the 2014 to 2016 IPP's Specific Guidelines for "Energy" in relation to SCPC's 2 x 150 MW Coal-fired Power Plant (Phase I Limay Power Plant). As a registered entity, LPPC is entitled to certain incentives that include, among others, an ITH for 3 years from January 2018 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of LPPC's BOI registrations.

In June 2017, the BOI approved the transfer of ownership and registration of Phase II Limay Power Plant from LPPC to SCPC. SCPC has a pending request with BOI on the extension of the ITH reckoning date for Phase II Limay Power Plant from January 2018 to December 2018 or actual start of commercial operations, whichever is earlier.

- iii. On August 26, 2015, February 11, 2016 and October 26, 2016, the BOI issued a Certificate of Authority (COA) to SMCP, SCPC and LPPC, respectively, subject to provisions and implementing rules and regulations of EO No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises." The COA shall be valid for 1 year from the date of issuance. All capital equipment, spare parts and accessories imported by SMCP and SCPC for the construction of the power plants were ordered, delivered and completed within the validity period of their respective COAs.

On July 10, 2017, the BOI issued a new COA to SCPC, as the new owner of the Phase II Limay Power Plant, subject to provisions and implementing rules and regulations of EO No. 22 (which replaced EO No. 70), also entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises". The COA shall be valid for 1 year from the date of issuance or up to the expiration of EO No. 22 or until a new law amending the Omnibus Investments Code of 1987 is enacted, whichever comes earlier.

- iv. SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for 4 years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants. Upon expiration of the ITH in 2014, SMEC, SPDC and SPPC are now subject to the regular income tax rate.
- v. On August 21, 2007, SEPC was registered with the BOI under the Omnibus Investments Code of 1987, as New Domestic Producer of Coal on a Non-pioneer Status.

License Granted by the ERC

On August 22, 2011 and August 24, 2016, SMELC and SCPC, respectively, were granted a RES License by the ERC pursuant to Section 29 of the EPIRA which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of 5 years from the time it was granted and renewable thereafter.

On August 19, 2016, the ERC approved the renewal of SMELC's RES License for another 5 years from August 22, 2016 up to August 21, 2021.

29. Basic and Diluted Earnings (Loss) Per Share

Basic and diluted EPS is computed as follows:

	2017	2016	2015
Net income attributable to equity holders of the Parent Company	P8,216,916	P4,150,662	P1,828,918
Distributions to USCS holders for the year	(3,076,042)	(2,938,623)	(1,918,382)
Net income (loss) attributable to common shareholders of the Parent Company (a)	5,140,874	1,212,039	(89,464)
Weighted average number of common shares outstanding (in thousands) (b)	1,250,004	1,250,004	1,250,004
Basic/Diluted Earnings (Loss) Per Share (a/b)	P4.11	P0.97	(P0.07)

As of December 31, 2017, 2016 and 2015, the Group has no dilutive debt or equity instruments.

30. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the exposure to each of the foregoing risks, the objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, restricted cash, noncurrent receivables, loans payable, long-term debt and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, accounts payable and accrued expenses, finance lease liabilities and other noncurrent liabilities arise directly from, and are used to facilitate, its daily operations.

The outstanding derivative instruments of the Group which is fixed swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency and commodity price risks arising from the operating and financing activities. The accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group.

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Audit and Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the SEC and/or the PDEx.

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the long-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality short-term investments while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by nil, P14,127 and P2,092 in 2017, 2016 and 2015, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

The Group does not account for any fixed-rate financial assets or financial liabilities at FVPL and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Interest Rate Risk Table

The terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

December 31, 2017	1 Year or Less	>1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P1,200,000	P1,200,000	P1,620,000	P8,508,250	P12,477,960	P66,993,790	P92,000,000
Interest rate	6.2836%	6.2836%	6.2836%	4.3458%	5.3750%	4.7575%	
	to 6.9265%	to 6.9265%	to 6.9265%	to 6.9265%	to 6.9265%	to 6.9265%	
	P1,200,000	P1,200,000	P1,620,000	P8,508,250	P12,477,960	P66,993,790	P92,000,000
December 31, 2016	1 Year or Less	>1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P -	P -	P -	P -	P6,153,250	P8,846,750	P15,000,000
Interest rate					4.3458%	4.7575%	
						to 5.1792%	
Floating Rate							
Foreign currency-denominated							
(expressed in Philippine peso)	1,218,482	36,392,314	1,681,219	1,768,764	1,892,042	9,717,483	52,670,304
Interest rate	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	
	P1,218,482	P36,392,314	P1,681,219	P1,768,764	P8,045,292	P18,564,233	P67,670,304

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using derivative instruments such as foreign currency forwards to manage its foreign currency risk exposure.

Short-term currency forward contracts (non-deliverable) are entered into to manage foreign currency risks arising from foreign currency denominated obligations.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents as of December 31 are as follows:

		2017		2016	
	Note	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	7	US\$102,067	P5,096,218	US\$108,229	P5,381,123
Trade and other receivables	8	85,664	4,277,192	80,301	3,992,573
		187,731	9,373,410	188,530	9,373,696
Liabilities					
Accounts payable and accrued expenses	18	122,259	6,104,423	312,823	15,553,551
Long-term debt (including current maturities)	19	-	-	1,059,339	52,670,304
Finance lease liabilities (including current portion)	6	1,693,623	84,562,581	1,880,371	93,492,054
		1,815,882	90,667,004	3,252,533	161,715,909
Net foreign currency-denominated monetary liabilities					
		US\$1,628,151	P81,293,594	US\$3,064,003	P152,342,213

The Group reported net losses on foreign exchange amounting to P632,416, P8,075,159 and P7,582,548 in 2017, 2016 and 2015, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 26). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2017	49.93
December 31, 2016	49.72
December 31, 2015	47.06

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) for the years ended December 31:

	2017		2016	
	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate
Cash and cash equivalents	(P102,067)	P102,067	(P108,229)	P108,229
Trade and other receivables	(85,664)	85,664	(80,301)	80,301
	(187,731)	187,731	(188,530)	188,530
Accounts payable and accrued expenses	122,259	(122,259)	312,823	(312,823)
Long-term debt (including current maturities)	-	-	1,059,339	(1,059,339)
Finance lease liabilities (including current portion)	1,693,623	(1,693,623)	1,880,371	(1,880,371)
	1,815,882	(1,815,882)	3,252,533	(3,252,533)
	P1,628,151	(P1,628,151)	P3,064,003	(P3,064,003)

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency-denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices.

The Group, through SMC, enters into commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

Commodity Swaps. Commodity swaps are used to manage the Group's exposures to volatility in prices of coal.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall due under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management as of December 31:

2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P28,655,359	P28,655,369	P28,655,369	P -	P -	P -
Trade and other receivables - net*	20,384,934	20,384,934	20,384,934	-	-	-
Derivative asset (included under "Other noncurrent assets - net" account)	61,903	61,903	-	61,903	-	-
Noncurrent receivables (included under "Other noncurrent assets - net" account; including current portion)	278,965	322,012	60,773	39,371	115,904	105,964
Restricted cash (included under "Other noncurrent assets - net" account)	4,805,175	4,805,175	-	4,805,175	-	-
Financial Liabilities						
Loans payable	5,930,000	5,938,566	5,938,566	-	-	-
Accounts payable and accrued expenses*	24,818,444	24,818,444	24,818,444	-	-	-
Long-term debt - net (including current maturities)	90,728,701	133,277,391	6,837,616	6,760,234	38,229,217	81,450,324
Finance lease liabilities (including current portion)	154,793,690	189,584,834	25,020,549	26,220,439	82,794,848	55,548,998
Other noncurrent liabilities (including current portion of concession liability)	171,174	246,756	8,400	74,118	25,200	139,038

*Excluding statutory receivables and payables

2016	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P21,491,385	P21,491,385	P21,491,385	P -	P -	P -
Trade and other receivables - net*	22,316,325	22,316,325	22,316,325	-	-	-
Noncurrent receivables (included under "Other noncurrent assets - net" account; including current portion)	298,437	353,700	38,634	77,195	116,640	121,231
Financial Liabilities						
Accounts payable and accrued expenses*	31,095,490	31,095,490	31,095,490	-	-	-
Long-term debt - net (including current maturities)	66,323,726	77,424,824	3,618,010	38,428,920	15,077,705	20,300,189
Finance lease liabilities (including current portion)	170,089,536	213,866,933	24,689,002	24,966,835	84,101,330	80,109,766
Other noncurrent liabilities (including current portion of concession liability)	156,512	238,086	8,400	8,400	25,200	196,086

*Excluding statutory receivables and payables

Credit Risk

Credit risk is the risk of financial loss to the Group when a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry in which customers operate, as these factors may have an influence on the credit risk.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Financial information on the Group's maximum exposure to credit risk as of December 31, without considering the effects of other risk mitigation techniques, is presented below.

	2017	2016
Cash and cash equivalents (excluding cash on hand)	P28,653,631	P21,490,065
Trade and other receivables - net*	20,384,934	22,316,325
Derivative asset (included under "Other noncurrent assets - net" account)	61,903	-
Noncurrent receivables (included under "Other noncurrent assets - net" account; including current portion)	278,965	298,437
Restricted cash (included under "Other noncurrent assets - net" account)	4,805,175	-
	P54,184,608	P44,104,827

*Excluding statutory receivables

The credit risk for cash and cash equivalents and restricted cash is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group has significant concentration of credit risk. Sale of power to Meralco accounts for 52%, 51% and 53% of the Group's total revenues for the years ended December 31, 2017, 2016 and 2015, respectively. The Group does not execute any credit guarantee in favor of any counterparty.

Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, distribution payment, pay-off existing debts, return capital to shareholders or issue new shares, subject to compliance with certain covenants of its long-term debt and USCS (Notes 19 and 22).

The Group defines capital as capital stock, additional paid-in capital, USCS and retained earnings, both appropriated and unappropriated. Other components of equity such as equity reserves and equity reserve for retirement plan are excluded from capital for purpose of capital management.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the external environment and the risks underlying the Group's business, operation and industry.

There were no changes in the Group's approach to capital management during the year.

31. Financial Assets and Financial Liabilities

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments as of December 31:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P28,655,359	P28,655,359	P21,491,385	P21,491,385
Trade and other receivables - net*	20,384,934	20,384,934	22,316,325	22,316,325
Derivative asset (included under "Other noncurrent assets - net" account)	61,903	61,903	-	-
Noncurrent receivables (included under "Other noncurrent assets - net" account; including current portion)	278,965	278,965	298,437	298,437
Restricted cash (included under "Other noncurrent assets - net" account)	4,805,175	4,805,175	-	-
	P54,186,336	P54,186,336	P44,106,147	P44,106,147
Financial Liabilities				
Loans Payable	P5,930,000	P5,930,000	P -	P -
Accounts payable and accrued expenses*	24,818,444	24,818,444	31,095,490	31,095,490
Long-term debt - net (including current maturities)	90,728,701	96,948,336	66,323,726	66,611,049
Finance lease liabilities (including current portion)	154,793,690	154,793,690	170,089,536	170,089,536
Other noncurrent liabilities (including current portion of concession liability)	171,174	171,174	156,512	156,512
	P276,442,009	P282,661,644	P267,665,264	P267,952,587

*Excluding statutory receivables and payables

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents and Trade and Other Receivables (excluding statutory receivables). The carrying amounts of cash and cash equivalents and trade and other receivables approximate their fair values primarily due to the relatively short-term maturities of these financial instruments.

Restricted Cash and Noncurrent Receivables. The carrying amounts of restricted cash and noncurrent receivables approximate their fair values, since the effect of discounting is not considered material.

Derivatives. The fair values of freestanding currency and commodity derivatives are determined based on quoted prices obtained from their respective active markets. The fair values of the derivatives have been categorized as Level 2 in the fair value hierarchy.

Loans Payable and Accounts Payable and Accrued Expenses (excluding statutory payables). The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 2.47% to 5.70% and 2.18% to 4.88% as of December 31, 2017 and 2016, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

The fair value of peso-denominated bonds has been categorized as Level 1 and interest-bearing fixed-rate loans, finance lease liabilities and other noncurrent liabilities have been categorized as Level 2 in the fair value hierarchy.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding derivative financial instruments are discussed below.

The Group entered into currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risk. The portfolio is a mixture of instruments including forwards and swaps.

Derivative Instruments not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding derivatives which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of currency and commodity derivatives entered into by the Group.

Currency Forwards

As of December 31, 2017, the Group has no outstanding currency forwards.

Commodity Swap

The Group has an outstanding fixed swap agreement covering its purchase of coal for calendar year 2019. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swap is 60,000 metric tons as of December 31, 2017. The positive fair value of this swap amounted to P61,903 as of December 31, 2017.

32. Supplemental Cash Flows Information

Changes in liabilities arising from financing activities:

	Loans Payable	Long-term Debt	Finance Lease Liabilities	Total
Balance as of January 1, 2017	P -	P66,323,726	P170,089,536	P236,413,262
Changes from financing cash flows				
Proceeds from borrowings	113,419,200	77,000,000	-	190,419,200
Payments of borrowings	(107,782,255)	(53,110,468)	-	(160,892,723)
Payments of finance lease liabilities	-	-	(24,874,993)	(24,874,993)
Total changes from financing cash flows	5,636,945	23,889,532	(24,874,993)	4,651,484
Effect of changes in foreign exchange rates	293,055	440,164	497,704	1,230,923
Other changes	-	75,279	9,081,443	9,156,722
Balance as of December 31, 2017	P5,930,000	P90,728,701	P154,793,690	P251,452,391

33. Other Matters

a. EPIRA

The EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements (Note 6).

The EPIRA requires generation and DU companies to undergo public offering within 5 years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as of December 31, 2017 and 2016.

b. Contingencies

The Group is a party to certain cases or claims which are either pending decision by the court/regulators or are subject to settlement agreements. The outcome of these cases or claims cannot be presently determined (Note 4).

i. *Generation Payments to PSALM*

SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the RTC of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour Temporary Restraining Order (TRO) be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the Performance Bond. The TRO was extended for until September 28, 2015.

On September 28, 2015, the RTC issued an Order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 22, 2015, the RTC also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an Order dated June 27, 2016, the RTC denied PSALM's: (1) Motion for Reconsideration of the Order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the Order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to this Order, PSALM filed a petition for certiorari with the Court of Appeals (CA) seeking to annul the RTC's Orders granting the writ of preliminary injunction, allowing Meralco's intervention, and the Orders denying PSALM's motions for reconsideration of said injunction and intervention orders. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed Orders." The CA, however, denied the petition filed by PSALM in its Decision dated December 19, 2017.

The preliminary conference on the RTC case was suspended to pave way for mediation between the parties. During the last mediation conference on January 6, 2017, mediation between the parties was terminated. Thereafter, the case was referred to judicial dispute resolution. During the dispute conference between the parties on September 28, 2017, the judicial dispute process was terminated. The parties were required to submit their respective position papers on whether or not the case should be re-raffled. In compliance with the Order of the RTC dated October 24, 2017, on December 8, 2017 SPPC filed its Comment and Opposition to the Motion for Inhibition filed by PSALM. On December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an Order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City which scheduled the Pre-Trial Conference on May 11, 2018. SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam. Both motions are still pending with the court as of March 9, 2018.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter.

By virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP Administrator for the Ilijan Power Plant.

ii. Criminal Cases
SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the Department of Justice (DOJ), against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the Performance Bond posted by SPPC, resulting in actual injury to SPPC in the amount of US\$60,000. The case is still pending with the DOJ as of December 31, 2017.

SMEC

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and TSC, relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file Information against the respondents for (a) Plunder; (b) Violation of Sec. 3(e) of the Anti-Graft and Corrupt Practices Act; and (c) Violation of Sec. 3(f) of the Anti-Graft and Corrupt Practices Act. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice. On October 25, 2017, the DOJ issued a Resolution partially granting the Petition for Review by reversing the July 29, 2016 DOJ Resolution insofar as the conduct of the preliminary investigation. On November 17, 2017, SMEC filed a motion for partial reconsideration of said October 25, 2017 DOJ Resolution.

On June 17, 2016, SMEC filed with the RTC Pasig a civil complaint for consignment against PSALM arising from PSALM's refusal to accept SMEC's remittances corresponding to the proceeds of the sale on the WESM of electricity generated from capacity in excess of the 1000 MW of the Sual Power Plant ("Sale of the Excess Capacity"). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

On October 3, 2016, SMEC filed an Omnibus Motion (To Admit Supplemental Complaint and To Allow Future Consignation without Tender). Together with this Omnibus Motion, SMEC consigned with the RTC Pasig an additional amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods from April 26, 2016 to July 25, 2016.

Pending for resolution are (a) PSALM's Motion for Preliminary Hearing and Special and Affirmative Defenses and (b) SMEC's Omnibus Motion (to Admit Supplemental Complaint and to Allow Future Consignations without Tender).

On December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and TSC with the ERC against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the abovementioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case.

On July 5, 2017, SMEC consigned with the RTC Pasig the amount representing additional proceeds of Sale of the Excess Capacity for the billing period July 26, 2016 to August 25, 2016. SMEC also filed a Motion to Admit Second Supplemental Complaint in relation to said consignation. With the submission of manifestation from PSALM, the Motion to Admit Second Supplemental Complaint is submitted for resolution.

As of December 31, 2017 and 2016, the total amount consigned with the RTC Pasig is P491,242 and P475,057, respectively, included under "Other noncurrent assets", particularly "Restricted cash" account, in the consolidated statements of financial position.

iii. TRO Issued to Meralco

On December 23, 2013, the Supreme Court (SC) issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators, including SMEC and SPPC is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. Further, on December 27, 2013, the DOE, the ERC and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price will be effective for 90 days until a new cap is decided upon.

On January 16, 2014, the SC granted Meralco's plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the SC extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016. On June 26, 2014, SMEC, SPPC, SPDC and SPI filed with the CA a Petition for Review of these orders.

In a Decision dated November 7, 2017 ("Decision"), the CA granted the Petition for Review filed by SMEC, SPPC, SPDC and SPI, declaring the aforesaid ERC Order null and void and set aside the Orders of the ERC dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply of months of November to December 2013.

Upon finality of the Decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to P2,625,585, plus interest.

c. Commitments

The outstanding purchase commitments of the Group amounted to P1,996,473 and P1,588,516 as of December 31, 2017 and 2016, respectively.

Amount authorized but not yet disbursed for capital projects as of December 31, 2017 and 2016 is approximately P12,861,746 and P23,038,949, respectively.

34. Events After the Reporting Date

Acquisition of Subsidiaries

On December 17, 2017, the Parent Company executed a Share Purchase Agreement with AES Phil Investment Pte. Ltd. (AES Phil) and Gen Plus B. V. (Gen Plus) for the purchase by the Parent Company of (a) 51% and 49% equity interests of AES Phil and Gen Plus, respectively, in Masin-AES Pte. Ltd. (the “Target Company”); (b) 100% equity interest of The AES Corporation in AES Transpower Private Ltd. (ATPL); and (c) 100% equity interest of AES Phil in AES Philippines Inc. (API), (collectively, the “Transaction”).

The Target Company, through its subsidiaries [including Masinloc Power Partners Co. Ltd. (MPPCL)], owns and/or operates (i) the 2 x 315 MW coal-fired power plant; (ii) the under construction project expansion of the 335 MW unit known as Unit 3; (iii) the 10 MW battery energy storage project, all located in the Province of Zambales, Philippines; and (iv) the 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental, which is still at the pre-development stage. ATPL has a Philippine Regional Office and Headquarters which provides the corporate support services to MPPCL, while API provides energy marketing services to MPPCL.

With the acquisition by the Parent Company of the Target Company, ATPL and API, the Group aims to improve its existing baseload capacity to further ensure its ability to provide affordable and reliable supply of power to its customers. The additional power assets provide an opportunity for the Group to increase its footprint in clean coal technology that provides reliable and affordable power, particularly in Luzon. The Transaction will result in the production of electricity in an environmentally responsible way.

The total consideration for the Transaction is US\$1,900,000, subject to a post-closing purchase price adjustment. The total consideration will be paid in cash by the Parent Company to be funded through a combination of its (a) availment of US dollar-denominated long-term borrowings from various financial institutions totaling to US\$1,200,000 and (b) issuing Redeemable Perpetual Securities to, and obtaining advances from, SMC amounting to US\$650,000 and US\$150,000, respectively.

On February 23, 2018, the Philippine Competition Commission (“PCC”) issued its decision which states that the Transaction does not result in a substantial lessening of competition in the relevant markets, and as such, the PCC resolved that it will take no further action with respect to the Transaction (the “PCC Decision”).

Other than the issuance of the PCC Decision, there are other conditions precedent that are required for the closing and completion of the Transaction.

As of March 9, 2018, all parties to the Transaction have yet to complete the conditions precedent for the closing and completion of the Transaction.

The following summarizes the initial financial information as of December 31, 2017 of assets to be acquired and liabilities to be assumed:

	Provisionary Amounts
Assets	
Cash and cash equivalents	P2,152,225
Trade and other receivables - net	2,609,037
Inventories	1,616,060
Prepaid expenses and other current assets	1,515,826
Property, plant and equipment - net	56,693,900
Other noncurrent assets	1,727,896
Liabilities	
Loans payable	(2,243,250)
Accounts payable and accrued expenses	(9,473,903)
Finance lease liabilities - net (including current portion)	(41,709)
Long-term debt - net (including current maturities)	(28,080,053)
Other noncurrent liabilities	(285,053)
Total identifiable net assets	P26,190,976

Based on the foregoing initial amounts of net assets to be acquired, the goodwill is estimated to be as follows:

	Provisionary Amounts
Consideration transferred	P94,867,000
Non-controlling interest measured at proportionate interest in identifiable net assets	87,639
Total identifiable net assets	(26,190,976)
Goodwill	P68,763,663

The estimates above will be updated to their fair values as at the date of acquisition when the Transaction is closed for purposes of recognizing the business combination and will involve identification and recognition of identifiable assets or intangible assets and will likely reduce the amount of initial goodwill above.

Acquisition-related Costs

As of December 31, 2017, the Parent Company incurred acquisition-related costs of P194,688 which have been included in the "Selling and administrative expenses" account in the consolidated statements of income.

Goodwill expected to arise from the Transaction is attributable to the benefit of expected synergies, revenue growth, future development and the assembled workforce. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

C O V E R S H E E T

For AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

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

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M	e	t	r	o		M	a	n	i	l	a																			

Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

COMPANY INFORMATION

Company's email Address

N/A

Company's Telephone Number/s

702-4500

Mobile Number

N/A

No. of Stockholders

8

Annual Meeting (Month / Day)

June / 1st Tuesday

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Paul Bernard D. Causon

Email Address

pcauson@smg.sanmiguel.com.ph

Telephone Number/s

702-4500

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

19th Flr. San Miguel Properties Center Building, No.7 St. Francis St., Mandaluyong City

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

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