

EXHIBIT “B”

Audited Consolidated
Financial
Statements
and
Audited Financial Statements
Stamped
received by the BIR



First Gen Corporation

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

March 15, 2018

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

The management of First Gen Corporation (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the 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 Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

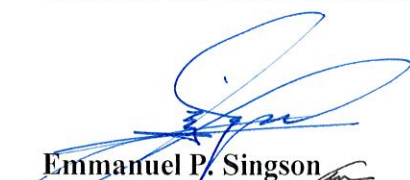
The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

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


Federico R. Lopez
Chairman and Chief Executive Officer


Francis Giles B. Puno
President and Chief Operating Officer


Emmanuel P. Singson
SVP, CFO and Treasurer



First Gen Corporation

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

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

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Book No. III
Series of 2018.




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

First Gen Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2017 and 2016
and Years Ended December 31, 2017, 2016
and 2015
(In U.S. Dollars)

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
First Gen Corporation

Opinion

We have audited the consolidated financial statements of First Gen Corporation (the Company) and its subsidiaries (collectively referred to as 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 to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Recoverability of Goodwill Associated with the Acquisition of Energy Development Corporation (EDC)

Under PFRSs, the Group is required to test the recoverability of goodwill annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at December 31, 2017, the Group has goodwill amounting to \$968.0 million, of which \$905.6 million resulted from the Group's acquisition of EDC in 2007. The Group's recoverability test of goodwill is significant to our audit because the amount of goodwill is material to the consolidated financial statements. In addition, the assessment process involves significant management judgment about future market conditions, and estimation based on assumptions such as gross margin, economic growth rate and discount rate. The related disclosures on the Group's goodwill are included in Notes 3 and 11 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's recoverability assessment process and the related controls. We involved our internal specialist in evaluating the assumptions and methodology used. We compared the forecasted cash flow assumptions used in the recoverability testing such as budgeted gross margin to the historical performance of EDC. We also compared the estimated volume and price of electricity to be sold to the contracted customers and to the spot market, with historical information. In addition, we compared the economic growth rate used by management with those reflected in the published economic forecast in the region as well as relevant industry outlook. Likewise, we evaluated the discount rate used and assessed whether this is consistent with market participant assumptions for similar assets. We also reviewed the Group's disclosures about those assumptions to which the outcome of the recoverability test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Recoverability of Exploration and Evaluation Assets of EDC

The ability of the Group, through EDC, to recover its exploration and evaluation assets depends on the commercial viability of the geothermal reserves. The carrying value of exploration and evaluation assets as at December 31, 2017 amounted to \$61.4 million which is material to the consolidated financial statements. This matter is important to our audit because of the substantial amount of exploration and evaluation assets and the significant management judgment involved in performing a recoverability review. The related disclosures on exploration and evaluation assets are included in Notes 3 and 12 to the consolidated financial statements.



Audit Response

We obtained an understanding of the Group's capitalization policy and tested whether the policy has been applied consistently. We obtained management's assessment of the recoverability of the exploration and evaluation assets, and inquired into the status of these projects and their future plan of operation. We obtained the status of each exploration project as of December 31, 2017, as certified by EDC's technical group head, and compared it with the disclosures submitted to regulatory agencies. We reviewed the terms of contracts and agreements, and budget for exploration costs. We inspected the licenses and permits of each exploration project to determine that the period for which the Group has the right to explore in the specific area has not expired or is not expiring in the near future. We also inquired of management about the project areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2017 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2017, which is expected to be made available to us after that date.

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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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



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

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

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

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

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

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



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

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

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

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

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

SYCIP GORRES VELAYO & CO.



Jhoanna Feliza C. Go

Partner

CPA Certificate No. 0114122

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

March 2, 2017, valid until March 1, 2020

Tax Identification No. 219-674-288

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

January 31, 2017, valid until January 30, 2020

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

March 15, 2018



FIRST GEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in U.S. Dollars and in Thousands)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 14, 24 and 25)	\$671,251	\$497,980
Receivables (Notes 6, 18, 24, 25 and 26)	356,947	344,482
Inventories (Note 7)	93,494	118,242
Financial assets at fair value through profit or loss (FVPL) (Notes 8, 24 and 25)	20,720	22,534
Other current assets (Notes 9, 12, 14, 24 and 25)	170,891	129,573
Total Current Assets	1,313,303	1,112,811
Noncurrent Assets		
Property, plant and equipment (Notes 10, 14 and 26)	2,759,965	2,746,392
Goodwill and intangible assets (Note 11)	1,036,467	1,055,587
Deferred income tax assets - net (Note 22)	30,808	30,711
Other noncurrent assets (Notes 9, 12, 21, 24, 25 and 26)	360,317	343,802
Total Noncurrent Assets	4,187,557	4,176,492
TOTAL ASSETS	\$5,500,860	\$5,289,303
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 13, 24, 25 and 26)	\$405,329	\$378,473
Dividends payable (Notes 16, 24 and 25)	14,478	14,719
Income tax payable (Note 22)	9,115	11,617
Due to a related party (Notes 18, 24 and 25)	145	145
Current portion of:		
Long-term debts (Notes 9, 10, 14, 24 and 25)	301,179	289,274
Derivative liabilities (Notes 14, 24 and 25)	158	88
Total Current Liabilities	730,404	694,316
Noncurrent Liabilities		
Long-term debts - net of current portion (Notes 9, 10, 14, 24 and 25)	2,211,508	2,388,858
Retirement and other post-employment benefits (Note 21)	20,462	26,306
Derivative liabilities - net of current portion (Notes 14, 24 and 25)	1,605	16,347
Deferred income tax liabilities - net (Note 22)	29,368	32,861
Other noncurrent liabilities (Note 15)	43,325	41,048
Total Noncurrent Liabilities	2,306,268	2,505,420
Total Liabilities	\$3,036,672	\$3,199,736

(Forward)



	December 31	
	2017	2016
Equity Attributable to Equity Holders of the Parent Company (Notes 16 and 17)		
Redeemable preferred stock	\$69,345	\$69,345
Common stock	75,123	75,123
Additional paid-in capital	1,165,366	1,165,366
Deposits for future stock subscriptions	2,139	2,139
Cumulative translation adjustments (Notes 16 and 25)	(133,148)	(135,488)
Accumulated unrealized gain on Available-for-Sale (AFS) financial assets - net (Note 12)	425	345
Equity reserve (Note 2)	(237,884)	(378,744)
Retained earnings (Note 16)	1,068,526	986,981
Cost of stocks held in treasury (Note 16):		
Redeemable preferred stock	(102,997)	(97,829)
Common stock	(24,625)	(24,289)
	1,882,270	1,662,949
Non-controlling Interests (Notes 2 and 16)	581,918	426,618
Total Equity	2,464,188	2,089,567
TOTAL LIABILITIES AND EQUITY	\$5,500,860	\$5,289,303

See accompanying Notes to Consolidated Financial Statements.



FIRST GEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in U.S. Dollars and in Thousands, Except Per Share Data)

	Years Ended December 31		
	2017	2016	2015
REVENUES FROM SALE OF ELECTRICITY (Notes 10, 26 and 27)	\$1,708,122	\$1,561,484	\$1,836,268
COSTS OF SALE OF ELECTRICITY (Notes 7, 10, 11, 19, 26 and 27)	(1,074,885)	(872,390)	(1,145,809)
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 7, 10, 11, 12, 19, 21 and 26)	(186,541)	(191,173)	(213,307)
FINANCIAL INCOME (EXPENSE)			
Interest income (Notes 5, 12 and 20)	10,132	8,964	10,075
Interest expense and financing charges (Notes 14, 15, 20 and 26)	(175,097)	(166,370)	(167,299)
	(164,965)	(157,406)	(157,224)
OTHER INCOME (CHARGES)			
Proceeds from insurance claims (Note 26)	14,294	31,977	34,675
Foreign exchange gains (losses) - net	1,157	(16,960)	(33,614)
Mark-to-market gain (loss) on financial assets at FVPL (Notes 8, 24 and 25)	281	72	(169)
Loss on extinguishment of long-term debts (Note 14)	(24,633)	—	—
Mark-to-market loss on derivatives - net (Note 25)	(276)	(2,371)	—
Loss on direct write-off of exploration and evaluation assets (Note 12)	(764)	—	(250)
Income from liquidated damages from contractors (Note 10)	—	47,826	—
Reversal of impairment of damaged assets due to Typhoon Yolanda (Note 7)	—	—	372
Others - net (Notes 10, 12 and 14)	(1,246)	(3,581)	(3,284)
	(11,187)	56,963	(2,270)
INCOME BEFORE INCOME TAX	270,544	397,478	317,658
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22)			
Current	70,774	100,542	74,561
Deferred	(8,384)	5,125	(2,175)
	62,390	105,667	72,386
NET INCOME	\$208,154	\$291,811	\$245,272
Net income attributable to:			
Equity holders of the Parent Company	\$134,424	\$199,590	\$167,318
Non-controlling interests	73,730	92,221	77,954
	\$208,154	\$291,811	\$245,272
Basic/Diluted Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company (Note 23)	\$0.030	\$0.047	\$0.037

See accompanying Notes to Consolidated Financial Statements.



FIRST GEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in U.S. Dollars and in Thousands)

	Years Ended December 31		
	2017	2016	2015
NET INCOME	\$208,154	\$291,811	\$245,272
OTHER COMPREHENSIVE INCOME (LOSS):			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Net gains on cash flow hedge - net of tax (Note 25)	12,588	9,495	4,534
Exchange losses on foreign currency translation	(13,592)	(107,074)	(115,620)
Unrealized gains (losses) on AFS financial assets (Note 12)	201	124	(145)
	(803)	(97,455)	(111,231)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement of retirement and other post-employment benefits - net of tax	(764)	7,872	264
Total other comprehensive loss - net of tax	(1,567)	(89,583)	(110,967)
TOTAL COMPREHENSIVE INCOME	\$206,587	\$202,228	\$134,305
Total comprehensive income attributable to:			
Equity holders of the Parent Company	\$136,772	\$136,091	\$93,840
Non-controlling interests	69,815	66,137	40,465
	\$206,587	\$202,228	\$134,305

See accompanying Notes to Consolidated Financial Statements.



FIRST GEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in U.S. Dollars and in Thousands)

Equity Attributable to Equity Holders of the Parent Company (Notes 16 and 17)

	Capital Stock		Additional Paid-in Capital	Deposits For Future Stock Subscriptions	Cumulative Translation Adjustments	Accumulated Unrealized Gain on AFS Financial Assets (Note 12)	Equity Reserve (Note 2)	Re- measurement of Retirement and Other Post- Employment Benefits	Retained Earnings	Cost of Stocks Held in Treasury		Subtotal	Non- controlling Interests	Total
	Redeemable Preferred Stock	Common Stock								Redeemable Preferred Stock	Common Stock			
BALANCES AT DECEMBER 31, 2016	\$69,345	\$75,123	\$1,165,366	\$2,139	(\$135,488)	\$345	(\$378,744)	\$—	\$986,981	(\$97,829)	(\$24,289)	\$1,662,949	\$426,618	\$2,089,567
Total comprehensive income	—	—	—	—	2,340	80	—	(72)	134,424	—	—	136,772	69,815	206,587
Re-measurement of retirement and other post-employment benefits closed to retained earnings	—	—	—	—	—	—	—	72	(72)	—	—	—	—	—
Common stocks acquired by subsidiaries (Note 16)	—	—	—	—	—	—	—	—	—	—	(336)	(336)	—	(336)
Share in employee trusts of EDC	—	—	—	—	—	—	—	—	—	—	—	—	12,584	12,584
Sale of EDC shares (Note 2)	—	—	—	—	—	—	140,860	—	—	—	—	140,860	98,607	239,467
Buyback of Series “F” and “G” preferred stocks (Note 16)	—	—	—	—	—	—	—	—	—	(5,168)	—	(5,168)	—	(5,168)
Cash dividends on preferred stocks (Note 16)	—	—	—	—	—	—	—	—	(28,072)	—	—	(28,072)	—	(28,072)
Cash dividends on common stocks (Note 16)	—	—	—	—	—	—	—	—	(24,735)	—	—	(24,735)	—	(24,735)
Dividends of subsidiaries (Note 16)	—	—	—	—	—	—	—	—	—	—	—	—	(25,706)	(25,706)
BALANCES AT DECEMBER 31, 2017	\$69,345	\$75,123	\$1,165,366	\$2,139	(\$133,148)	\$425	(\$237,884)	\$—	\$1,068,526	(\$102,997)	(\$24,625)	\$1,882,270	\$581,918	\$2,464,188
BALANCES AT DECEMBER 31, 2015	\$69,345	\$75,123	\$1,165,366	\$—	(\$65,584)	\$296	(\$378,744)	\$—	\$841,503	(\$85,639)	(\$23,362)	\$1,598,304	\$407,179	\$2,005,483
Total comprehensive income	—	—	—	—	(66,839)	49	—	3,291	199,590	—	—	136,091	66,137	202,228
Re-measurement of retirement and other post-employment benefits closed to retained earnings	—	—	—	—	—	—	—	(3,291)	3,291	—	—	—	—	—
Effect of First NatGas Power Corp. and EDC Burgos Wind Power Corporation’s change in functional currency (Note 2)	—	—	—	—	(3,065)	—	—	—	—	—	—	(3,065)	5,295	2,230
Deposits for future stock subscriptions (Note 16)	—	—	—	2,139	—	—	—	—	—	—	—	2,139	—	2,139
Common stocks acquired by subsidiaries (Note 16)	—	—	—	—	—	—	—	—	—	—	(927)	(927)	—	(927)
Purchase of treasury stocks by EDC	—	—	—	—	—	—	—	—	—	—	—	—	(954)	(954)
Buyback of Series “F” and “G” preferred stocks (Note 16)	—	—	—	—	—	—	—	—	—	(12,190)	—	(12,190)	—	(12,190)
Cash dividends on preferred stocks (Note 16)	—	—	—	—	—	—	—	—	(30,399)	—	—	(30,399)	—	(30,399)
Cash dividends on common stocks (Note 16)	—	—	—	—	—	—	—	—	(27,004)	—	—	(27,004)	—	(27,004)
Dividends of subsidiaries (Note 16)	—	—	—	—	—	—	—	—	—	—	—	—	(51,039)	(51,039)
BALANCES AT DECEMBER 31, 2016	\$69,345	\$75,123	\$1,165,366	\$2,139	(\$135,488)	\$345	(\$378,744)	\$—	\$986,981	(\$97,829)	(\$24,289)	\$1,662,949	\$426,618	\$2,089,567



FIRST GEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in U.S. Dollars and in Thousands)

Equity Attributable to Equity Holders of the Parent Company (Notes 16 and 17)

	Capital Stock		Additional Paid-in Capital	Deposits For Future Stock Subscriptions	Cumulative Translation Adjustments	Accumulated Unrealized Gain on AFS Financial Assets (Note 12)	Equity Reserve (Note 2)	Re- measurement of Retirement and Other Post- Employment Benefits	Retained Earnings	Cost of Stocks Held in Treasury		Subtotal	Non- controlling Interests	Total
	Redeemable Preferred Stock	Common Stock								Redeemable Preferred Stock	Common Stock			
BALANCES AT DECEMBER 31, 2014	\$69,345	\$74,728	\$1,052,282	\$—	\$8,283	\$354	(\$372,439)	\$—	\$737,525	\$—	(\$71,997)	\$1,498,081	\$414,525	\$1,912,606
Total comprehensive income	—	—	—	—	(73,867)	(58)	—	447	167,318	—	—	93,840	40,465	134,305
Re-measurement of retirement and other post-employment benefits closed to retained earnings	—	—	—	—	—	—	—	(447)	447	—	—	—	—	—
Proceeds from issuance of common stocks and treasury stocks through private placement (Note 16)	—	395	114,474	—	—	—	—	—	—	—	52,987	167,856	—	167,856
Transaction costs on private placement	—	—	(1,390)	—	—	—	—	—	—	—	—	(1,390)	—	(1,390)
Common stocks acquired by subsidiaries (Note 16)	—	—	—	—	—	—	—	—	—	—	(4,352)	(4,352)	—	(4,352)
Share in employee trusts of EDC	—	—	—	—	—	—	—	—	—	—	—	—	(117)	(117)
Purchase of treasury stocks by EDC	—	—	—	—	—	—	—	—	—	—	—	—	(627)	(627)
Buyback of Series "F" preferred stocks (Note 16)	—	—	—	—	—	—	—	—	—	(85,639)	—	(85,639)	—	(85,639)
Cash dividends on preferred stocks (Note 16)	—	—	—	—	—	—	—	—	(35,758)	—	—	(35,758)	—	(35,758)
Cash dividends on common stocks (Note 16)	—	—	—	—	—	—	—	—	(28,029)	—	—	(28,029)	—	(28,029)
Acquisition of non-controlling interests - PTHC	—	—	—	—	—	—	(163)	—	—	—	—	(163)	(949)	(1,112)
Acquisition of non-controlling interests - EDC	—	—	—	—	—	—	(6,142)	—	—	—	—	(6,142)	(2,871)	(9,013)
Dividends of subsidiaries (Note 16)	—	—	—	—	—	—	—	—	—	—	—	—	(43,247)	(43,247)
BALANCES AT DECEMBER 31, 2015	\$69,345	\$75,123	\$1,165,366	\$—	(\$65,584)	\$296	(\$378,744)	\$—	\$841,503	(\$85,639)	(\$23,362)	\$1,598,304	\$407,179	\$2,005,483

See accompanying Notes to Consolidated Financial Statements.



FIRST GEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in U.S. Dollars and in Thousands)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	\$270,544	\$397,478	\$317,658
Adjustments for:			
Depreciation and amortization (Notes 10, 11 and 19)	211,932	197,584	185,975
Interest expense and financing charges (Note 20)	175,097	166,370	167,299
Loss on direct write-off of input VAT claims (Note 12)	1,870	1,201	2,901
Provision for impairment of spare parts and supplies inventories (Notes 7 and 19)	1,399	1,236	1,567
Loss on direct write-off of exploration and evaluation assets (Note 12)	764	—	250
Mark-to-market loss on derivatives - net (Note 25)	276	2,371	—
Interest income (Note 20)	(10,132)	(8,964)	(10,075)
Loss (gain) on sale of property and equipment	(339)	(44)	592
Mark-to-market loss (gain) on financial assets at FVPL (Note 8)	(281)	(72)	169
Unrealized foreign exchange losses (gains) - net	(79)	22,883	29,128
Reversal of impairment of damaged assets due to Typhoon Yolanda (Notes 7 and 10)	—	—	(372)
Income before working capital changes	651,051	780,043	695,092
Decrease (increase) in:			
Receivables	(22,558)	(28,682)	71,037
Inventories	23,247	(2,630)	(4,510)
Other current assets	(29,377)	(18,680)	(37,751)
Increase (decrease) in:			
Accounts payable and accrued expenses	43,822	(22,478)	37,155
Retirement and other post-employment benefits	7,358	(7,329)	392
Cash generated from operations	673,543	700,244	761,415
Interest received	10,132	8,964	10,075
Income taxes paid	(69,758)	(97,406)	(74,891)
Net cash flows from operating activities	613,917	611,802	696,599
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Redemption of financial assets at FVPL (Note 8)	151,361	34,357	89,873
Disposal of property and equipment (Note 10)	1,281	1,348	500
Performance securities (Note 10)	—	15,353	—
Sale of AFS financial assets	14,755	2,780	—
Decrease (increase) in debt service reserve account (Note 9)	(78,522)	6,276	(28,890)
Additions to:			
Property, plant and equipment (Note 10)	(160,488)	(281,574)	(464,870)
Financial assets at FVPL (Note 8)	(149,259)	(27,777)	(110,514)
Other noncurrent assets	(31,710)	(53,829)	(87,471)
AFS financial assets	(15,298)	(6,344)	—
Exploration and evaluation assets (Note 12)	(378)	(749)	(5,658)
Intangible assets (Note 11)	(351)	(93)	(312)
Net cash flows used in investing activities	(268,609)	(310,252)	(607,342)

(Forward)



	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of long-term debt - net of debt issuance costs (Note 14)	\$657,927	\$88,044	\$615,884
Sale of EDC shares (Note 2)	239,467	—	—
Availment of short-term loans (Note 14)	15,230	—	26,496
Payments of:			
Long-term debts (Note 14)	(830,566)	(329,260)	(448,061)
Interest expense and financing charges (Note 20)	(162,028)	(160,477)	(160,703)
Cash dividends to preferred shareholders (Note 16)	(28,724)	(31,674)	(39,606)
Dividends to non-controlling shareholders of subsidiaries (Note 16)	(25,706)	(51,039)	(43,247)
Cash dividends to common shareholders (Note 16)	(24,735)	(27,004)	(28,029)
Short-term loans (Note 14)	(15,230)	—	(26,496)
Buyback of Series “F” and “G” preferred stocks (Note 16)	(5,168)	(12,190)	(85,639)
Parent Company shares acquired by subsidiaries (Note 16)	(336)	(927)	(4,352)
Purchase of treasury stocks by EDC	—	(954)	(627)
Acquisition of non-controlling interest in EDC (Notes 2 and 16)	—	—	(9,013)
Transaction costs on the amendment of EDC’s FXCN loan (Note 14)	—	—	(1,429)
Acquisition of non-controlling interest in PTHC (Notes 2 and 4)	—	—	(1,112)
Issuance of common stocks and treasury stocks through private placement - net of transaction costs (Note 16)	—	—	166,466
Increase (decrease) in other noncurrent liabilities	4,781	(6,662)	7,109
Net cash flows used in financing activities	(175,088)	(532,143)	(32,359)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	3,051	(1,890)	(328)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	173,271	(232,483)	56,570
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	497,980	730,463	673,893
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	\$671,251	\$497,980	\$730,463

See accompanying Notes to Consolidated Financial Statements.



FIRST GEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. Dollars and in Thousands, Unless Otherwise Stated)

1. Corporate Information and Authorization for Issuance of the Consolidated Financial Statements

Corporate Information

First Gen Corporation (the Parent Company or First Gen) is incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1998. The Parent Company and its subsidiaries (collectively referred to as “First Gen Group”) are involved in the power generation business. All subsidiaries, except for certain subsidiaries of Energy Development Corporation (EDC), are incorporated in the Philippines. These certain subsidiaries of EDC are incorporated in BVI, Hong Kong, Peru, Chile and Indonesia (see Note 2).

On February 10, 2006, the Parent Company successfully completed the Initial Public Offering (IPO) in the Philippines of 193,412,600 common stocks, including the exercised greenshoe option of 12,501,700 common stocks, at an IPO price of ₱47.00 per share. The common stocks of the Parent Company are currently listed and traded on the First Board of the Philippine Stock Exchange, Inc. (PSE). First Gen is considered a public company under Section 17.2 of the Securities Regulation Code (SRC).

On January 22, 2010, the Parent Company likewise completed the Stock Rights Offering (the Rights Offering) of 2,142,472,791 rights shares in the Philippines at the proportion of 1.756 rights shares for every one existing common stock held as of the record date of December 29, 2009 at the offer price of ₱7.00 per rights share. The total proceeds from the Rights Offering amounted to ₱15.0 billion (\$319.2 million).

On July 25, 2011, the Parent Company issued ₱10.0 billion Series “F” Preferred Shares at a dividend rate of 8.0%. The Parent Company approved and authorized the issuance by way of private placement or issuance to Qualified Buyers of One Hundred Million (100,000,000) of its Series “F” Preferred Shares with a par value of ₱10.0 a share and an issue price of ₱100.0 a share. The Series “F” Preferred Shares are currently listed and traded on the First Board of the PSE. Total proceeds of the issuance of the Series “F” Preferred Shares amounted to ₱10.0 billion (\$235.7 million). Transaction costs amounting to ₱53.0 million (\$1.2 million) was incurred and deducted against additional paid-in capital.

On May 28, 2012, the Parent Company completed the Public Offering of the 100,000,000 Series “G” Preferred Shares in the Philippines at an issue price of ₱100.0 per share. The Series “G” Preferred Shares are currently listed and traded on the First Board of the PSE. The total proceeds from the issuance of the Series “G” Preferred Shares amounted to ₱10.0 billion (\$234.4 million), net of transaction costs amounting to ₱95.2 million (\$2.2 million).

On January 20, 2015, the Parent Company authorized the issuance and sale of an aggregate of 297,029,800 common stocks to be taken from its unissued capital stock and treasury stock at an identical issue price of ₱25.25 per share (the “Offer Price”). The price represents a 2.9% discount to the last traded price of ₱26.00 per share. The placement was conducted via an accelerated bookbuilding process. First Gen’s parent company, First Philippine Holdings Corporation (FPH), which has a 66.2% stake in First Gen’s issued and outstanding common stocks, agreed to subscribe to its pro-rata share in the transaction. The Parent Company issued to FPH 179,127,900 common stocks from treasury stock, as well as 17,623,100 common stocks from unissued capital stock, at the Offer Price. The total proceeds from the issuance of the common stocks amounted to ₱7.4 billion (\$166.5 million), net of transaction costs amounting to ₱62.1 million (\$1.4 million). Following the subscription, FPH maintained its 66.2% stake in the Parent Company’s issued and outstanding common stock.



On May 11, 2016, the Board of Directors (BOD) of the Parent Company approved during its Organizational board meeting the two-year extension of the buy-back programs from June 1, 2016 to May 31, 2018. The two-year extension covers the: (i) common stock buy-back program covering up to 300.0 million of the Parent Company's common stocks; and (ii) Series "F" and "G" Preferred Shares buyback program covering up to ₱10.0 billion worth of said redeemable preferred stocks. In 2016, the Parent Company purchased from the open market 10,010 and 5,026,280 Series "F" and Series "G" redeemable preferred stocks, respectively. Total payments for the buyback of the Series "F" and Series "G" redeemable preferred stocks amounted to ₱1.1 million (\$0.02 million) and ₱598.8 million (\$12.2 million). In 2017, the Parent Company purchased from the open market 422,830 and 1,868,200 Series "F" and Series "G" redeemable preferred stocks, respectively. Total payments for the buyback of the Series "F" and Series "G" redeemable preferred stocks amounted to ₱45.8 million (\$0.9 million) and ₱211.7 million (\$4.2 million), respectively. In 2018, the Parent Company purchased from the open market 6,091,200 common stocks for ₱90.5 million (\$1.8 million) (see Notes 16 and 29).

As of December 31, 2017 and 2016, FPH directly and indirectly owns 66.52% and 66.24%, respectively, of the common stocks of First Gen and 100% of First Gen's voting preferred stocks. FPH is 46.47%-owned by Lopez Holdings Corporation (Lopez Holdings), a publicly-listed Philippine-based entity, as of December 31, 2017 and 2016. Majority of Lopez Holdings is owned by Lopez, Inc. Lopez, Inc. is the ultimate parent of First Gen. FPH, Lopez Holdings and Lopez, Inc. are all incorporated in the Philippines. As of December 31, 2017 and 2016, there are 360 common stockholders of record of First Gen, and 3,660,943,557 common stocks issued and outstanding as of December 31, 2017 and 2016 (see Note 16).

Corporate Address

The registered principal office address of the Parent Company is 6th Floor, Rockwell Business Center Tower 3, Ortigas Avenue, Pasig City.

Authorization for Issuance of the Consolidated Financial Statements

The consolidated financial statements of First Gen Group were reviewed and recommended for approval by the Audit Committee to the BOD on March 15, 2018. The same consolidated financial statements were approved and authorized for issuance by the BOD on March 15, 2018.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, financial assets at FVPL, and AFS financial assets that are measured at fair value. The consolidated financial statements are presented in United States (U.S.) dollar, which is the Parent Company's functional currency, and are rounded to the nearest thousands, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of First Gen Group are prepared in compliance with Philippine Financial Reporting Standards (PFRSs) as issued by the Philippine Financial Reporting Standards Council and adopted by the Philippine SEC.



Significant Accounting and Financial Reporting Policies

First Gen Group applied for the first time certain pronouncements, which are effective for annual periods beginning January 1, 2017. Adoption of these pronouncements did not have a significant impact on First Gen Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014–2016 Cycle*)

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

Adoption of these amendments did not have any impact on First Gen Group's consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

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

First Gen Group has provided the required information in Note 28 to the consolidated financial statements. As allowed under the transition provisions of the standard, First Gen Group did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31 each year.

First Gen Group controls an investee if and only if First Gen Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.



When First Gen Group has less than a majority of the voting or similar rights of an investee, First Gen 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
- First Gen Group's voting rights and potential voting rights.

First Gen Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when First Gen Group obtains control over the subsidiary and ceases when First Gen Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date First Gen Group gains control until First Gen Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with First Gen Group's accounting policies. All significant intra-group assets and liabilities, equity, income and expenses, and cash flows relating to transactions between members of First Gen Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If First Gen Group loses control over a subsidiary, it derecognizes the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary, derecognizes the carrying amount of any non-controlling interest (including any attributable components of other comprehensive income recorded in equity), derecognizes the cumulative translation differences recorded in equity, recognizes the fair value of the consideration received, recognizes the fair value of any investment retained, and any surplus or deficit is recognized in the consolidated statement of comprehensive income. First Gen Group also reclassifies 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 First Gen Group had directly disposed of the related assets or liabilities.

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

Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets not held by First Gen Group. Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position and consolidated statement of changes in equity, separate from equity attributable to equity holders of First Gen.

The acquisition of an additional ownership interest in a subsidiary without a change of control is accounted for as an equity transaction in accordance with PAS 27. In transactions where the non-controlling interest is acquired or sold without loss of control, any excess or deficit of consideration paid over the carrying amount of the non-controlling interest is recognized as part of "Equity reserve" account in the equity attributable to the equity holders of the Parent Company.



For the years ended December 31, 2017, 2016 and 2015, the non-controlling interests arise from the profits or losses and net assets not held by First Gen Group in EDC and Subsidiaries.

Subsidiaries

The following is a list of the companies on which the Parent Company has control:

	Percentage of Voting Interest		
	2017	2016	2015
First Gen Renewables, Inc. (FGRI)	100	100	100
Unified Holdings Corporation (Unified)	100	100	100
AlliedGen Power Corp. (AlliedGen)	100	100	100
First Gen Luzon Power Corp. (FG Luzon)	100	100	100
First Gen Visayas Hydro Power Corporation (FG Visayas)	100	100	100
First Gen Mindanao Hydro Power Corporation (FG Mindanao)	100	100	100
First Gen Ecopower Solutions, Inc. (FG Ecopower) ¹	100	100	100
First Gen Energy Solutions Inc. (FGES)	100	100	100
First Gen Premier Energy Corp. (FG Premier)	100	100	100
First Gen Prime Energy Corporation (FG Prime)	100	100	100
First Gen Visayas Energy, Inc. (FG Visayas Energy)	100	100	100
FG Bukidnon Power Corporation (FG Bukidnon) ²	100	100	100
Northern Terracotta Power Corp.	100	100	100
Blue Vulcan Holdings Corporation (Blue Vulcan)	100	100	100
Prime Meridian Powergen Corporation (Prime Meridian) ³	100	100	100
Gold silk Holdings Corporation ⁷	100	100	100
Dualcore Holdings Inc. ⁷	100	100	100
Onecore Holdings Inc. ⁷	100	100	100
FG Mindanao Renewables Corp. (FMRC) ⁸	100	100	100
FGen Northern Mindanao Holdings, Inc. (FNMHI) ⁸	100	100	100
FGen Tagoloan Hydro Corporation (FG Tagoloan) ⁹	100	100	100
FGen Tumalaong Hydro Corporation (FG Tumalaong) ⁹	100	100	100
FGen Puyo Hydro Corporation (FG Puyo) ¹⁰	100	100	100
FGen Bubunawan Hydro Corporation (FG Bubunawan) ¹⁰	100	100	100
FGen Cabadbaran Hydro Corporation (FG Cabadbaran) ¹⁰	100	100	100
First Gas Holdings Corporation (FGHC)	100	100	100
FGP ⁴	100	100	100
First NatGas Power Corp. (FNPC) ⁵	100	100	100
First Gas Power Corporation (FGPC) ⁶	100	100	100
First Gas Pipeline Corporation (FG Pipeline) ⁶	100	100	100
FGLand Corporation (FG Land) ⁶	100	100	100
FGEN LNG Corporation (FGEN LNG) ¹¹	100	100	100
First Gen LNG Holdings Corporation (LNG Holdings)	100	100	100
First Gen Meridian Holdings, Inc. (FGEN Meridian)	100	100	100
FGen Power Ventures, Inc. (FGEN Power Ventures)	100	100	100
FGen Casecan Hydro Power Corp. (FGEN Casecan)	100	100	100
FGen Power Holdings, Inc. (Power Holdings)	100	100	100
FGen Prime Holdings, Inc. (Prime Holdings)	100	100	100
FGen Eco Solutions Holdings, Inc. (FGESHI)	100	100	100
FGen Liquefied Natural Gas Holdings, Inc. (Liquefied Holdings)	100	100	100
FGen Reliable Energy Holdings, Inc. (FG Reliable Energy)	100	100	100
FGen Power Solutions, Inc. (FG Power Solutions)	100	100	100
FGen Vibrant Blue Sky Holdings, Inc. (FGVBSHI)	100	100	100
FGen Aqua Power Holdings, Inc. (FG Aqua Power)	100	100	100
FGen Natural Gas Supply, Inc. (FGen NatGas Supply) ^{13, 14}	100	100	100
FGen Power Operations, Inc. (FPOI) ¹⁵	100	100	100

(Forward)



	Percentage of Voting Interest		
	2017	2016	2015
FGen Fuel Line Systems, Inc. (FGen Fuel Line) ¹⁶	100	100	100
Prime Terracota Holdings Corp. (Prime Terracota)	100	100	100
First Gen Hydro Power Corporation (FG Hydro) ¹²	40	40	40

¹Through FGESHI

²Through FGRI

³Through FGEN Meridian

⁴60% through Unified and 40% through Onecore

⁵Through AlliedGen

⁶Through FGHC

⁷Through Blue Vulcan

⁸Through FG Mindanao

⁹Through FMRC

¹⁰Through FNMHI

¹¹Through LNG Holdings

¹² The Parent Company has 40% direct voting interest in FG Hydro while its effective economic interest is 65.0% through Prime Terracota as of December 31, 2017.

¹³Through Liquefied Holdings

¹⁴On May 15, 2015, FGen NatGas Supply was incorporated and registered with the Philippine SEC. FGen NatGas Supply is a wholly owned subsidiary of Liquefied Holdings.

¹⁵On July 21, 2015, FPOI was incorporated and registered with the Philippine SEC.

¹⁶On September 9, 2015, FGen Fuel Line was incorporated and registered with the Philippine SEC.

All of the foregoing subsidiaries are incorporated in the Philippines.

As of December 31, 2017 and 2016, FG Luzon, FG Visayas, FG Mindanao, FG Ecopower, FG Premier, FG Prime, FG Visayas Energy, Northern Terracotta, FMRC, FNMHI, FG Tagoloan, FG Tumalaong, FG Puyo, FG Bubunawan, FG Cabadbaran, FG Pipeline, FG Land, FGEN LNG, LNG Holdings, FGen Northern Power, FGEN Power Ventures, FGEN Casecnan, Power Holdings, Prime Holdings, FGESHI, Liquefied Holdings, FG Reliable Energy, FG Power Solutions, FGVBSHI, FG Aqua Power, FGen NatGas Supply, FPOI, and FGen Fuel Line have not started commercial operations.

As of December 31, 2015, AlliedGen, FNPC, FG Luzon, FG Visayas, FG Mindanao, FG Ecopower, FG Premier, FG Prime, FG Visayas Energy, Northern Terracotta, Prime Meridian, FMRC, FNMHI, FG Tagoloan, FG Tumalaong, FG Puyo, FG Bubunawan, FG Cabadbaran, FG Pipeline, FG Land, FGEN LNG, LNG Holdings, FGEN Meridian, FGen Northern Power, FGEN Power Ventures, FGEN Casecnan, Power Holdings, Prime Holdings, FGESHI, Liquefied Holdings, FG Reliable Energy, FG Power Solutions, FGVBSHI, FG Aqua Power, FGen NatGas Supply, FPOI, and FGen Fuel Line have not started commercial operations.

Prime Terracota

On June 18, 2015, the Parent Company purchased 16.0 million and 13.0 million Series “B” voting preferred stocks of Prime Terracota owned by Quialex Realty Corp. (QRC) and the Employees Retirement Plan of Lopez, Inc. (Lopez, Inc. Retirement Fund) [LIRF], respectively, for a total consideration of \$1.1 million. The amount of equity reserve pertaining to the acquisition of the non-controlling stakes of QRC and LIRF in Prime Terracota amounted to \$0.2 million.

The Parent Company’s acquisition of non-controlling interest in Prime Terracota was accounted for as an equity transaction, whereby the carrying amounts of the controlling and non-controlling interests were adjusted to reflect the changes in their relative interests in Prime Terracota and any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid is recognized directly in equity, under “Equity reserve” account, and attributed to the owners of the Parent Company.

As of December 31, 2017 and 2016, the Parent Company has a 100% direct voting interest in Prime Terracota.



As of December 31, 2017, 2016 and 2015, Prime Terracota's subsidiaries include the following companies:

	Percentage of Voting Interest		
	2017	2016	2015
Red Vulcan Holdings Corporation (Red Vulcan)	100	100	100
EDC ¹	60	60	60
First Gen Hydro Power Corporation (FG Hydro)	60	60	60
EDC Drillco Corporation (EDC Drillco) ⁶	60	60	60
EDC Geothermal Corp. (EGC) ⁴	60	60	60
Green Core Geothermal Inc. (GCGI)	60	60	60
Bac-Man Geothermal Inc. (BGI)	60	60	60
Unified Leyte Geothermal Energy Inc. (ULGEI)	60	60	60
Southern Negros Geothermal, Inc. (SNGI) ³	60	60	60
Bac-Man Energy Development Corporation (BEDC) ³	60	60	60
Kayabon Geothermal, Inc. (KGI) ^{3,5,7}	—	—	60
Mount Apo Renewable Inc. (MAREI) ^{3,5,7}	—	—	60
EDC Mindanao Geothermal, Inc. (EMGI) ^{3,5,7}	—	—	60
EDC Wind Energy Holdings, Inc. (EWEHI) ⁴	60	60	60
EDC Burgos Wind Power Corporation (EBWPC)	60	60	60
EDC Pagudpud Wind Power Corporation (EPWPC) ³	60	60	60
EDC Bayog Burgos Wind Power Corporation (EBWPC) ³	60	60	60
EDC Pagali Burgos Wind Power Corporation (EPBWPC) ³	60	60	60
Matnog 1 Renewable Energy Corporation (M1REC) ³	60	60	—
Matnog 2 Renewable Energy Corporation (M2REC) ³	60	60	—
Matnog 3 Renewable Energy Corporation (M3REC) ³	60	60	—
Iloilo 1 Renewable Energy Corporation (I1REC) ³	60	60	—
Negros 1 Renewable Energy Corporation (N1REC) ³	60	60	—
EDC Bright Solar Energy Holdings, Inc. (EBSEHI) ⁴	60	60	60
EDC Siklab Power Corporation (EDC Siklab), formerly			
EDC Bago Solar Power Corporation (EBSPC) ⁵	60	60	60
EDC Sinag Power Corporation (Sinag), formerly			
EDC Burgos Solar Corporation (EBSC) ³	60	60	60
EDC Sinag Iloilo Power Corporation (EDC Sinag Iloilo),			
formerly EMGI ^{3,5,7}	60	60	—
EDC Siklab Iloilo Power Corporation (Siklab Iloilo),			
formerly KGI ^{3,5,7}	60	60	—
EDC Clean Solar Visayas Power Corporation (ECSVPC),			
formerly MAREI ^{3,5,7}	60	60	—
EDC Chile Limitada ³	60	60	60
EDC Holdings International Limited (EHIL) ⁴	60	60	60
Energy Development Corporation Hong Kong International Investment			
Limited (EDC HKIIL) ³	60	60	—
Energy Development Corporation Hong Kong Limited (EDC HKL) ⁴	60	60	60
EDC Chile Holdings SPA ³	60	60	60
EDC Geotermica Chile ³	60	60	60
EDC Peru Holdings S.A.C. ³	60	60	60
EDC Geotermica Peru S.A.C. ³	60	60	60
Energy Development Corporation Peru S.A.C. ³	60	60	60
EDC Geotermica Del Sur S.A.C. ³	60	60	60
EDC Energia Azul S.A.C. ³	60	60	60
Geotermica Crucero Peru S.A.C. ³	60	42	42
EDC Energia Perú S.A.C. ³	60	60	60
Geotermica Tutupaca Norte Peru S.A.C. ³	60	42	42
EDC Energia Geotérmica S.A.C. ³	60	60	60
EDC Progreso Geotérmica Perú S.A.C. ³	60	60	60
Geotermica Loriscota Peru S.A.C. ³	60	42	42
EDC Energía Renovable Perú S.A.C. ³	60	60	60
EDC Soluciones Sostenibles Ltd	60	60	60
EDC Energia Verde Chile SpA	60	60	60
EDC Energia de la Tierra SpA	60	60	60
EDC Desarrollo Sostenible Ltd.	60	60	60
EDC Energia Verde Peru SAC	60	60	60
PT EDC Indonesia ³	57	57	57
PT EDC Panas Bumi Indonesia ³	57	57	57

(Forward)



	Percentage of Voting Interest		
	2017	2016	2015
EDC Wind Energy Holdings 2 Inc. (EWEHI2) ^{2,4}	60	—	—
Calaca Renewable Energy Corporation (CREC) ²	60	—	—
Burgos 3 Renewable Energy Corporation (BREC3) ²	60	—	—
Burgos 4 Renewable Energy Corporation (BREC4) ²	60	—	—

¹The Parent Company's economic interest in EDC is 41.6% as of December 31, 2017 and 50.6% as of December 31, 2016 and 2015.

²Incorporated in 2017 and has not yet started commercial operations as of December 31, 2017.

³Incorporated in prior years and has not yet started commercial operations as of December 31, 2017.

⁴Serves as an investment holding company.

⁵Changed corporate name in 2017.

⁶Dissolved in 2017.

⁷Became wholly owned subsidiaries of EBSEHI starting December 2016.

EDC

In 2015, the Parent Company through its subsidiary, Northern Terracotta, acquired EDC common stocks amounting to \$9.0 million. The amount of equity reserve pertaining to the acquisition of non-controlling interests amounted to \$6.1 million. As of December 31, 2016, the Parent Company and Northern Terracotta own approximately 991.8 million and 986.3 million common stocks, respectively.

On August 3, 2017, the Parent Company entered into an Implementation Agreement with Philippines Renewable Energy Holdings Corporation ("PREHC"), Red Vulcan and Northern Terracotta. PREHC is a company incorporated in the Philippines.

Under the Implementation Agreement, PREHC will conduct a voluntary tender offer for a minimum of 6.6 billion common stocks and up to a maximum of 8.9 billion common stocks of EDC, representing approximately up to 31.7% of the total outstanding voting shares of EDC, from the shareholders of EDC at a price of ₱7.25 per share.

On September 29, 2017, Red Vulcan entered into a Shareholders' Agreement with Philippine Energy Markets B.V. (PEMBV), PREHC and EDC. PEMBV is a private company existing under the laws of the Netherlands and is the parent company of PREHC. The agreement sets out the agreement of the parties with respect to the management of EDC.

The Parent Company and Northern Terracotta tendered to PREHC their 991.8 million and 986.3 million common stocks, respectively, subject to scale-back provisions under applicable regulations.

Following the implementation of the scale back announced by PREHC, the tendered shares were 842.9 million and 838.2 million common stocks for the Parent Company and Northern Terracotta, respectively. Red Vulcan did not participate in the tender offer process and retained its existing common stocks and voting preferred stocks, which correspond to a 60.0% voting stake in EDC. The Parent Company continues to consolidate EDC given its current controlling stake. However, the Parent Company's economic interest in EDC was reduced to 41.6% after the transaction from 50.6% as of December 31, 2016. The amount of equity reserve pertaining to the sale of EDC common stocks amounted to \$140.9 million.

As of December 31, 2017 and 2016, the Parent Company has 61.1% and 67.1% effective voting interest in EDC through Prime Terracota.



EDC Subsidiaries

EDC Drillco is a company incorporated on September 28, 2009 to act as an independent service contractor, consultant, and specialized technical adviser for well construction and drilling, and other related activities. On August 4, 2017, the Philippine SEC approved the shortening of the term of its existence, thereby dissolving the corporation.

EGC was incorporated on April 9, 2008 to participate in the bid for another local power plant. The bid was won by and awarded to another local entity. Thereafter, EGC became an investment holding company of EDC's wholly owned subsidiaries, namely GCGI, BGI, ULGEI, SNGI, BEDC, EMGI, KGI, and MAREI. EGC also has a 0.01% stake in EDC Chile Limitada.

In December 2016, EGC sold all of its stocks in EMGI, KGI and MAREI to EBSEHI. This sale transaction has no impact to the consolidated financial statements, and these companies became wholly owned subsidiaries of EBSEHI.

In 2017, EMGI, KGI and MAREI changed their corporate names to EDC Sinag Iloilo Power Corporation (Sinag Iloilo), EDC Siklab Iloilo Power Corporation (Siklab Iloilo) and EDC Clean Solar Visayas Power Corporation (ECSVPC), respectively.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value on acquisition date and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at its proportionate share in the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

When First Gen 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. This includes the separation of embedded derivatives in host contracts by the acquiree, if any.

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

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, is recognized in accordance with PAS 39, either in the consolidated statement of income or charged to other comprehensive income. If the contingent consideration is classified as equity, it is not to be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest and any previous interest held, over the net fair value of identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, First Gen Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts recognized at the acquisition date. If this consideration still results in an excess of the fair value of the net assets of the subsidiary acquired over the aggregate consideration transferred, the difference is recognized in the consolidated statement of income.



After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of First Gen Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Fair Value Measurement

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal market or the most advantageous market must be accessible to First Gen Group.

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

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

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

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

As of December 31, 2017 and 2016, First Gen Group has financial assets at FVPL, AFS financial assets and derivative financial instruments that are measured at fair value on a recurring basis. First Gen Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.



For the purpose of fair value disclosures, First Gen 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.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to cash with original maturities of three months or less from date of placement and that are subject to an insignificant risk of changes in value.

Financial Instruments

Date of recognition

Financial instruments within the scope of PAS 39 are recognized in the consolidated statement of financial position when First Gen Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized using trade date accounting. Derivatives are also recognized on a trade date basis.

Initial recognition of financial instruments

All financial instruments are initially recognized at fair value. The initial measurement of financial instruments includes transaction costs, except for financial instruments at FVPL. First Gen Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets, and loans and receivables. Financial liabilities are classified as either financial liabilities at FVPL or loans and borrowings. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

“Day 1” difference

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

Financial assets and liabilities at FVPL

Financial assets and liabilities at FVPL include financial assets and liabilities held for trading purposes and financial assets and liabilities designated upon initial recognition as at FVPL.

Financial assets and liabilities are classified as held for trading if these are acquired for the purposes of selling and repurchasing in the near term. Derivatives, including any separated embedded derivatives, are also classified under financial assets or liabilities at FVPL, unless these are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the consolidated statement of income as part of “Mark-to-market gain (loss) on derivatives - net” account.



Financial assets or liabilities may be designated by management on initial recognition as at FVPL when any of the following criteria are met:

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

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

Classified under financial instruments at FVPL are EDC's and First Gen's foreign currency forward contracts, call spread swaps, and financial assets at FVPL as of December 31, 2017 and 2016 (see Notes 8, 24 and 25). Changes in fair value are recognized in the profit or loss unless it qualifies under hedge accounting.

HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which First Gen Group's management has the positive intention and ability to hold to maturity. Where First Gen Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The effects of restatement on foreign currency-denominated HTM investments are also recognized in the consolidated statement of income.

First Gen Group has no HTM investments as of December 31, 2017 and 2016.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed 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 classified or designated as AFS financial assets or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. 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. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized and impaired, as well as through the amortization process.



Classified under loans and receivables are cash and cash equivalents, receivables, debt service reserve account (DSRA) and short-term investments (included under “Other current assets” account), long-term receivables and special deposits and funds (included under “Other noncurrent assets” account) as of December 31, 2017 and 2016 (see Notes 5, 6, 9, 12, 18, 24 and 25).

AFS financial assets

AFS financial assets are those non-derivative financial assets which are designated as such or do not qualify to be classified in any of the three preceding categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value, with unrealized gains and losses being recognized as other comprehensive income (losses) until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported as other comprehensive income (losses) is recognized in the consolidated statement of income. The effective yield component of AFS debt securities, as well as the impact of the restatement on foreign currency-denominated AFS debt securities, is reported in earnings. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. First Gen Group uses the specific identification method in determining the cost of securities sold. Unquoted equity securities and investment in proprietary club membership shares are carried at cost, net of impairment (if any).

Classified under AFS financial assets are quoted and unquoted investments in government debt securities, corporate bonds, proprietary club membership, and equity securities recorded as part of “Other noncurrent assets” account as of December 31, 2017 and 2016 (see Notes 12, 24 and 25).

Loans and borrowings

Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

Loans and borrowings are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, such loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

Debt issuance costs incurred in connection with availments of long-term debt and issuances of Notes are deferred and amortized using the effective interest method over the term of the loans and Notes. Debt issuance costs are included in the measurement of the related long-term debts, and are allocated accordingly to the respective current and noncurrent portions.

Classified under loans and borrowings are accounts payable and accrued expenses, dividends payable, due to a related party, and long-term debts as of December 31, 2017 and 2016 (see Notes 13, 14, 16, 18, 24 and 25).

Derivative Financial Instruments and Hedge Accounting

First Gen Group enters into derivative and hedging transactions, primarily interest rate swaps, cross-currency swaps, and foreign currency forwards, as needed, for the sole purpose of managing the risks that are associated with First Gen Group’s borrowing activities or as required by the lenders in certain cases.



Derivative financial instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from changes in fair value on derivatives that do not qualify for hedge accounting is taken directly to the consolidated statement of income for the current year under the “Mark-to-market gain (loss) on derivatives - net” account.

For purposes of hedge accounting, derivatives can be designated either as cash flow hedges or fair value hedges depending on the type of risk exposure it hedges.

At the inception of a hedge relationship, First Gen Group formally designates and documents the hedge relationship to which First Gen Group opts 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 that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges

Cash flow hedges are hedges of the exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the consolidated statement of comprehensive income. The effective portion of the gain or loss on the hedging instrument if any, is recognized as other comprehensive income (loss) in the “Cumulative translation adjustments” account in the consolidated statement of financial position, while the ineffective portion is recognized as “Mark-to-market loss on derivatives - net” account in the consolidated statement of income.

Amounts taken to other comprehensive income (loss) are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when hedged financial income or expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to other comprehensive income (loss) are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in other comprehensive income (loss) are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income (loss) remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is recognized in the consolidated statement of income.

First Gen Group accounts for its interest rate swap agreements as cash flow hedges of the floating rate exposure of its long-term debts (see Notes 24 and 25).

EDC entered into cross currency swaps to partially hedge its exposure to foreign currency and interest rate risks on a portion of its floating rate Club Loan that is benchmarked against US London Inter-Bank Offered Rate (LIBOR). In 2014, EBWPC entered into interest rate swaps for its exposure on interest rate risks on portions of its floating rate \$150.0 million ECA and \$37.5 million Commercial Debt Facilities that is benchmarked against US LIBOR. In 2017 and 2016, EDC designated its call spread swaps as cash flow hedges for its exposure on its \$300.0 million dollar bond and \$80.0 million term loan, respectively, that are benchmarked against US LIBOR (see Notes 24 and 25).



Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

First Gen Group assesses whether embedded derivatives are required to be separated from the host contracts when First Gen Group first becomes a party to the contract. 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 are bifurcated from their host contracts, when the following conditions are met:

- (a) the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets and liabilities at FVPL;
- (b) when their economic risks and characteristics are not closely related to those of their respective host contracts; and
- (c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in the consolidated statement of income. First Gen Group has no bifurcated embedded derivatives as of December 31, 2017 and 2016.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

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

Where First Gen Group has transferred its right to receive cash flows from an asset or has entered into a “pass-through” arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of First Gen Group’s continuing involvement in the asset. 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 First Gen Group could be required to repay.

Financial liabilities

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



Impairment of Financial Assets

First Gen Group assesses at each financial reporting date whether there is objective evidence that 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 has or 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. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

For loans and receivables carried at amortized cost, First Gen Group first assesses whether an objective evidence of impairment (such as the probability of insolvency or significant financial difficulties of the debtor) exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is an objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset’s carrying value and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). If First Gen Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

The carrying value of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statement of income. If in case the receivable has proven to have no realistic prospect of future recovery, any allowance provided for such receivable is written off against the carrying value of the impaired receivable. Interest income continues to be recognized based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

AFS financial assets

For AFS financial assets, First Gen Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the investments below its cost is considered an objective evidence of impairment. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income (loss), is removed from other comprehensive income (loss) and recognized in the consolidated statement of income.



Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income (loss).

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of the “Interest income” in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases and that increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement 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 asset and settle the liability simultaneously. First Gen Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of First Gen Group and all of the counterparties.

Inventories

Inventories are carried at the lower of cost and net realizable value (NRV). The costs of fuel inventories are determined using the weighted average cost method, while the costs of spare parts and supplies are determined using the moving average method. The NRV for fuel inventories of FGP and FGPC is the fuel cost charged to Manila Electric Company (Meralco), under the respective Power Purchase Agreements (PPA) of FGP and FGPC with Meralco [see Note 26(a)], which is based on weighted average cost of actual fuel consumed. For EDC, the cost of spare parts and supplies includes the invoice amount, net of trade and cash discounts. The NRV for spare parts and supplies is the current replacement cost.

DSRA

DSRA pertains to the restricted peso and dollar-denominated interest bearing accounts opened and established by certain subsidiaries of First Gen Group in accordance with the loan agreements that will serve as a cash reserve or deposit to service the principal and/or interest payments due on the loans. DSRA is presented under “Other current assets” account in the consolidated statement of financial position.

Prepaid Expenses

Prepaid expenses (included under “Other current assets” and “Other noncurrent assets” accounts in the consolidated statement of financial position) are expenses paid in advance and recorded as asset before these are utilized. This account comprises prepaid expenses, creditable withholding tax certificates and advances to contractors. The prepaid expenses are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statement of income when incurred; creditable withholding tax certificates are deducted from income tax payable on the same year the revenue was recognized; and the advances to contractors are reclassified to the proper asset or expense accounts and deducted from the contractor’s billings as specified on the provision of the contract.

Prepaid Taxes

Prepaid taxes (included under “Other current assets” account in the consolidated statement of financial position) are carried at cost less any impairment in value. Prepaid taxes consist mainly of tax credits that can be used by First Gen Group in the future. Tax credits represent unapplied certificates for claims from input value-added tax (VAT) credits received from the Bureau of Internal Revenue (BIR) and the



Bureau of Customs (BOC). Such tax credits may be used for payment of internal revenue taxes or customs duties.

Investments in Associates

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

The following is a list of the companies on which the Parent Company has significant influence:

	Percentage of Voting Interest		
	2017	2016	2015
Buang Private Power Corporation (BPPC) ¹	37	37	37
FGen Northern Power Corp. (FGen Northern Power) ²	40	40	40
First Gen Northern Energy Corp. (FGNEC) ³	—	33	33

¹First Private Power Corporation (FPPC) has 93.25% voting and economic interest in BPPC. By virtue of the merger, FPPC transferred its assets and liabilities at their carrying values to BPPC on December 15, 2010.

²On July 7, 2015, Conal subscribed to 37,500 common stocks of FGen Northern Power at par value of ₱1.00 per share. As result of the subscription, Conal now owns 60% economic and voting interest in FGen Northern Power while the Parent Company's interest was reduced from 100% to 40%. As a result, the Parent Company lost control of FGen Northern Power but retained significant influence.

³The equity transaction between Metro Pacific Investments Corporation, Ayala Corporation and the Parent Company in March 2010 has led to the deconsolidation of FGNEC since the Parent Company's interest in FGNEC has been reduced to 33% from 100%. On December 23, 2015, the Philippine SEC approved the amendment to the Articles of Incorporation which consists of an amendment to the Fourth Article of the Articles of Incorporation shortening the term of FGNEC's existence from "fifty (50) years from and after the date of issuance of the certificate of incorporation" to "until December 31, 2016", thereby dissolving the corporation.

As of December 31, 2017 and 2016, the investments in FGen Northern Power, BPPC and FGNEC, amounted to nil. These associates are not significant to First Gen Group, thus, summarized financial information are not presented in the consolidated financial statements.

Under the equity method, such investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in First Gen Group's share in net assets of the associate. First Gen Group's share in its associates' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share in post-acquisition movements in the associates' other comprehensive income (loss) is recognized directly in the consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When First Gen Group's share in losses of an associate equals or exceeds its interest in the associate, including any other unsecured receivables, First Gen Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associates.

Unrealized intercompany profits or losses arising from the transactions with the associates are eliminated to the extent of First Gen Group's interest in the associates.

The reporting dates of the associates and First Gen Group are identical and the associates' accounting policies conform to those used by First Gen Group for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, First Gen Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.



Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation, amortization and impairment in value, if any. Land is stated at cost less any impairment in value. The initial cost of property, plant and equipment consists of the purchase price including import duties, borrowing costs (during the construction period) and other costs directly attributable to bringing the asset to its working condition and location for its intended use. Cost also includes the cost of replacing part of such property, plant and equipment when the recognition criteria are met and the estimated present value of the cost of dismantling and removing the asset and restoring the site.

Property, plant and equipment also include the estimated rehabilitation and restoration costs. Under their respective Environmental Compliance Certificate (ECCs), FGP and FGPC have legal obligations to dismantle their respective power plant assets at the end of their useful lives. FG Bukidnon, on the other hand, has contractual obligation under the lease agreement with Power Sector Assets and Liabilities Management (PSALM) to dismantle its power plant asset at the end of its useful life. EDC also has legal obligations to dismantle the steam fields and power plants located in the contract areas for which EDC is legally and constructively liable (see Notes 10 and 15).

Construction in progress represents structures under construction and is stated at cost less any impairment of value, if any. This includes costs of construction and other direct costs. Costs also include interest and financing charges on borrowed funds and the amortization of deferred financing costs on these borrowed funds incurred during the construction period. Construction in progress is not depreciated until such time that the assets are put into operational use.

The income generated wholly and necessarily as a result of the process of bringing the asset into the location and condition for its intended use (i.e., net proceeds from selling any items produced while testing whether the asset is functioning properly) is credited to the cost of asset up to the extent of cost of testing capitalized during the testing period. Any excess of net proceeds over costs is recognized in the consolidated statement of income, and not against the cost of the property, plant and equipment. When the incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are not offset against the cost of the property, plant and equipment but are recognized in the consolidated statement of income, and included in their respective classifications of income and expense.

Liquidated damages received arising from the breach of contract are deducted from the cost of the asset unless these can be directly linked to the amount of lost revenues. Liquidated damages are recognized only when receipt is virtually certain.

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

First Gen Group divided the power plant assets into significant parts. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated and amortized separately.



Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

Asset Type	Number of Years
Power plants	15-30
Buildings, improvements and other structures	5-35
Exploration, machinery and equipment	2-25
Fluid Collection and Recycling System (FCRS)	13-20
Production wells	10-40
Furniture, fixtures and office equipment	3-10
Transportation equipment	5-10
Leasehold improvements	5 or lease term with no renewal option, whichever is shorter

The useful lives and depreciation and amortization method are reviewed at each financial reporting date to ensure that the years and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Depreciation of an item of property, plant and equipment begins when it becomes available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5 and the date the asset is derecognized. Leasehold improvements are amortized over the lease term or the economic life of the related asset, whichever is shorter.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the assets (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

Prepaid Major Spare Parts

Prepaid major spare parts (included in the “Other noncurrent assets” account in the consolidated statement of financial position) are stated at cost less any impairment in value. Prepaid major spare parts pertain to the advance payments made to Siemens Power Operations, Inc. (SPOI) for the major spare parts that will be replaced during the scheduled maintenance outage.

Intangible Assets

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

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized using the straight-line method over the estimated useful economic life, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization shall begin when the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortization period and method for an intangible asset with a finite useful life are reviewed at least each financial



reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the said intangible asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, either individually or at the cash generating unit (CGU) level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made prospectively.

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

Water Rights

The cost of water rights of FG Hydro is measured on initial recognition at cost. Following initial recognition of the water rights, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses, if any. Water rights are amortized using the straight-line method over 25 years, which is the term of the agreement with the National Irrigation Administration (NIA).

Pipeline Rights

Pipeline rights represent the construction cost of the natural gas pipeline facility connecting the natural gas supplier's refinery to FGP's power plant including incidental transfer costs incurred in connection with the transfer of ownership of the pipeline facility to the natural gas supplier. The cost of pipeline rights is amortized using the straight-line method over 22 years, which is the term of the Gas Sale and Purchase Agreement (GSPA).

Rights to Use Transmission Line

Rights to use transmission line pertain to the substation improvements donated to the National Transmission Corporation (TransCo) pursuant to the Substation Interconnection Agreement (SIA) dated September 2, 1997 entered into among FGPC, National Power Corporation (NPC) and Meralco. The transferred substation improvements were accounted for as intangible assets since FGPC still maintains the right to use these assets under the provisions of the PPA with Meralco and the SIA. The cost of rights to use transmission line is amortized using the straight-line method over the remaining life of related power plant assets.

Computer Software and Licenses

The costs of acquisition of computer software and licenses are capitalized as intangible asset if such costs are not integral part of the related hardware.

These intangible assets are initially measured at cost. Subsequently, these are measured at cost less accumulated amortization and allowance for impairment losses, if any. Amortization of computer software is computed using the straight-line method of over 5 years.

Exploration and Evaluation Assets

EDC follows the full cost method of accounting for its exploration costs determined on the basis of each service contract area. Under this method, all exploration costs relating to each service contract are accumulated and deferred in "Exploration and evaluation assets" under "Other noncurrent assets account" in the consolidated statement of financial position pending the determination of whether the



wells have proved reserves. Capitalized expenditures include costs of license acquisition, technical services and studies, exploration drilling and testing, and appropriate technical and administrative expenses. General overhead or costs incurred prior to having obtained the legal rights to explore an area are recognized as expense in the consolidated statement of income when incurred.

If tests conducted on the drilled exploratory wells reveal that these wells cannot produce proved reserves, the capitalized costs are charged to expense except when management decides to use the unproductive wells, for recycling or waste disposal. Once the technical feasibility and commercial viability of the project to produce proved reserves are established, the exploration and evaluation assets are reclassified to “Property, plant and equipment” account.

Exploration and evaluation assets also include the estimated rehabilitation and restoration costs of EDC that are incurred as a consequence of having undertaken the exploration for and evaluation of geothermal resources.

Impairment of Non-financial Assets

Property, plant and equipment, water rights, pipeline rights, rights to use transmission line, input VAT claims for refund/tax credits, prepaid major spare parts, and prepaid expenses

At each financial reporting date, First Gen Group assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists, First Gen Group makes a formal estimate of an asset’s recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset (or CGU). An impairment loss is recognized in the consolidated statement of income in the year in which it arises.

An assessment is made at each financial 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, First Gen Group estimates the asset’s or CGU’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. In such instance, the carrying amount of the asset is increased to its recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

Exploration and Evaluation Assets

Exploration and evaluation assets are tested for impairment when facts and circumstances suggest that the carrying amount of the exploration and evaluation asset may exceed its recoverable amount (see Note 3).

When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, First Gen Group makes a formal estimate of an asset’s recoverable amount. The recoverable amount is the higher of exploration and evaluation asset’s fair value less costs to sell and its value in use. Recoverable amount is determined for an individual exploration and evaluation asset, unless the exploration and evaluation asset does not generate cash inflows that are largely independent from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which



it belongs. Where the carrying amount of an exploration and evaluation asset (or CGU) exceeds its recoverable amount, the exploration and evaluation asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset (or CGU). An impairment loss is recognized in the consolidated statement of income in the year in which it arises.

Goodwill

Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the cash-generating unit (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the consolidated statement of income. Impairment loss relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future years. First Gen Group performs its annual impairment test of goodwill as at December 31 for Red Vulcan, FGHC, FG Hydro, and EDC HKL, and September 30 for GCGI or more frequently; if events or changes in circumstances indicate that the carrying value may be impaired.

Investments in associates

First Gen Group determines whether it is necessary to recognize an impairment loss on its investments in associates. First Gen Group determines at each financial reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case, First Gen Group calculates the amount of impairment as being the difference between the recoverable value of the associate and the carrying amount of investment and recognizes the amount of impairment loss in the consolidated statement of income.

Current versus Non-current Classification

First Gen Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.



All other liabilities are classified as non-current.

Deferred income tax assets and liabilities and net retirement assets and liabilities are classified as non-current assets and liabilities.

Provisions

Provisions are recognized when First Gen Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made as to the amount of the obligation. Where First Gen Group expects some or all of the provision will be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is recognized in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to passage of time is recognized under the "Interest expense and financing charges" account in the consolidated statement of income.

FGP, FGPC and FG Bukidnon recognized provisions arising from legal and/or constructive obligations associated with the cost of dismantling and removing an item of property, plant and equipment and restoring the site on which it is located. EDC likewise records the present value of estimated costs of legal and constructive obligation required to restore the sites upon termination of the cooperation period in accordance with its Geothermal Renewable Energy Service Contract (GRESs). The nature of these activities includes plugging of drilled wells and restoration of pads and road networks. Similarly, under the Wind Energy Service Contract (WESC), EBWPC is responsible for the removal and the disposal of all materials, equipment and facilities installed in the contract area used for the wind energy project. In determining the amount of provisions for rehabilitation and restoration costs, assumptions and estimates are required in relation to the expected cost to rehabilitate and restore sites and infrastructure when such obligation exists. When the liability is initially recognized, the present value of the estimated costs is capitalized as part of the carrying amount of the related "FCRS and production wells" and "Power Plants" under "Property, plant and equipment", and "Exploration and evaluation assets" accounts in the consolidated statement of financial position.

The obligation of FGP, FGPC and FG Bukidnon occurs either when the asset is acquired or as a consequence of using the asset for the purpose of generating electricity during a particular year. A corresponding asset is recognized as part of "Property, plant and equipment" account. Dismantling costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the dismantling liability. The unwinding of the discount and the amount of provision for rehabilitation and restoration costs are expensed as incurred and recognized as an accretion under the "Interest expense and financing charges" account in the consolidated statement of income. The estimated future costs of dismantling are reviewed annually and adjusted, as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Contingencies

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



Retirement and other post-employment benefits

The Parent Company and certain of its subsidiaries have distinct, funded, non-contributory, defined benefit retirement plans. The retirement plans of the companies cover all permanent employees, each administered by their respective retirement committees. EDC also maintains a funded, non-contributory defined benefit retirement plan, and it also provides post-employment medical and life insurance benefits which are unfunded.

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

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

Defined benefit costs comprise the following:

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

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

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

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

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

First Gen Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.



Share-based Payment Transactions

Awards granted under the employee stock option plan, if any, are accounted for as equity-settled transactions. The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date it is granted.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense recognized for equity-settled transactions at each financial reporting date until the vesting date reflects the extent to which the vesting period has expired, as well as the best estimate of the number of equity instruments that will ultimately vest. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognized for any modification which increases the total fair value of the share-based payment transaction or which is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of the Company or the employees are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were modifications of the original award.

The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of earnings per share attributable to the equity holders of the Parent Company (see Note 23).

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at financial reporting date.

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences, and carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise 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 income nor taxable income.



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

Deferred income tax assets and liabilities are measured at the income tax rates that are applicable to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at financial reporting date.

Deferred income tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries and associates.

Current and deferred income tax relating to items recognized directly in equity is also recognized in the consolidated statement of changes in equity and not in the consolidated statement of income. Deferred income tax relating to items recognized directly in other comprehensive income is recognized in consolidated statement of comprehensive income.

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

Value-added tax (VAT)

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

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

The net amount of VAT recoverable from the taxation authority is recorded as “Input VAT” under “Other current assets” and “Other noncurrent assets” accounts in the consolidated statement of financial position. It is carried at cost less any impairment allowance.

Subject to approval of the taxation authority, input VAT can be claimed for refund or as tax credit for payment of certain types of taxes due by certain companies within First Gen Group. Input VAT claims granted by the taxation authority are separately presented as “Tax Credit Certificates” under the “Other noncurrent assets” account in the consolidated statement of financial position.

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 inception of the lease only if one of the following applies:

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



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

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. In cases where First Gen Group acts as a lessee, operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term.

Capital Stock, Stock Rights and Additional Paid-in Capital

Capital stock is measured at par value and is classified as equity for all stocks issued. When First Gen Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of stocks issued. A preferred stock is an equity instrument that is usually preferred as to claims on the entity's assets, earnings, or both. A common stock is an equity instrument that is subordinate to all other classes of equity instruments.

Stock rights that are given pro-rata to all of the existing owners of the same class of First Gen's non-derivative equity instruments in order to acquire a fixed number of its own equity instruments for a fixed amount in any currency are classified as equity instrument.

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

Direct costs incurred related to the issuance of new capital stock, such as underwriting, accounting and legal fees, printing costs and taxes are shown in equity as deduction, net of tax, from the proceeds.

Common Stocks in Employee Trust Account

This account pertains to EDC's common stocks held in the employee trust account. This consist of common stocks irrevocably assigned to the Banco de Oro Trust and Investment Group (BDO Trust) account that are recognized at the amount at which such common stocks were reacquired by EDC for the purpose of its executive/employee stock grant or such similar plans, and proportionately reduced upon vesting of the benefit to the executive/employee grantee of the related number of common stocks. This account is shown as part of "Non-controlling Interests" in the equity section of the consolidated statement of financial position.

Treasury Stocks

Acquired treasury stocks are accounted for at weighted average cost and shown as a deduction in the equity section of the consolidated statement of financial position. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issuance or cancellation of the Parent Company's own equity instruments. Upon reissuance of treasury stocks, the "Cost of common and preferred stocks held in treasury" account is credited at cost. The excess of proceeds from reissuance over the cost of treasury stocks is credited to the "Additional paid-in capital" account. However, if the cost of treasury stocks exceeds the proceeds from reissuance, such excess is debited to the "Additional paid-in capital" account but only to the extent of previously set-up additional paid-in capital for the same class of stock. Otherwise, this is debited against the "Retained earnings" account.

Own equity instruments which are held by subsidiaries are treated similar to treasury stocks and recognized and deducted from equity at cost in the consolidated financial statements. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the



Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

Retained Earnings

The amount included in retained earnings includes profit or loss attributable to First Gen Group's equity holders and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are declared by the Parent Company's BOD. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date. The remeasurement gains and losses on retirement benefits are also included in the amount of retained earnings.

Retained earnings may also include the effect of changes in accounting policies as may be required by the standards' transitional provisions.

Dividends on Preferred and Common Stocks

First Gen Group may pay dividends in cash or by the issuance of shares of stock. Cash and property dividends are subject to the approval of the BOD, while stock dividends are subject to approval by the BOD, at least two-thirds of the outstanding capital stock of the shareholders at a shareholders' meeting called for such purpose, and by the Philippine SEC. First Gen Group may declare dividends only out of its unrestricted retained earnings.

Cash and property dividends on preferred and common stocks are recognized as liability and deducted from equity when declared. Stock dividends are treated as transfers from retained earnings to additional paid-in capital.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to First Gen Group and the amount of the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, and other sales taxes or duty. First Gen Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. First Gen Group has concluded that it is acting as a principal in all its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

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

Revenue from sale of electricity

Revenue from sale of electricity (for FGP and FGPC) is based on the respective PPAs of FGP and FGPC. The PPAs qualify as leases on the basis that FGP and FGPC sell all of its output to Meralco. This agreement calls for a take-or-pay arrangement where payment is made principally on the basis of the availability of the power plant and not on actual deliveries of electricity generated. This arrangement is determined to be operating leases where a significant portion of the risks and benefits of ownership of the assets are retained by FGP and FGPC.

Revenue from sale of electricity is composed of fixed capacity fees, fixed and variable operating and maintenance fees, fuel, wheeling and pipeline charges, and supplemental fees. The portion related to the fixed capacity fees is considered as operating lease component and the same fees are recognized on a straight-line basis, based on the actual Net Dependable Capacity (NDC) tested or proven, over the terms of the respective PPAs. Variable operating and maintenance fees, fuel, wheeling and pipeline charges, and supplemental fees are recognized monthly based on the actual energy delivered.



Revenues from sale of electricity that are not covered by the long-term PPAs, particularly those that are using natural gas, geothermal, and hydroelectric energy, are consummated whenever the electricity generated by these companies is transmitted through the transmission line designated by the buyer, for a consideration. Revenues from sale of electricity using natural gas, hydroelectric, and geothermal power are based on sales price and are composed of generation fees from spot sales to the Wholesale Electricity Spot Market (WESM) and the Power Supply Agreement (PSAs) with various electric companies. Revenue from sale of electricity using wind and solar power is based on the applicable Feed-in Tariff (FIT) rate as approved by the Energy Regulatory Commission (ERC). Revenue from sale of electricity is recognized monthly based on the actual energy delivered.

Meanwhile, revenue from sale of electricity through ancillary services to the National Grid Corporation of the Philippines (NGCP) is recognized monthly based on the capacity scheduled and/or dispatched and provided. For FGES, revenue from sale of electricity is composed of generation charge from monthly energy supply with various contestable customers through Retail Supply Contract (RSC), and is recognized monthly based on the actual energy delivered. The basic energy charges for each billing period are inclusive of generation charge and retail supply charge.

Interest Income

Interest income is recognized as the interest accrues (using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset), taking into account the effective yield on the asset.

Insurance Proceeds

Proceeds from insurance claims are recognized as part of “Other income (charges)” and are recognized only when receipt is virtually certain.

Costs of Sale of Electricity

These include expenses incurred by the departments directly responsible for the generation of revenues from sale of electricity (i.e., Plant Operations, Production, Maintenance, Transmission and Dispatch, Wells Drilling and Maintenance Department) at operating project locations in the case of EDC. This account also includes the costs incurred by FGPC, FGP, FNPC, and Prime Meridian, particularly fuel cost, power plant operations and maintenance, and depreciation and amortization, which are necessary expenses incurred to generate the revenues from sale of electricity. Costs of sale of electricity are expensed when incurred.

Expense Recognition

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

General and Administrative Expenses

General and administrative expenses constitute cost of administering the business and normally include the expenses incurred by the departments in the Head Office (i.e., Management and Services, and Project Location’s Administrative Services Department). General and administrative expenses are expensed when incurred.



Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of qualifying assets until such time that the assets are substantially ready for their intended use or sale, which necessarily takes a substantial period of time. Income earned on temporary investment of specific borrowings, pending the expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization. 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 include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance the project to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed in the year they occur and are recognized in the consolidated statement of income in the period in which they are incurred.

Foreign Currency Translations

The consolidated financial statements are presented in U.S. dollar, which is the Parent Company's functional and presentation currency. Each entity in First Gen Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded using the weighted average functional currency rate prevailing at transaction date. Monetary assets and liabilities denominated in foreign currencies are restated using the functional currency rate of exchange at financial reporting date. All differences are taken to the consolidated statement of income. Nonmonetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the weighted average exchange rates as at the date when the fair value was determined. Foreign exchange differences between the rate at transaction date and the rate at settlement date or financial reporting date are recognized in profit or loss.

The functional currency of all the subsidiaries is the Philippine peso, except for the following:

Subsidiaries:	Functional Currency
Unified	US dollar
FGP	- do -
FGPC	- do -
FGHC	- do -
Blue Vulcan	- do -
FGRI	- do -
Gold silk	- do -
Dualcore	- do -
Onecore	- do -
FNPC*	- do -
EBWPC*/**	- do -
EDC HKL**	- do -
EDC HKIL**	- do -
EDC Chile Holdings SPA**	Chilean peso
EDC Geotermica Chile**	- do -
EDC Chile Limitada**	- do -
EDC Peru Holdings S.A.C. **	Peruvian nuevo sol
EDC Geotermica Peru S.A.C. **	- do -
EDC Peru S.A.C. **	- do -
EDC Geotermica Del Sur S.A.C. **	- do -
EDC Energía Azul S.A.C. **	- do -
Geotermica Crucero Peru S.A.C. **	- do -
EDC Energía Perú S.A.C. **	- do -

(Forward)



Subsidiaries:	Functional Currency
Geotermica Tutupaca Norte Peru S.A.C. **	Peruvian nuevo sol
EDC Energía Geotérmica S.A.C. **	- do -
EDC Progreso Geotérmico Perú S.A.C. **	- do -
Geotermica Loriscota Peru S.A.C. **	- do -
EDC Energía Renovable Perú S.A.C. **	- do -
EDC Soluciones Sostenibles Ltd**	- do -
EDC Desarrollo Sostenible Ltd**	- do -
EDC Energía Verde Chile SpA**	- do -
EDC Energía de la Tierra SpA**	- do -
EDC Energía Verde Peru SAC**	- do -
PT EDC Indonesia**	Indonesian rupiah
PT EDC Panas Bumi Indonesia**	- do -

*Changed its functional currency from Philippine Peso in prior years to U.S. Dollar in 2016

**Translated and consolidated to EDC using Philippine Peso

As at financial reporting date, the assets and liabilities of subsidiaries whose functional currency is different from the presentation currency are translated into the presentation currency of the Parent Company (the U.S. dollar) at the closing rate of exchange ruling at financial reporting date and, their statements of income are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income (loss) as part of the "Cumulative translation adjustments" account, a separate component of equity. Upon disposal of any of these subsidiaries, the deferred cumulative amount recognized in equity relating to that particular subsidiary will be recognized in the consolidated statement of income proportionate to the equity interest disposed.

Change in Functional Currency

When there is a change in an entity's functional currency, the entity should apply the translation procedures applicable to the new functional currency prospectively from the date of change. An entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for nonmonetary items are treated as their historical cost.

Exchange differences arising from the translation at the date of change are recognized as cumulative translation adjustment reported under the consolidated statement of comprehensive income and presented in the equity section of the consolidated statement of financial position. Exchange differences arising from translation of a foreign operation recognized in other comprehensive income are not reclassified from equity to the consolidated statement of income until the disposal of the foreign operation. The comparative financial statements shall be presented into the new presentation currency in accordance with the translation procedures described in PAS 21, *The Effects of Changes in Foreign Exchange Rates*, as follows:

- all assets and liabilities at the exchange rates prevailing at the reporting date;
- equity items at historical exchange rates;
- revenue and expense items at the approximate exchange rates prevailing at the time of transactions; and
- all resulting exchange differences are recognized in cumulative translation adjustment account, presented as part of the consolidated statement of comprehensive income.



In 2015, the functional currencies of both FNPC and EBWPC have been determined to be Philippine Peso.

In 2016, after the substantial completion of San Gabriel power plant and commencement of its operations, FNPC has determined that the currency which mainly influences its operating expenses and financing activities is the U.S. Dollar. For EBWPC, after the finalization of its financing schemes in 2016, it has determined that the currency that mainly influences its operating expenses and financing activities is also the U.S. Dollar.

In accordance with PAS 21, such change in functional currency was accounted for prospectively. For FNPC, balances as of August 31, 2016 were translated using the exchange rate at the date of change and the resulting translated amounts for nonmonetary items are treated as their historical cost. The change in functional currency resulted in negative exchange difference amounting to \$6.6 million which was presented as part of the “Cumulative translation adjustments” account in the consolidated statement of financial position.

For EBWPC, balances as of January 1, 2016 were translated using the exchange rate at the date of change and the resulting translated amounts for nonmonetary items are treated as their historical cost. The change in functional currency resulted in a positive exchange difference amounting to \$8.8 million (₱417.4 million) which was presented as part of the “Cumulative translation adjustments” account in the consolidated statement of financial position.

Foreign Currency-Denominated Transactions

Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and monetary liabilities denominated in foreign currencies are translated using the functional currency rate of exchange as at financial reporting date. All differences are taken to profit or loss as part of “Foreign exchange gains (losses) - net” account in the consolidated statement of income. Nonmonetary items that are measured at historical cost in a foreign currency are translated using the exchange rate as at the date of the transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Earnings Per Share (EPS) Attributable to the Equity Holders of the Parent

Basic EPS is computed by dividing net income (less cumulative preferred dividends, if any, whether declared or not) for the year attributable to common shareholders by the weighted average number of common stocks outstanding during the year, with retroactive adjustments for any stock dividends declared and stock split.

Diluted EPS is calculated in the same manner, adjusted for the effects of stocks to be issued to executives (officers and senior managers) and employees under the Parent Company’s Executive Stock Option Plan (ESOP) and Employee Stock Purchase Plan (ESPP), respectively, which are assumed to be exercised at the date of grant.

Where the EPS effect of the stocks to be issued to executives and employees under the Parent Company’s ESOP and ESPP would be anti-dilutive, the basic and diluted EPS are stated at the same amount.



Segment Reporting

For purposes of management reporting, First Gen Group's operating businesses are organized and managed separately on a per company basis, with each company representing a strategic business segment. First Gen's identified operating segments, which are consistent with the segments reported to the BOD which is First Gen's Chief Operating Decision Maker (CODM). Financial information on the operating segment is presented in Note 4.

Events After the Financial Reporting Date

Any event after the financial reporting date that provides additional information about First Gen Group's position at financial reporting date (adjusting event) is reflected in the consolidated financial statements. Events after financial reporting date that are not adjusting events, if any, are disclosed, in the notes to consolidated financial statements, when material.

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, First Gen Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. First Gen Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

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

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

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

First Gen Group is currently assessing the potential effect of the amendments on its consolidated financial statements.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. First Gen Group plans to adopt the new standard on the mandatory effective date and will not restate comparative information.



First Gen Group is currently assessing the potential impact of adopting PFRS 9 in 2018.

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

First Gen Group is currently assessing the potential impact of PFRS 15 in 2018.

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

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

The amendments are not applicable to First Gen Group since First Gen Group has no investment entity associate or joint venture.



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

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

The amendments do not have impact on First Gen Group as First Gen Group does not have investment properties.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Since First Gen Group's current practice is in line with the clarifications issued, First Gen Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Effective beginning on or after January 1, 2019

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

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

The amendments are not applicable to First Gen Group since First Gen Group does not have any debt instruments with negative compensation prepayment features.



- PFRS 16, *Leases*

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

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

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

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

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. First Gen Group is currently assessing the impact of adopting PFRS 16.

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

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

First Gen Group is currently assessing the impact of the amendments of the standard.

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

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

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities



- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

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

First Gen Group is currently assessing the impact of adopting this interpretation.

Deferred effectivity

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

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

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

3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in accordance with PFRSs require First Gen Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. However, future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

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.

In the process of applying First Gen Group's accounting policies, management has made the following judgments and estimates which have the most significant effect on the amounts recognized in the consolidated financial statements:

Judgments

a. Determination of functional currency

Each entity within First Gen Group determines its own functional currency. The respective functional currency of each entity is the currency of the primary economic environment in which



each entity operates. It is the currency that mainly influences the sale of services and the costs of providing services.

The presentation currency of First Gen Group is the U.S. dollar, which is the Parent Company's functional currency. The functional currency of each of the subsidiaries, as disclosed in Note 2 to the consolidated financial statements, is determined based on the economic substance of the underlying circumstances relevant to each subsidiary.

b. *Determination of control over an Investee Company*

Control is presumed to exist when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Parent Company has established that it has the ability to control its subsidiaries by virtue of either 100% or majority voting interest in the investee companies.

Parent Company's control over EDC

The Parent Company has indirect 40.0% economic interest in EDC through Prime Terracotta and Red Vulcan. Prior to September 30, 2017, the Parent Company also directly and indirectly owned 1.98 billion common stocks in EDC, of which 986.34 million common stocks were held through its wholly-owned subsidiary, Northern Terracotta. The 1.98 billion common stocks were equivalent to a 10.6% economic interest in EDC. Following the successful tender offer conducted by PREHC, which was settled on September 29, 2017, to acquire up to 47.5% of EDC's common stocks, the Parent Company and Northern Terracotta participated and sold 9.0% of their combined 10.6% economic stake in EDC.

After the tender offer, the Parent Company's total economic stake in EDC is 41.6%, of which 40.0% is held through Red Vulcan while the remaining 1.6% is held directly through the Parent Company and Northern Terracotta. Moreover, the Parent Company holds a 61.1% voting interest in EDC post the tender offer, of which 60.0% is held through Red Vulcan. The Parent Company will continue to control and consolidate EDC given its controlling voting stake in EDC.

c. *Determination of whether non-controlling interest is material for purposes of PFRS 12*

PFRS 12 requires an entity to disclose certain information, including summarized financial information, for each of its subsidiaries that have non-controlling interests that are material to the reporting entity. The Parent Company has determined that the NCI in EDC and subsidiaries is material for purposes of providing the required disclosures under PFRS 12. EDC is one of the reportable segments of the Parent Company with significant assets and liabilities relative to the Parent Company's consolidated total assets and consolidated total liabilities. Also, dividends attributable to the NCI are considered significant relative to the total dividends declared by the Parent Company in the current and prior years (see Note 16).

d. *Operating leases*

The respective PPAs of FGP and FGPC qualify as leases on the basis that FGP and FGPC sell all of their output to Meralco and these agreements call for a take-or-pay arrangement where payment is made principally on the basis of the availability of the power plants and not on actual deliveries of electricity generated. These arrangements are determined to be operating leases where a



significant portion of the risks and benefits of ownership of the assets are retained by FGP and FGPC. Accordingly, the power plant assets are recorded as part of the cost of property, plant and equipment and the fixed capacity fees billed to Meralco are recorded as operating revenue on a straight-line basis over the applicable terms of the PPAs (see Note 26).

For EDC, its PPAs and Steam Sales Agreements (SSAs) qualify as a lease on the basis that EDC sells significant amount of its output to NPC/PSALM and, in the case of the SSAs, the agreement calls for a take-or-pay arrangement where payment is made principally on the basis of the availability of the steam field facilities and not on actual steam deliveries. This type of arrangement is determined to be an operating lease where a significant portion of the risks and rewards of ownership of the assets are retained by EDC since it does not include transfer of EDC's assets. Accordingly, the steam field facilities and power plant assets are recorded as part of the cost of property, plant and equipment, and the capacity fees billed to NPC/PSALM are recorded as operating revenue based on the terms of the PPAs and SSAs.

In connection with the installation of Burgos Wind Project's wind turbines and related dedicated point-to-point limited facilities, EDC entered into uniform land lease agreements and contracts of easement of right of way, respectively, with various private landowners. The term of the land lease agreement starts from the execution date of the contract and ends after 25 years from the commercial operations of the Burgos Wind Project. The contract of easement of right of way on the other hand, creates a perpetual easement over the subject property. Both the land lease agreement and contract of easement of right of way were classified as operating leases. All payments made in connection with the agreements are included as part of "Prepaid expense". Prepaid lease will be amortized on a straight-line basis over the lease term, whereas prepaid rights of way will be amortized on a straight-line basis over the term of the WESC, including the extension based on management's judgment of probability of extension. Amortizations of both the prepaid lease and prepaid rights of way during the construction period were capitalized to "Construction in Progress" account, and expensed after the Burgos Wind Project became available for use.

First Gen Group has also entered into commercial property leases where it has determined that the lessor retains all the significant risks and rewards of ownership of these properties and has classified the leases as operating leases (see Note 26).

e. *Classification of financial instruments*

First Gen Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position (see Note 25).

In addition, financial assets are classified by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions in an arm's length basis.



f. *Applicability of IFRIC 12, Service Concession Arrangements on the GRESCs, WESCs and Solar Energy Service Contract (SESCs)*

An arrangement would fall under IFRIC 12 if the two (2) conditions below are met:

- a) the grantor controls or regulates the services that the operator must provide using the infrastructure, to whom it must provide them, and at what price; and
- b.) the grantor controls any significant residual interest in the property at the end of the concession term through ownership, beneficial entitlement or otherwise.

Based on management's judgment, the GRESCs, WESCs, and SESC entered into by EDC are outside the scope of IFRIC 12 since EDC controls the significant residual interest in the properties (i.e., the estimated useful lives of the assets exceed the service concession periods) at the end of the concession term through ownership.

g. *Deferred revenue on stored energy*

Under EDC's addendum agreements with NPC, EDC has a commitment to NPC with respect to certain volume of stored energy that NPC may lift for a specified period, provided that EDC is able to generate such energy over and above the nominated energy for each given year in accordance with the related PPAs. EDC has made a judgment based on historical information that future liftings by NPC from the stored energy is not probable and accordingly, has not deferred any portion of the collected revenues. The stored energy commitments are, however, disclosed in Note 26 (b) to the consolidated financial statements.

h. *Impairment of AFS Investments*

First Gen Group classifies certain financial assets as AFS investments and recognizes movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in the consolidated statement of income.

A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also being considered by First Gen Group as an objective evidence of impairment. The determination of what is "significant" and "prolonged" requires judgment. First Gen Group generally considers "significant" as decline of 20% or more below the original cost of the investment, and "prolonged" as greater than twelve (12) months assessed against the period in which the fair value has been below its original cost. First Gen Group further evaluates other factors, such as volatility in share price for quoted equities and the discounted cash flows for unquoted equities in determining the amount to be impaired.

In the case of debt instruments classified as AFS, First Gen 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 First Gen Group determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continue to be, recognized are not included in a collective assessment of impairment.



The amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in consolidated statement of income.

No impairment loss on AFS financial assets was recognized in 2017, 2016 and 2015. The aggregate carrying amounts of current and noncurrent AFS financial assets are carried at \$10.9 million and \$10.3 million as of December 31, 2017 and 2016, respectively (see Note 12).

Estimates

a. *Recoverability of goodwill*

As of December 31, 2017 and 2016, goodwill is allocated to the following CGUs:

Entity	Cash-generating Unit	2017	2016
Red Vulcan	EDC and Subsidiaries	\$905,610	\$909,436
GCGI	Palinpinon and Tongonan power plant complex	44,898	45,087
FGHC	Santa Rita power plant complex	9,086	9,086
FG Hydro	Pantabangan/Masiway hydroelectric power plants	5,875	5,899
EDC HKL	Hot Rock entities	2,549	2,549
Total		\$968,018	\$972,057

Goodwill is tested for recoverability annually as at December 31 for Red Vulcan, FGHC, FG Hydro, and EDC HKL, and September 30 for GCGI or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

This requires an estimation of the value-in-use of the CGUs to which goodwill is allocated. Estimating value-in-use requires First Gen Group to estimate the expected future cash flows from the CGUs and discounts such cash flows using weighted average cost of capital to calculate the present value of those future cash flows.

The recoverable amounts have been determined based on value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The pre-tax discount rates applied in cash flow projections and the growth rates used to extrapolate the cash flows beyond the remaining term of the existing agreements for the years ended December 31, 2017 and 2016 are summarized as follows:

Entity	2017		2016	
	Pre-tax discount rates	Growth rates	Pre-tax discount rates	Growth rates
Red Vulcan	8.5%	2.9%	8.5%	3.2%
GCGI/EDC HKL	8.1%	4.0%	9.0%	4.0%
FGHC	4.5%	2.1%	9.2%	1.9%
FG Hydro	6.3%	3.6%	8.6%	2.9%



Key assumptions with respect to the calculation of value-in-use of the CGUs as of December 31, 2017 and 2016 on which management had based its cash flow projections to undertake impairment testing of goodwill are discussed below.

- **Budgeted Gross Margins**
The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements.
- **Discount Rates**
Discount rates reflect the current market assessment of the risk specific to each CGU. The discount rate is based on the average percentage of the company's weighted average cost of capital. This rate is further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted.
- **Growth Rate**
Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at the terminal value of each CGU.

No impairment loss on goodwill was recognized in the consolidated statement of income in 2017, 2016 and 2015. The carrying values of goodwill as of December 31, 2017 and 2016 amounted to \$968.0 million and \$972.1 million, respectively (see Note 11).

b. *Recoverability of exploration and evaluation assets*

Exploration and evaluation costs are recognized as assets in accordance with PFRS 6, *Exploration for and Evaluation of Mineral Resources*. Capitalization of these costs is based, to a certain extent, on management's judgment of the degree to which the expenditure may be associated with finding specific geothermal reserve.

The application of First Gen Group's accounting policy for exploration and evaluation assets requires judgment and estimates in determining whether it is likely that the future economic benefits are certain, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after the exploration and evaluation assets are capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written-off in the consolidated statement of income in the period when the new information becomes available.

First Gen Group reviews the carrying values of its exploration and evaluation assets whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. An impairment loss is recognized when the carrying values of these assets are not recoverable and exceeds their fair value.

The factors that First Gen Group considers important which could trigger an impairment review of exploration and evaluation assets include the following:

- the period for which First Gen Group 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 geothermal reserve in the specific area is neither budgeted nor planned;



- exploration for and evaluation of geothermal reserve in the specific area have not led to the discovery of commercially viable geothermal reserve and First Gen Group decided to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

First Gen Group determines impairment of projects based on the technical assessment of its resident scientists in various disciplines or based on management's decision not to pursue any further commercial development of its exploration projects.

In 2017, the exploration and evaluation costs incurred for Mt. Ampiro, Lakewood and certain foreign projects totaling to \$0.8 million were assessed by EDC to be no longer recoverable. Accordingly, the book values of these exploration and evaluation assets were directly written-off. Also, in 2015, the evaluation and exploration costs incurred for Mt. Labo and Mainit totaling to \$0.3 million, were directly written off. The write-off recognized in 2015 is equivalent to the book values of the related exploration and evaluation assets. No similar write-off was recognized in 2016. As of December 31, 2017 and 2016, the carrying amount of exploration and evaluation assets amounted to \$61.4 million and \$62.5 million, respectively (see Notes 12 and 26).

c. *Impairment losses on receivables*

First Gen Group reviews its receivables at each financial reporting date to assess whether an allowance for impairment should be recognized in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowance.

First Gen Group maintains an allowance for impairment losses at a level that management considers adequate to provide for potential uncollectability of its trade and other receivables and certain advances. First Gen Group evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, First Gen Group uses judgment, based on available facts and circumstances, and on a review of the factors that affect the collectability of the accounts including, but not limited to, the age and status of the receivables, collection experience, past loss experience. The review is made by management on a continuing basis to identify accounts to be provided with allowance.

In addition to specific allowance against individually significant receivables, First Gen Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. Collective assessment of impairment is made on a portfolio or group basis after performing a regular review of age and status of the portfolio or group of accounts relative to historical collections, changes in payment terms, and other factors that may affect ability to collect payments.



The total amount of provision for impairment losses recognized for the years ended December 31, 2017, 2016 and 2015 amounted to \$1.5 million, \$0.4 million, and \$0.8 million, respectively. The aggregate carrying amounts of the current and noncurrent receivables are carried at \$359.5 million and \$345.1 million as of December 31, 2017 and 2016, respectively (see Notes 6, 12 and 19).

d. *Estimating NRV of inventories*

First Gen Group measures inventories at NRV when such value is lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The carrying amounts of inventories as of December 31, 2017 and 2016 amounted to \$93.5 million and \$118.2 million, respectively (see Note 7). Provision for inventory obsolescence pertaining to spare parts and supplies amounted to \$1.4 million, \$1.2 million and \$1.6 million in 2017, 2016 and 2015, respectively (see Notes 7 and 19).

e. *Recognition of deferred income tax assets*

The carrying amounts of deferred income tax assets at each financial reporting date are reviewed and are reduced to the extent that there is no longer sufficient future taxable income available to allow all or part of the deferred income tax assets to be utilized. First Gen Group's assessment on the recognition of deferred income tax assets on deductible temporary differences, and the carryforward benefits of MCIT and NOLCO is based on the forecasted taxable income of the future years. This forecast is based on First Gen Group's past results and future expectations on revenue and expenses.

As of December 31, 2017 and 2016, the amount of deferred income tax assets recognized in the consolidated statements of financial position amounted to \$53.0 million and \$59.3 million, respectively. First Gen Group also has deductible temporary differences, carryforward benefits of unused NOLCO and excess MCIT totaling \$215.2 million and \$226.2 million as of December 31, 2017 and 2016, respectively, for which no deferred income tax asset was recognized (see Note 22).

f. *Retirement and other post-employment benefits*

The cost of defined benefit retirement plans and other post-employment medical and life insurance benefits (in the case of EDC) are determined using the projected unit credit method of actuarial valuation. An actuarial valuation involves making assumptions. These include the determination of the discount rates, future salary increases and medical trend rates, future salary increases, mortality and disability rates and employee turnover rates. While the assumptions are reasonable and appropriate, significant differences in First Gen Group's actual experience or significant changes in the assumptions may materially affect the retirement benefit obligation. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at financial reporting date. The details of assumptions used in the calculation of First Gen Group's retirement benefits are presented in Note 21 to the consolidated financial statements.



As of December 31, 2017 and 2016, the net retirement and other post-employment benefits liabilities of First Gen Group amounted to \$20.5 million and \$26.3 million, respectively. The net retirement and other post-employment benefits assets of First Gen Group amounted to \$1.0 million and \$2.6 million as of December 31, 2017 and 2016, respectively. Net retirement benefit expense amounted to \$7.4 million, \$0.5 million and \$9.5 million in 2017, 2016 and 2015, respectively (see Note 21).

g. *Impairment of non-financial assets other than goodwill*

Property, plant and equipment, water rights, pipeline rights, rights to use transmission line, input VAT claims for refund/tax credits, prepaid major spare parts, and prepaid expenses

First Gen Group assesses impairment on these non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that First Gen Group considers important which could trigger an impairment review include the following:

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

First Gen Group assesses whether there are any indicators of impairment for all non-financial assets at each financial reporting date. First Gen Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amount is estimated for an individual asset or, if it is not possible, for the cash-generating unit to which the asset belongs. In the case of input VAT, where the collection of tax claims is uncertain, First Gen Group provides an allowance for impairment of input VAT based on the assessment of management and First Gen Group's legal counsel.

EDC recorded a provision for impairment of input VAT amounting to \$2.0 million, \$1.1 million and \$1.4 million in 2017, 2016 and 2015, respectively. The carrying amounts of EDC's input VAT amounted to \$79.9 million and \$82.3 million as of December 31, 2017 and 2016, respectively (see Notes 12 and 19).

Loss on direct write-off of input VAT claims amounted to \$1.9 million, \$1.2 million and \$2.9 million in 2017, 2016 and 2015, respectively. The amount of loss on direct write-off of input VAT claims is included under "Others" account in the consolidated statements of income (see Notes 12 and 19).

The aggregate carrying values of the non-financial assets amounted to \$3,008.1 million and \$3,027.8 million as of December 31, 2017 and 2016, respectively (see Notes 9, 10, 11 and 12).



h. *Estimation of useful lives of property, plant and equipment (except land and construction in progress), concession rights on acquired contracts, water rights, pipeline rights, rights to use transmission line, and other intangible assets*

First Gen Group estimated the useful lives of property, plant and equipment, concession rights on acquired contracts, water rights, pipeline rights, and rights to use transmission line based on the years over which the assets are expected to be available for use and on the collective assessment of industry practices, internal technical evaluation and experience with similar assets. The estimated useful lives of property, plant and equipment, concession rights on acquired contracts, water rights, pipeline rights, and rights to use transmission line are reviewed at each financial reporting date and updated, if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits in the use of these assets. However, it is possible that future financial performance could be materially affected by changes in the estimates brought about by changes in the factors mentioned above. The amounts and timing of recording the depreciation and amortization of property, plant and equipment, concession rights on acquired contracts, water rights, pipeline rights, and rights to use transmission line for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment, concession rights on acquired contracts, water rights, pipeline rights, and rights to use transmission line would increase the recorded depreciation and amortization and decrease the noncurrent assets.

In June 2015, a reassessment was made by the management which resulted to a change in the estimated useful life of the Burgos Wind Power Plant from 20 years to 25 years. There were no other changes in the estimated useful lives of property, plant and equipment, concession rights on acquired contracts, water rights, pipeline rights, and rights to use transmission line in 2017 and 2016 (see Note 10).

The carrying values of property, plant and equipment (excluding land and construction in progress) as of December 31, 2017 and 2016 amounted to \$2,513.4 million and \$2,412.4 million, respectively (see Note 10). The aggregate carrying values of concession rights on acquired contracts, water rights, pipeline rights, rights to use transmission line, and other intangible assets as of December 31, 2017 and 2016 amounted to \$68.4 million and \$83.5 million, respectively (see Note 11).

i. *Estimation of asset retirement obligations*

Under their respective ECCs issued by the Department of Environmental and Natural Resources (DENR), FGP and FGPC have legal obligations to dismantle their power plant assets at the end of their useful lives. FG Bukidnon, on the other hand, has a contractual obligation under the lease agreement with PSALM to dismantle its power plant assets at the end of the useful lives. The asset retirement obligations recognized represent the best estimate of the expenditures required to dismantle the power plants at the end of their useful lives. Such cost estimates are discounted using a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability. Each year, the asset retirement obligations are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized under the "Interest expense and financing charges" account in the consolidated statement of income. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligations in future years.



In 2009, with the conversion of its Geothermal Service Contracts (GSCs) to GRESCs, EDC has made a judgment that the GRESCs are subject to the provision for restoration costs. Similarly, under the WESC, EBWPC has made a judgment that it is responsible for the removal and the disposal of all materials, equipment and facilities installed in the contract area used for the wind energy project. In determining the amount of provisions for rehabilitation and restoration costs, assumptions and estimates are required in relation to the expected cost to rehabilitate and restore sites and infrastructure when such obligation exists (see Note 26).

In 2017 and 2016, First Gen Group adjusted its asset retirement obligation amounting to \$1.8 million and \$2.0 million, respectively. The revision in estimate was attributable to changes in discount rates (see Notes 10 and 15).

Asset retirement obligations amounted to \$22.2 million and \$23.1 million as of December 31, 2017 and 2016, respectively (see Note 15).

j. *Fair values of financial instruments*

First Gen Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates), the amount of changes in fair value would differ if First Gen Group utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect the consolidated statement of income and the consolidated statement of changes in equity (see Note 25).

Where the fair values of certain financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. Judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

The fair values of First Gen Group's financial instruments are presented in Note 25 to the consolidated financial statements.

k. *Legal contingencies and regulatory assessments*

First Gen Group is involved in various legal proceedings and regulatory assessments as discussed in Note 26 to the consolidated financial statements. First Gen Group's estimate of probable costs for the assessments and resolution of these claims and cases have been developed in consultation with in-house and external counsels handling the defense in these claims and cases and is based upon thorough analysis of potential results.

First Gen Group, in consultation with its in-house and external legal counsels, believe that its positions on these assessments are consistent with the relevant laws, and these assessments would not have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or the effectiveness of management's strategies relating to these proceedings.

As of December 31, 2017 and 2016, provisions for these liabilities amounting to \$12.6 million and \$11.8 million, respectively, are recorded as "Others" in the "Other noncurrent liabilities" account (see Note 15). Interest on liability from litigation amounted to \$0.2 million for the years ended December 31, 2017, 2016 and 2015 (see Note 20).



1. *Estimation of liability from shortfall generation*

EDC's Unified Leyte PPA with NPC requires the annual nomination of capacity that EDC shall deliver to NPC. On a monthly basis, EDC bills a uniform capacity to NPC based on the nominated energy. At the end of the contract year, EDC's fulfillment of the nominated capacity and the parties' responsibilities for any shortfall shall be determined. On the other hand, the PPAs for Mt. Apo I and II provide a minimum offtake energy which EDC shall meet each contract year. The contract year for the Unified Leyte PPA is for fiscal period ending July 25, while the contract year for the Mindanao I and II PPAs is for fiscal period ending December 25 (see Note 26). Assessment is made at every reporting date whether the nominated capacity or minimum offtake energy would be met based on management's projection of electricity generation covering the entire contract year. If the occurrence of shortfall generation is determined to be probable, the amount of estimated reimbursement to NPC is accounted for as a reduction to revenue for the period and a corresponding liability to NPC is recognized. As of December 31, 2017 and 2016, EDC's estimated liability arising from shortfall generation amounted to \$17.1 million and \$8.0 million, respectively, are shown as part of "Others" in the "Accounts payable and accrued expenses" account (see Note 13).

Moreover, the amount of estimations relating to the shortfall generation under the PPA's covering Unified Leyte may be subsequently adjusted or reported depending on the subsequent reconciliation by the Technical or Steering Committee established in accordance with the Unified Leyte PPA, in view of the parties' responsibilities in connection with the consequences of typhoons and similar events. As of March 15, 2018, the reconciliation with NPC for the contract years 2013-2014 and 2016-2017 is still on-going.

4. **Operating Segment Information**

Operating segments are components of First Gen Group that engage in business activities from which they may earn revenues and incur expenses, whose operating results are regularly reviewed by First Gen Group's CODM to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information is available. For purposes of management reporting, First Gen Group's operating businesses are organized and managed separately on a per company basis, with each company representing a strategic business segment. First Gen's identified operating segments, which are consistent with the segments reported to the BOD, which is the CODM of First Gen, are as follows:

- FGPC, which operates the 1,000 MW combined cycle, natural gas-fired Santa Rita power plant, and where the Parent Company now has a 100% equity interest;
- FGP, which operates the 500 MW combined cycle, natural gas-fired San Lorenzo power plant, and where the Parent Company now has a 100% equity interest;
- EDC and Subsidiaries, which holds service contracts with the DOE corresponding to 15 geothermal contract areas each granting EDC exclusive rights to explore, develop, and utilize the corresponding resources in the relevant contract area. EDC conducts commercial operations in four (4) out of its 15 geothermal contract areas. Likewise, EDC owns the 150 MW Burgos Wind Power Plant (Burgos Wind) and the 6.82 MW Burgos Solar Power Plant Phase 1 and Phase 2 (Burgos Solar) both situated in Burgos, Ilocos Norte. As of December 31, 2017, Burgos Wind and Burgos Solar power plants are entitled to the FIT rates. Also, in 2017, EDC has started to generate electricity from 1,030KW solar rooftop system in Iloilo through EDC Siklab. As of December 31, 2017 and 2016, the Parent Company has a 100.0% direct voting interest in Prime Terracota. As of December 31, 2017 and 2016, the Parent Company has 41.6% and 50.6% effective economic interest in EDC, respectively;



- FG Hydro, which operates the 132 MW Pantabangan-Masiway Hydroelectric Plant (PAHEP/MAHEP), and where the Parent Company has a 40% direct economic interest as of December 31, 2017 and 2016 and 65.0% and 70.0% effective economic interest as of December 31, 2017 and 2016, respectively;
- FNPC, which owns and operates the 420 MW natural gas-fired San Gabriel power plant, and where the Parent Company has a 100% equity interest. The San Gabriel power plant went into commercial operations in November 2016; and,
- Prime Meridian, which owns and operates the 97 MW Avion open-cycle natural gas-fired power plant (Avion Plant), and where the Parent Company has a 100% equity interest. The Avion plant has been in commercial operations since September 2016.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment revenue and segment expenses are measured in accordance with PFRS. The classification of segment revenue is consistent with the consolidated statement of income. Segment expenses pertain to the costs and expenses presented in the consolidated statement of income excluding interest expense and financing charges, depreciation and amortization expense and income taxes which are managed on a per company basis.

First Gen has only one geographical segment as all of its operating assets are located in the Philippines. First Gen Group operates and derives principally all of its revenue from domestic operations. Thus, geographical business information is not required.

Revenue is recognized to the extent that it is probable that economic benefits will flow to First Gen Group and that the revenue can be reliably measured. Substantially all of the segment revenues of FGP and FGPC are derived from Meralco, the sole customer of FGP and FGPC; while close to 37.8% of EDC's total revenues in 2017 are derived from existing long-term PPAs with NPC.

Financial information on the business segments are summarized as follows:

	Year Ended December 31, 2017								Total
	FGPC	FGP	FNPC	Prime Meridian	EDC and Subsidiaries*	FG Hydro	Others	Eliminating Entries**	
Segment revenue	\$612,043	\$308,160	\$98,622	\$17,525	\$627,711	\$32,668	\$43,751	(\$32,358)	\$1,708,122
Segment expenses	(432,343)	(215,514)	(77,227)	(19,078)	(274,961)	(11,103)	(59,475)	40,207	(1,049,494)
Segment results	179,700	92,646	21,395	(1,553)	352,750	21,565	(15,724)	7,849	658,628
Interest income	2,654	4,044	68	27	5,304	150	3,249	(5,364)	10,132
Interest expense and financing charges	(33,649)	(13,233)	(10,474)	–	(81,018)	(1,007)	(41,080)	5,364	(175,097)
Depreciation and amortization	(38,380)	(22,943)	(17,961)	(2,178)	(120,764)	(6,689)	(2,885)	(132)	(211,932)
Other income (charges) - net	1,746	143	(500)	34	(1,796)	334	27,831	(38,979)	(11,187)
Income (loss) before income tax	112,071	60,657	(7,472)	(3,670)	154,476	14,353	(28,609)	(31,262)	270,544
Provision for income tax	(26,485)	(15,062)	(397)	(10)	(16,752)	(2,816)	(868)	–	(62,390)
Net income (loss)	\$85,586	\$45,595	(\$7,869)	(\$3,680)	\$137,724	\$11,537	(\$29,477)	(\$31,262)	\$208,154

*Pertains to EDC and subsidiaries' consolidated statement of income, including the effect of the purchase price allocation but excluding FG Hydro.

**Pertains to intercompany transactions that were eliminated upon consolidation.



Year Ended December 31, 2016									
	FGPC	FGP	FNPC	Prime Meridian	EDC and Subsidiaries*	FG Hydro	Others	Eliminating Entries**	Total
Segment revenue	\$535,141	\$291,536	\$6,595	\$1,550	\$675,637	\$48,350	\$14,490	(\$11,815)	\$1,561,484
Segment expenses	(355,765)	(196,090)	(11,415)	(3,797)	(277,947)	(10,260)	(31,001)	20,296	(865,979)
Segment results	179,376	95,446	(4,820)	(2,247)	397,690	38,090	(16,511)	8,481	695,505
Interest income	6,374	4,417	124	22	5,705	275	2,261	(10,214)	8,964
Interest expense and financing charges	(25,840)	(13,176)	(3,303)	(1)	(92,791)	(2,441)	(39,032)	10,214	(166,370)
Depreciation and amortization	(39,398)	(22,199)	(3,451)	(1,301)	(121,075)	(9,475)	(685)	—	(197,584)
Other income (charges) - net	2,612	(513)	43,921	4,064	15,021	(178)	(14,388)	6,424	56,963
Income (loss) before income tax	123,124	63,975	32,471	537	204,550	26,271	(68,355)	14,905	397,478
Provision for income tax	(35,476)	(17,800)	(15,016)	(1)	(27,294)	(7,059)	(542)	(2,479)	(105,667)
Net income (loss)	\$87,648	\$46,175	\$17,455	\$536	\$177,256	\$19,212	(\$68,897)	\$12,426	\$291,811

*Pertains to EDC and subsidiaries' consolidated statement of income, including the effect of the purchase price allocation but excluding FG Hydro.

**Pertains to intercompany transactions that were eliminated upon consolidation.

Year Ended December 31, 2015									
	FGPC	FGP	FNPC	Prime Meridian	EDC and Subsidiaries*	FG Hydro	Others	Eliminating Entries**	Total
Segment revenue	\$715,620	\$360,868	\$—	\$—	\$716,917	\$41,598	\$9,187	(\$7,922)	\$1,836,268
Segment expenses	(539,881)	(265,479)	(2,065)	(1,624)	(339,553)	(10,811)	(30,514)	16,786	(1,173,141)
Segment results	175,739	95,389	(2,065)	(1,624)	377,364	30,787	(21,327)	8,864	663,127
Interest income	10,129	5,569	21	22	6,315	191	2,360	(14,532)	10,075
Interest expense and financing charges	(29,568)	(12,856)	(5)	(22)	(97,222)	(3,414)	(51,648)	27,436	(167,299)
Depreciation and amortization	(38,852)	(22,060)	(31)	(75)	(114,691)	(9,554)	(712)	—	(185,975)
Other income (charges) - net	1,469	8,117	(17)	248	(6,667)	(622)	(2,434)	(2,364)	(2,270)
Income (loss) before income tax	118,917	74,159	(2,097)	(1,451)	165,099	17,388	(73,761)	19,404	317,658
Benefit from (provision for) income tax	(35,855)	(18,883)	—	—	(12,956)	(5,396)	4,047	(3,343)	(72,386)
Net income (loss)	\$83,062	\$55,276	(\$2,097)	(\$1,451)	\$152,143	\$11,992	(\$69,714)	\$16,061	\$245,272

*Pertains to EDC and subsidiaries' consolidated statement of income, including the effect of the purchase price allocation but excluding FG Hydro.

**Pertains to intercompany transactions that were eliminated upon consolidation.

Other financial information of the business segments are as follows:

As December 31, 2017									
	FGPC	FGP	FNPC	Prime Meridian	EDC and Subsidiaries*	FG Hydro	Others	Eliminating Entries**	Total
Current assets	\$541,869	\$260,977	\$30,197	\$17,466	\$515,715	\$19,690	\$20,442	(\$93,053)	\$1,313,303
Noncurrent assets	260,635	239,023	425,467	109,719	2,150,260	95,746	5,266,764	(4,360,057)	4,187,557
Total assets	\$802,504	\$500,000	\$455,664	\$127,185	\$2,665,975	\$115,436	\$5,287,206	(\$4,453,110)	\$5,500,860
Current liabilities	\$167,859	\$118,838	\$31,354	\$1,873	\$367,324	\$6,643	\$353,503	(\$316,990)	\$730,404
Noncurrent liabilities	403,941	247,114	171,324	36	1,188,509	23,335	478,906	(206,897)	2,306,268
Total liabilities	\$571,800	\$365,952	\$202,678	\$1,909	\$1,555,833	\$29,978	\$832,409	(\$523,887)	\$3,036,672

*Pertains to EDC and subsidiaries' consolidated statement of financial position, including the effect of the purchase price allocation but excluding FG Hydro.

**Pertains to intercompany assets and liabilities that were eliminated upon consolidation.

As December 31, 2016									
	FGPC	FGP	FNPC	Prime Meridian	EDC and Subsidiaries*	FG Hydro	Others	Eliminating Entries**	Total
Current assets	\$330,031	\$293,136	\$71,365	\$29,651	\$490,465	\$16,965	\$142,493	(\$261,295)	\$1,112,811
Noncurrent assets	385,411	282,288	401,191	103,265	2,154,460	104,986	5,504,235	(4,759,344)	4,176,492
Total assets	\$715,442	\$575,424	\$472,556	\$132,916	\$2,644,925	\$121,951	\$5,646,728	(\$5,020,639)	\$5,289,303
Current liabilities	\$231,657	\$151,446	\$24,516	\$3,345	\$342,437	\$9,897	\$69,096	(\$138,078)	\$694,316
Noncurrent liabilities	212,363	294,618	187,179	33	1,280,462	41,245	701,050	(211,530)	2,505,420
Total liabilities	\$444,020	\$446,064	\$211,695	\$3,378	\$1,622,899	\$51,142	\$770,146	(\$349,608)	\$3,199,736

*Pertains to EDC and subsidiaries' consolidated statement of financial position, including the effect of the purchase price allocation but excluding FG Hydro.

**Pertains to intercompany assets and liabilities that were eliminated upon consolidation.



5. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand and in banks (see Notes 24 and 25)	\$127,018	\$126,289
Short-term deposits (see Notes 24 and 25)	544,233	371,691
	\$671,251	\$497,980

Cash and cash equivalents earn interest at the respective bank deposit rates ranging from 0.12% to 2.0%, 0.12% to 1.63% and 0.12% to 1.80% for the years ended December 31, 2017, 2016 and 2015, respectively. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of First Gen Group, and earn interest at the respective short-term deposits rates.

Total interest income earned amounted to \$8.0 million, \$7.9 million and \$9.7 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 20).

6. Receivables

This account consists of:

	2017	2016
Trade (see Notes 24, 25 and 26)	\$354,687	\$338,825
Due from related parties (see Notes 18, 24 and 25)	1,729	1,592
Loans and notes receivables (see Notes 24 and 25)	1,409	1,541
Others (see Notes 14, 24 and 25)	1,674	4,831
	359,499	346,789
Less allowance for impairment losses	2,552	2,307
	\$356,947	\$344,482

Trade receivables are noninterest-bearing and are generally collectible in 30 to 60 days. Other receivables comprise mainly of receivables from employees, contractors, and suppliers which are collectible upon demand.

The table below shows the rollforward analysis of the allowance for impairment losses on trade receivables:

	2017	2016
Balances at beginning of year	\$2,307	\$2,400
Provision for impairment loss (see Note 19)	252	38
Foreign exchange adjustments	(7)	(131)
Balances at end of year	\$2,552	\$2,307



7. Inventories

This account consists of:

	2017	2016
At cost:		
Fuel inventories	\$22,515	\$52,464
Spare parts and supplies	57,667	55,126
	80,182	107,590
At NRV - Spare parts and supplies	13,312	10,652
	\$93,494	\$118,242

The amounts of fuel inventories recognized as expense amounted to \$47.2 million, \$2.4 million and \$128.3 million for the years ended December 31, 2017, 2016 and 2015, respectively, which are recognized as part of the “Costs of sale of electricity” account in the consolidated statements of income (see Note 19).

Spare parts and supplies inventories include items that are carried at net realizable value amounting to \$13.3 million and \$10.7 million as of December 31, 2017 and 2016, respectively, and have a cost amounting to \$19.8 million and \$11.6 million, respectively. The rest of the spare parts and supplies inventories are carried at cost.

First Gen Group also identifies parts and supplies inventories subject to disposal and recognizes a provision equivalent to the carrying amount of these items. Provision for impairment of spare parts and supplies inventories amounted to \$1.4 million, \$1.2 million and \$1.6 million in 2017, 2016 and 2015, respectively. Provision for impairment of spare parts and supplies inventories are shown as part of “General and administrative expenses” account in the consolidated statements of income (see Note 19). The amount of spare parts and supplies inventories charged to expense amounted to \$21.7 million, \$14.5 million and \$23.9 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 19).

Details of spare parts and supplies inventories issued are as follows:

	2017	2016	2015
Costs of sale of electricity (see Note 19)	\$19,088	\$12,286	\$20,527
General and administrative expenses (see Note 19)	2,591	2,195	3,374
	\$21,679	\$14,481	\$23,901

After subsequent technical assessment, some parts and supplies impaired in 2013 due to Typhoon Yolanda amounting to \$0.4 million were assessed to be reusable in 2015. These were also recognized as part of “Reversal of impairment of damaged assets due to Typhoon Yolanda” account in the consolidated statement of income. There was no reversal of impairment for damaged assets recognized in 2017 and 2016.



8. Financial assets at FVPL

In 2014, EDC entered into an Investment Management Agreement (IMA) with Security Bank Corporation (Security Bank) as investment manager, whereby EDC availed of its services relative to the management and investment of funds amounting to \$11.3 million (₱500.0 million). EDC invested an additional \$11.0 million (₱500.0 million) in 2015.

In 2015, the Parent Company also entered into an IMA with BDO as investment manager. In 2017 and 2016, the Parent Company invested additional funds amounting to \$149.3 million and \$27.8 million, respectively.

Among others, following are the significant provisions of the IMA of EDC and the Parent Company:

- The investment managers shall administer and manage the fund as allowed and subject to the requirements of the Bangko Sentral ng Pilipinas (BSP), and in accordance with the written investment policy and guidelines mutually agreed upon and signed by the respective investment managers of EDC and the Parent Company.
- The agreement is considered as an agency and not a trust agreement. EDC and the Parent Company, therefore, shall at all times retain legal title to the fund.
- The IMA does not guaranty a yield, return, or income on the investments or reinvestments made by the investment managers. Any loss or depreciation in the value of the assets of the fund shall be for the account of EDC and the Parent Company.

First Gen Group accounts for the entire investment as financial assets to be carried at FVPL. Mark-to-market gain (loss) on the securities amounting to \$0.3 million, \$0.1 million and (\$0.2 million) for the years ended December 31, 2017, 2016 and 2015, respectively, were recognized in the consolidated statements of income.

As of December 31, 2017 and 2016, the movements of the financial assets at FVPL account are as follows:

	2017	2016
Balance at beginning of year	\$22,534	\$30,108
Additions for the year	149,259	27,777
Realized income for the year	209	188
Mark-to-market gain on financial assets at FVPL	281	72
Redemptions for the year	(151,361)	(34,357)
Foreign exchange adjustments	(189)	(1,244)
Trustee fees	(13)	(10)
Balance at end of year	\$20,720	\$22,534



9. Other Current Assets

This account consists of:

	2017	2016
DSRA (see Note 14)	\$114,173	\$20,665
Prepaid expenses	29,895	23,439
Short-term investments	14,847	5,873
Prepaid taxes (see Note 12)	4,482	6,765
Input VAT	3,933	62,119
Derivative assets (see Note 25)	2,294	9,461
Advances to contractors	558	525
Others (see Notes 24 and 25)	709	726
	\$170,891	\$129,573

DSRA

DSRA pertains to the restricted peso and dollar-denominated interest bearing accounts opened and established by certain subsidiaries of First Gen Group in accordance with the loan agreements that will serve as a cash reserve or deposit to service the principal and/or interest payments due on the loans (see Note 14). Total interest earned on DSRA, net of final tax, amounted to \$1.0 million, \$0.2 million and \$0.1 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 20).

Prepaid Expenses

Prepaid expenses consist mainly of prepaid insurance, rentals and creditable withholding taxes.

Short-term Investments

Short-term investments consist of money market securities with maturity of more than three (3) months but less than twelve (12) months.

Prepaid Taxes

Prepaid taxes consist mainly of tax credits that may be used in the future by the operating subsidiaries of First Gen Group. As of December 31, 2017 and 2016, EDC, FG Hydro, EBWPC and GCGI classified a portion of their TCCs as current assets totaling to \$0.5 million and \$2.9 million, respectively. These are expected to be utilized for payment of various taxes within twelve (12) months.



10. Property, Plant and Equipment

Movements in the account are as follows:

2017									
	Land	Power Plants, Buildings, Improvements and Other Structures	Exploration, Machinery and Equipment	FCRS and Production Wells	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Costs:									
Balances at December 31, 2016	\$57,270	\$1,837,369	\$1,284,545	\$719,066	\$36,886	\$7,754	\$3,658	\$277,468	\$4,224,016
Additions	181	797	4,899	—	2,021	1,062	729	150,976	160,665
Retirements/write-off	—	(442)	(5,586)	—	(2,100)	(2,676)	—	—	(10,804)
Reclassifications/adjustments (see Note 12)	101	140,591	70,338	81,387	1,102	(75)	619	(237,979)	56,084
Foreign exchange adjustments	1,180	(3,084)	(629)	(2,328)	(124)	(18)	—	(1,895)	(6,898)
Balances at December 31, 2017	58,732	1,975,231	1,353,567	798,125	37,785	6,047	5,006	188,570	4,423,063
Accumulated Depreciation, Amortization and Impairment Losses:									
Balances at December 31, 2016	354	566,871	692,810	186,119	24,522	5,087	1,484	377	1,477,624
Depreciation and amortization (see Note 19)	—	103,996	61,823	25,379	4,243	944	827	—	197,212
Retirements/write-off	—	(350)	(5,266)	—	(1,848)	(2,399)	—	—	(9,863)
Reclassifications/adjustments	—	1,426	(1,187)	(288)	(35)	(58)	—	—	(142)
Foreign exchange adjustments	(1)	(892)	(201)	(568)	(58)	(12)	1	(2)	(1,733)
Balances at December 31, 2017	353	671,051	747,979	210,642	26,824	3,562	2,312	375	1,663,098
Net Book Values	\$58,379	\$1,304,180	\$605,588	\$587,483	\$10,961	\$2,485	\$2,694	\$188,195	\$2,759,965

2016									
	Land	Power Plants, Buildings, Improvements and Other Structures	Exploration, Machinery and Equipment	FCRS and Production Wells	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Costs:									
Balances at December 31, 2015	\$57,406	\$1,772,510	\$868,648	\$667,680	\$36,566	\$7,680	\$1,790	\$627,055	\$4,039,335
Additions	2,002	1,275	6,698	—	1,615	994	819	276,163	289,566
Retirements/write-off	—	(298)	(220)	—	(1,489)	(780)	—	—	(2,787)
Reclassifications/adjustments (see Note 12)	—	119,208	418,881	91,587	1,806	35	1,073	(616,547)	16,043
Foreign exchange adjustments	(2,138)	(55,326)	(9,462)	(40,201)	(1,612)	(175)	(24)	(9,203)	(118,141)
Balances at December 31, 2016	57,270	1,837,369	1,284,545	719,066	36,886	7,754	3,658	277,468	4,224,016
Accumulated Depreciation, Amortization and Impairment Losses:									
Balances at December 31, 2015	374	487,547	642,797	172,503	21,766	4,654	1,023	496	1,331,160
Depreciation and amortization (see Note 19)	—	98,266	53,345	24,014	4,363	1,060	466	—	181,514
Retirements/write-off	—	(158)	(147)	—	(634)	(544)	—	—	(1,483)
Reclassifications/adjustments	—	96	39	6	16	27	—	(97)	87
Foreign exchange adjustments	(20)	(18,880)	(3,224)	(10,404)	(989)	(110)	(5)	(22)	(33,654)
Balances at December 31, 2016	354	566,871	692,810	186,119	24,522	5,087	1,484	377	1,477,624
Net Book Values	\$56,916	\$1,270,498	\$591,735	\$532,947	\$12,364	\$2,667	\$2,174	\$277,091	\$2,746,392



Property, plant and equipment with net book values of \$393.6 million and \$654.0 million as of December 31, 2017 and 2016, respectively, have been pledged as security for long-term debt (see Note 14).

Estimated Rehabilitation and Restoration Costs

Under their respective ECCs, FGP and FGPC have legal obligations to dismantle their respective power plant assets at the end of their useful lives. FG Bukidnon, on the other hand, has contractual obligation under the lease agreement with PSALM to dismantle its power plant asset at the end of its useful life. FGP, FGPC, and FG Bukidnon established their respective provisions to recognize their estimated liability for the dismantlement of the power plant assets (see Note 15).

Also, FCRS and production wells include the estimated rehabilitation and restoration costs of EDC's steam fields and power plants' contract areas at the end of the contract period. These were based on technical estimates of probable costs which may be incurred by EDC in the rehabilitation and restoration of the said steam fields and power plants' contract areas from 2031 up to 2044, discounted using a risk-free discount rate and adjusting the cash flows to settle the provision. Similarly, EBWPC has recorded an estimated provision for asset retirement obligation relating to the removal and disposal of all wind farm materials, equipment and facilities from the contract areas at the end of contract period (see Note 15).

In 2017 and 2016, First Gen Group adjusted its asset retirement obligation amounting to \$1.8 million and \$2.0 million, respectively (see Note 15). The revision in estimate was attributable to changes in discount rates.

Supply and Onshore Contracts with Istroenergo Group A.S. (IEG)

On August 1, 2014, Prime Meridian signed an Engineering, Procurement and Supply (Offshore) Contract with IEG and an Onshore Engineering, Procurement and Construction Contract (Onshore Contract) with Energy Project Completion Ltd. ("EPCo"), a Philippine Branch Office of IEG, (collectively referred to as "EPC contracts"), for Prime Meridian's Avion power plant. IEG is an engineering contractor from Slovakia experienced in the construction of aeroderivative gas turbine power plants. The Avion power plant uses General Electric's LM6000 PC Sprint aeroderivative gas turbines and have the capability to burn natural gas or liquid fuel. The Avion power plant was constructed adjacent to the Parent Company's 1,000 MW Santa Rita, 500 MW San Lorenzo, and the 420 MW San Gabriel natural gas-fired power plants located in Batangas City.

On March 14, 2016, Prime Meridian terminated the EPC contracts due to IEG's and EPCo's failure to comply with their obligations under the contracts, including, but not limited to, delay in completing the works. Prime Meridian has likewise drawn against various performance securities issued by IEG and EPCo amounting to \$12.2 million and \$3.1 million (₱146.8 million), respectively, totaling to \$15.3 million, which has been used to complete the outstanding works required to commission and operate the Avion power plant. The proceeds from these performance securities were deducted from the total cost of the Avion power plant in 2016.

Execution of Completion Works Agreement (CWA)

Following the termination of contract between Prime Meridian and IEG and EPCo in March 2016, Prime Meridian has engaged various contractors for the completion of pending works in the Avion Plant. The services stipulated in the CWA's include but not limited to the following:

- design, civil, structural and architectural, mechanical and electrical works;
- technical services relating to the commissioning of aero derivative industrial gas turbines;



- engineering, supply, installation, commissioning, testing, consumables, spare parts, and others as may be required for the control systems, electrical systems, emergency back-up generator and other equipment to be fully functional and operational;
- performance test in accordance with the requirements detailed in the performance test table; and
- engineering, consultancy and advisory services for the operational readiness of Avion project.

The Contractors shall be responsible for performing all necessary design, engineering, commissioning, and testing required for the successful performance of completion works.

In 2016, total borrowing costs capitalized in connection with the Avion power plant amounted to \$4.6 million. Capitalization rate used for the general borrowing cost in 2016 was 6.4%.

In 2016, net commissioning income amounting to \$3.3 million (₱155.5 million) was recognized and presented as part of “Other income (charges)” account in the consolidated statement of income. Net commissioning income represents the excess of the proceeds generated from selling the electricity generated during the commissioning phase against the costs incurred from the commissioning activities such as fuel, operations and maintenance, and any other direct costs.

The commissioning of the Avion power plant was completed in September 2016, and started its commercial operations on September 26, 2016 upon receiving its Certificate of Compliance (“COC”) from the ERC which enables it to sell power to the WESM.

Construction of the 420 MW San Gabriel Power Plant

On December 16, 2013, FNPC signed a Construction Services Contract with Siemens Inc. for the design, installation, testing and commissioning of an approximately 450 MW (nominal) net capacity combined-cycle gas-fired San Gabriel power plant to be located in Santa Rita, Batangas City. The San Gabriel power plant is intended to serve the mid-merit and, potentially, the base load requirements of the Luzon Grid. On the same day, FNPC signed an Equipment Supply Contract with Siemens AG for the engineering, design and supply of equipment for the San Gabriel power plant. This contract includes the supply of equipment which is composed mainly of the Siemens 8000H gas turbine, steam turbine, Heat Recovery Steam Generator, generator, control systems, high voltage equipment, condenser and auxiliaries.

On September 4, 2016, FNPC issued the Project Acceptance Certificates to Siemens Inc. and Siemens AG for the substantial completion of works specified in the contracts and passing the required tests on completion of the San Gabriel power plant, which started its commercial operations on November 7, 2016 upon receiving its COC from the ERC which likewise enables it to sell power to the WESM.

In 2016, total specific and general borrowing costs capitalized in connection with the project amounted to \$16.1 million. Capitalization rate used for the general borrowing cost in 2016 was 6.4% per annum. Borrowing costs consist of interest on long-term debt, amortization of debt issuance cost, and foreign exchange losses from the revaluation of accrued interest payable and long-term debt (net of accumulated debt issuance cost).

In 2016, net commissioning loss amounting to \$4.0 million (₱180.4 million) was capitalized as part of “Property, plant and equipment” account in the consolidated statement of financial position. Net commissioning loss consists of costs incurred from the commissioning activities such as fuel, operations and maintenance costs, and other direct costs less any proceeds generated from selling the electricity generated during the commissioning phase.



Collection of Liquidated Damages (LDs) from Siemens Inc. and Siemens AG by FNPC

On April 4, 2016, FNPC issued a Notice of Default to Siemens Inc. and Siemens AG for their failure to complete the San Gabriel project within the Guaranteed Completion Date of March 31, 2016. In accordance with the signed Construction Service Contract with Siemens Inc. and Equipment Supply Contract with Siemens AG, FNPC received LDs totaling to \$47.8 million in 2016. These LDs representing compensation for the loss profits were recognized and presented as part of “Other income (charges)” account in the 2016 consolidated statement of income.

Collection of LDs from Weir Engineering Services Limited (Weir) by BGI

In June 2016, BGI and Weir Engineering Services Limited (Weir) have agreed to (i) settle all claims arising from the contract for Works - Completion of Works to Steam Turbine and Generator of Units 1, 2 and 3 dated March 29, 2012; and (ii) jointly take steps to cause the discontinuance of the arbitration case pending with the International Chamber of Commerce. As a result, BGI and Weir have entered into a settlement whereby BGI would receive a net reimbursement for the LDs amounting to \$2.5 million (¥122.0 million). The net reimbursement amounting to \$2.5 million (¥122.0 million) was accounted for as a reduction from the “Property, plant and equipment” account under the “Power Plants, Buildings, Improvements and Other Structures” category.

Depreciation and Amortization

Details of depreciation and amortization charges recognized in the consolidated statements of income are shown below:

	2017	2016	2015
Property, plant and equipment	\$197,212	\$181,514	\$171,358
Intangible assets (see Note 11)	14,985	16,744	16,734
Capitalized depreciation	(265)	(674)	(2,117)
	\$211,932	\$197,584	\$185,975

	2017	2016	2015
Costs of sale of electricity (see Note 19)	\$202,722	\$188,744	\$176,231
General and administrative (see Note 19)	9,210	8,840	9,744
	\$211,932	\$197,584	\$185,975

Reclassifications

The reclassifications in the accumulated depreciation of property, plant and equipment include the capitalized depreciation charges amounting to \$0.3 million, \$0.7 million and \$2.1 million in 2017, 2016 and 2015, respectively, under “Construction in progress” which primarily relates to ongoing drilling of production wells. In addition, other reclassifications in the cost of property, plant and equipment in 2017 and 2016 were due to the adjustments to provisions for rehabilitation and restoration costs, and results of the reassessment made by EDC on the nature of the assets.

Construction in Progress

First Gen Group’s “Construction in progress” account includes steam assets and other ongoing construction projects. Steam assets are mainly composed of in-progress production wells and FCRS, while other construction projects include on-going rehabilitation activities in the plants, retrofitting projects and other construction projects.



11. Goodwill and Intangible Assets

Movements in the account are as follows:

	2017						Total
	Goodwill (Note 3)	Concession Rights for Contracts Acquired	Water Rights	Pipeline Rights	Rights to Use Transmission Line	Other Intangible Assets	
Costs:							
Balances at December 31, 2016	\$972,057	\$167,674	\$48,366	\$13,253	\$1,152	\$4,186	\$1,206,688
Additions	—	—	—	—	—	351	351
Foreign exchange adjustments	(4,039)	(705)	(203)	—	—	42	(4,905)
Balances at December 31, 2017	968,018	166,969	48,163	13,253	1,152	4,579	1,202,134
Accumulated Amortization:							
Balances at December 31, 2016	—	119,435	19,589	8,582	120	3,375	151,101
Amortization	—	11,646	1,910	602	120	707	14,985
Foreign exchange adjustments	—	(403)	(66)	—	—	50	(419)
Balances at December 31, 2017	—	130,678	21,433	9,184	240	4,132	165,667
Net Book Values	\$968,018	\$36,291	\$26,730	\$4,069	\$912	\$447	\$1,036,467

	2016						Total
	Goodwill	Concession Rights for Contracts Acquired	Water Rights	Pipeline Rights	Rights to Use Transmission Line	Other Intangible Assets	
Costs:							
Balances at December 31, 2015	\$1,026,264	\$177,151	\$51,100	\$13,253	\$1,152	\$4,328	\$1,273,248
Additions	—	—	—	—	—	93	93
Foreign exchange adjustments	(54,207)	(9,477)	(2,734)	—	—	(235)	(66,653)
Balances at December 31, 2016	972,057	167,674	48,366	13,253	1,152	4,186	1,206,688
Accumulated Amortization:							
Balances at December 31, 2015	—	113,724	18,652	7,980	—	1,972	142,328
Amortization	—	12,402	2,034	602	120	1,586	16,744
Foreign exchange adjustments	—	(6,691)	(1,097)	—	—	(183)	(7,971)
Balances at December 31, 2016	—	119,435	19,589	8,582	120	3,375	151,101
Net Book Values	\$972,057	\$48,239	\$28,777	\$4,671	\$1,032	\$811	\$1,055,587

Concession Rights for Contracts Acquired

As a result of the purchase price allocation of Red Vulcan, an intangible asset was recognized pertaining to concession rights originating from contracts of EDC amounting to \$204.3 million (₱8,336.7 million). Such intangible asset pertains to the SSAs and PPAs of EDC that were existing at the time of acquisition. The identified intangible asset is amortized using the straight-line method over the remaining term of the existing contracts ranging from 1 to 17 years. The concession rights for contracts acquired have been valued based on the expected future cash flows using the Multiple Excess Earnings Method (MEEM) as of the date of acquisition. MEEM is the most commonly used approach in valuing customer-related assets, although it may be used to value other intangible assets as well. The asset value is estimated as the sum of the discounted future excess earnings attributable to the asset over the remaining project period. The remaining amortization period of the intangible asset pertaining to the concession rights originating from contracts ranges from 1.0 year to 7.0 years as of December 31, 2017.

Water Rights

Water rights pertain to FG Hydro's right to use water from the Pantabangan reservoir for the generation of electricity. NPC, through a Certification issued to FG Hydro dated July 27, 2006, gave its consent to the transfer to FG Hydro, as the winning bidder of the PAHEP/MAHEP, the water permit for Pantabangan river issued by the National Water Resources Council on March 15, 1977.



Water rights are amortized using the straight-line method over 25 years, which is the term of FG Hydro's agreement with NIA. The remaining amortization period of water rights is 13.9 years as of December 31, 2017.

Pipeline Rights

Pipeline rights represent the construction cost of the natural gas pipeline facility connecting the natural gas supplier's refinery to FGP's power plant including incidental transfer costs incurred in connection with the transfer of ownership of the pipeline facility to the natural gas supplier. The cost of pipeline rights is amortized using the straight-line method over 22 years, which is the term of the GSPA. The remaining amortization period of pipeline rights is 6.75 years as of December 31, 2017.

Rights to Use Transmission Line

On July 15, 2015, FGPC has agreed to give, transfer and convey, by way of donation, the Substation Improvements to TransCo amounting to \$1.2 million pursuant to the SIA dated September 2, 1997 entered into among FGPC, NPC and Meralco. The transferred substation improvements were accounted for as intangible assets since FGPC still maintains the right to use these assets under the provisions of the PPA with Meralco and the SIA. The cost of the rights to use the substation improvements is amortized using the straight-line method over 10 years, which is the remaining term of the PPA with Meralco. The remaining amortization period is 7.67 years as of December 31, 2017.

Other Intangible Assets

This account includes computer software and licenses.

12. Other Noncurrent Assets

This account consists of:

	2017	2016
Input VAT	\$140,194	\$89,254
Exploration and evaluation assets	61,350	62,530
TCCs	45,293	54,077
Prepaid major spare parts [see Note 26(h)]	33,435	65,506
Prepaid expenses	16,485	13,559
AFS financial assets (see Notes 9, 24 and 25)	10,942	10,328
Long-term receivables (see Notes 24 and 25)	5,884	2,827
Special deposits and funds	5,177	2,695
Derivative assets (see Note 21)	2,122	3,372
Retirement assets (see Note 21)	972	2,597
Others	49,317	46,271
	371,171	353,016
Less allowance for impairment loss	10,854	9,214
	\$360,317	\$343,802



Input VAT

Input VAT represents VAT due or paid on purchases of goods and services that can be claimed against any future liability to the BIR for output VAT from sale of goods and services. Input VAT also includes the outstanding input VAT claims that were applied by EDC for refund with the BIR/Supreme Court (SC). As of December 31, 2017 and 2016, the outstanding input VAT claims which are still pending with the BIR/SC amounted to \$45.4 million and \$30.3 million, respectively.

Exploration and Evaluation Assets

	2017	2016
Balances at beginning of year	\$62,530	\$65,312
Additions	378	749
Direct write-off (see Note 3)	(764)	–
Reclassification	(603)	–
Foreign exchange adjustments	(191)	(3,531)
Balances at end of year	\$61,350	\$62,530

Details of exploration and evaluation assets per project are as follows:

	2017	2016
Rangas/Kayabon	\$34,558	\$34,626
Mindanao III	23,481	23,567
Dauin/Bacong	1,554	1,560
Others	1,757	2,777
	\$61,350	\$62,530

In 2017, the exploration and evaluation costs incurred for Mt. Ampiro, Lakewood and certain foreign projects totaling to \$0.8 million were assessed by the management to be no longer recoverable. Accordingly, the book values of the related exploration and evaluation assets were directly written off.

In 2015, the evaluation and exploration costs incurred for Mt. Labo and Mainit totaling to \$0.3 million were directly written-off because of similar reason. The write-off recognized in 2015 is equivalent to the book values of the related exploration and evaluation assets. No similar write-off was recognized in 2016.

TCCs

TCCs that remain unutilized after five (5) years from the date of original issuance are still valid provided that these are duly revalidated by the BIR within the period allowed by law.

Prepaid Major Spare Parts

In 2017 and 2016, prepaid major spare parts amounting to \$60.8 million and \$30.5 million, respectively were reclassified to “Property, plant and equipment” account as a result of the completion of the scheduled maintenance outages of Santa Rita and San Lorenzo power plants [see Notes 10 and 26(h)].

Prepaid Expenses

Prepaid expenses include payments made by EDC on its real property taxes (RPT) that were paid under protest to certain local government units (“LGUs”) totaling to \$14.2 million and \$10.3 million as of December 31, 2017 and 2016, respectively. The amounts paid in protest were in excess of the amounts determined using the 1.5% RPT rate stated in the Renewable Energy Law (RE Law), and are pending



with the Local Board of Assessment Appeals (LBAA) and Central Board of Assessment Appeals (CBAA).

In connection with the installation of Burgos Wind project's wind turbines and related dedicated point-to-point limited facilities, EDC entered into uniform land lease agreements and contracts of easement of right of way with various private landowners. The term of land lease agreement starts from the execution date of the contract and ends after 25 years from the commercial operations of the Burgos Wind project. The total prepaid lease amounted to \$3.0 million as of December 31, 2017 and 2016.

AFS Financial Assets

AFS financial assets consist of:

	2017	2016
Quoted Securities (see Notes 24 and 25):		
Government debt securities	\$2,245	\$1,894
Equity securities	864	655
Corporate bonds	691	671
Unquoted Securities	6,178	6,094
Investment in proprietary club membership shares	964	1,014
	\$10,942	\$10,328

Quoted government debt securities consist of investments in fixed rate bonds, fixed rate treasury notes and retail treasury bonds with maturities between 2023 and 2037 as of December 31, 2017, and between 2022 and 2037 as of December 31, 2016, and interest rates ranging from 4.6% to 8.0% for both years.

Investments in quoted equity securities consist mainly of shares traded in the PSE.

Investment in unquoted equity securities consists of the investments made by EDC in 2016 in the BDO Institutional Cash Reserve Fund (ICRF), a money unit investment trust fund. As of December 31, 2017 and 2016, the fair values of EDC's investment in BDO ICRF amounted to \$6.2 million and \$6.1 million, respectively.

The movements of the unrealized gains (losses) related to the foregoing investments, which are presented in the consolidated statements of comprehensive income, amounted to \$0.2 million, \$0.1 million and (\$0.1 million) in 2017, 2016 and 2015, respectively. Changes in fair value recognized in the consolidated statements of comprehensive income pertain to the Parent Company's share in the unrealized gains and losses during the year brought about by the temporary increases or decreases in the fair values of the debt and equity instruments.

Special Deposits and Funds

The special deposits and funds mainly consist of security deposits for various operating lease agreements covering office spaces and certain equipment, escrow accounts in favor of terminated employees, and escrow accounts in favor of specified counterparties on certain transactions. The release of which is subject to certain conditions (see Notes 24, 25 and 26).

Others

Others account includes the investment made by EDC to Enerco amounting to \$35.4 million and \$30.2 million as of December 31, 2017 and 2016, respectively. EDC's continued participation in the Mariposa Project is subject to positive results being obtained from resource assessment studies to be conducted by EDC for the project.



Others account also include advances to contractors, deposits for land acquisitions, and power plant spares totaling to \$14.2 million and \$14.8 million as of December 31, 2017 and 2016, respectively.

Allowance for Impairment

The rollforward analysis of the allowance for impairment losses pertaining to Input VAT and long-term receivables is presented below:

	2017			
	Input VAT	Long-term receivables		Total
		NPC	Others	
Balances at beginning of year	\$6,957	\$30	\$2,227	\$9,214
Provision for impairment loss (see Note 19)	2,037	—	1,268	3,305
Write-off	(1,424)	—	(217)	(1,641)
Foreign exchange differences	(25)	—	1	(24)
Balances at end of year	\$7,545	\$30	\$3,279	\$10,854
Specific impairment	\$—	\$30	\$3,224	\$3,254
Collective impairment	7,545	—	55	7,600
Total	\$7,545	\$30	\$3,279	\$10,854

	2016			
	Input VAT	Long-term receivables		Total
		NPC	Others	
Balances at beginning of year	\$7,202	\$32	\$1,973	\$9,207
Provision for impairment loss (see Note 19)	1,070	—	377	1,447
Write-off	(922)	—	—	(922)
Foreign exchange differences	(393)	(2)	(123)	(518)
Balances at end of year	\$6,957	\$30	\$2,227	\$9,214
Specific impairment	\$—	\$30	\$2,142	\$2,172
Collective impairment	6,957	—	85	7,042
Total	\$6,957	\$30	\$2,227	\$9,214

Loss on direct write-off of input VAT claims amounted to \$1.9 million, \$1.2 million and \$2.9 million in 2017, 2016 and 2015, respectively. The amount of loss on direct write-off of input VAT claims is included under “Others” account in the consolidated statements of income (see Note 3).



13. Accounts Payable and Accrued Expenses

This account consists of:

	2017	2016
Trade	\$284,320	\$276,655
Deferred output VAT	58,749	41,797
Accrued interest and financing costs (Note 14)	28,797	30,951
Withholding and other taxes payable	12,180	13,442
Output VAT	2,255	1,654
Government share payable	1,309	978
Others (Note 3)	17,719	12,996
	\$405,329	\$378,473

Trade payables are noninterest-bearing and are normally settled on 30 to 60-day payment terms.

“Government share payable” pertains to outstanding payable to the Philippine Government (Government) for its share on certain earnings of EDC generated from renewable energy. Under the Renewable Energy Act of 2008 or the RE Law, EDC shall pay a government share equivalent to 1.5% of its gross income. Such fiscal incentive was applied by EDC beginning February 1, 2009 (see Note 26).

On May 8, 2012, upon execution of their respective Geothermal Operating Contracts with the DOE, GCGI and BGI also became subject to the government share of 1.5% of their gross income (see Note 26). In 2014, upon receipt of the COE for FIT Eligibility, EBWPC also became subject to the government share of 1% of its gross income.

On February 22, 2017 and February 27, 2017, upon approval of FG Hydro’s application for registration as an RE developer and Hydropower Operating Contracts for PAHEP and MAHEP, respectively, FG Hydro became subject to 10% statutory income tax rate and government share of 1% of its gross income (see Note 27).

Government share is allocated between the DOE and the LGUs where the geothermal resources are located and payable within 60 days after the end of each quarter in the case of EDC, GCGI and BGI. For FG Hydro, government share is paid to DOE within 60 days after the end of each quarter. Government share expense amounted to \$4.9 million, \$5.4 million and \$5.7 million for the years ended December 31, 2017, 2016 and 2015, respectively. Government share expense is presented as part of “Others” in the “Costs of sale of electricity” in the consolidated statements of income (see Note 19).

Other payables mainly include EDC’s provision for shortfall generation amounting to \$17.1 million and \$8.0 million as of December 31, 2017 and 2016, respectively, and a portion of liabilities on regulatory assessments and other contingencies (see Note 3).



14. Loans Payable and Long-term Debts

Loans Payable

On May 15, 2015, FGP obtained a short-term loan amounting to \$26.5 million from ING Bank N.V. Manila Branch. The short-term loan had an all-in interest rate of 1.09% per annum. The proceeds were used to pay the liquid fuel purchased in February 2015. On November 12, 2015, FGP fully settled the short-term loan plus interest.

On March 31, 2017, FGPC obtained a short-term loan amounting to \$15.2 million from Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU) Manila Branch. The short-term loan had an all-in interest rate of 2.20% per annum. The proceeds were used to pay the liquid fuel purchased in December 2016. On July 28, 2017, FGPC fully settled the short-term loan plus interest.

Long-term debts

This account consists of long-term debts of:

	2017	2016
EDC	\$1,283,036	\$1,368,221
Parent Company	278,003	490,143
FGPC	459,679	220,011
FGP	288,261	321,717
FNPC	184,067	200,072
FG Hydro	19,641	36,304
Red Vulcan	—	41,664
	2,512,687	2,678,132
Less current portion	301,179	289,274
	\$2,211,508	\$2,388,858



EDC

The details of EDC's long-term debts are as follows:

Creditor/Project	Maturities	Interest Rates	2017	2016
US\$300.0 Million Notes	January 20, 2021	6.5%	\$210,142	\$298,427
International Finance Corporation (IFC)				
▪ IFC 1 - ₱4.1 billion	2012-2033	7.4% per annum for the first five years subject to repricing for another five to 10 years	37,304	44,232
▪ IFC 2 - ₱3.3 billion	2013-2025	6.6570%	39,688	44,789
Fixed Rate Note Facility (FXCN)				
▪ ₱4.0 billion	2012-2022	5.25% from April 30, 2015 until maturity	69,525	72,490
▪ ₱3.0 billion	2012-2022	5.25% from April 30, 2015 until maturity	52,128	54,349
Refinanced Syndicated Term Loan				
▪ US\$175.0 million	2013-2017	LIBOR plus 1.75% margin	—	87,357
2013 Peso Fixed-Rate Bonds (FXR)				
▪ ₱4.0 billion	May 3, 2023	4.7312%	78,882	79,116
▪ ₱3.0 billion	May 3, 2020	4.1583%	59,796	59,933
US\$80 Million Term Loan	June 21, 2018	LIBOR plus 1.8% margin	72,625	72,249
EBWPC Loans:				
\$37.5M Commercial Debt Facility	October 23, 2029	LIBOR plus 2.0% margin	32,654	34,032
\$150.0M ECA Debt Facility	October 23, 2029	LIBOR plus 2.35% margin	129,603	134,969
₱5.6 B Commercial Debt Facility	October 23, 2029	PDST-F rate plus 2.0% margin	98,867	103,593
₱8.5 Billion GCGI Term Loan	March 6, 2022	5.25%	118,429	139,157
₱5.0 Billion BGI Term Loan	September 9, 2025	5.25%	75,568	87,728
₱291.2 Million Term Loan	December 17, 2030	5.5%	5,796	5,816
₱1.5 billion Term Loan	December 5, 2026	5.25%	29,310	30,019
₱1.0 billion Term Loan	December 5, 2031	5.5788%	19,891	19,965
UBP ₱2.0 Billion Term Loan	April 12, 2032	5.44%	38,497	—
SBC ₱3.0 Billion Term Loan	May 4, 2027	5.32%	57,354	—
PNB ₱500 Million Term Loan	June 1, 2022	4.74%	8,972	—
BPI ₱1.0 Billion Term Loan	June 1, 2027	5.21%	19,135	—
SBC ₱1.0 Billion Term Loan	May 4, 2032	5.43%	19,248	—
SBC ₱500 Million Term Loan	May 4, 2032	5.49%	9,622	—
Total			1,283,036	1,368,221
Less current portion			149,928	147,435
Noncurrent portion			\$1,133,108	\$1,220,786

The long-term debts are presented net of unamortized debt issuance costs. A rollforward analysis of unamortized debt issuance costs is as follows:

	2017	2016
Balances at beginning of year	\$16,908	\$20,830
Additions during the year	936	314
Accretion during the year charged to "Interest expense and financing charges" account (see Note 20)	(3,166)	(3,729)
Unamortized debt issuance costs charged to "Interest expense and financing charges" account (see Note 20)	(419)	—
Foreign exchange adjustments	(115)	(507)
Balances at end of year	\$14,144	\$16,908



EDC Loans

EDC entered into unsecured long-term loan arrangements with domestic and international financial institutions for its various development projects and working capital requirements.

US\$300.0 Million Notes

On January 20, 2011, EDC issued a 10-year \$300.0 million notes (₱13,350.0 million) (the “Notes”) at 6.50% interest per annum which will mature in January 2021. The notes are intended to be used by EDC to support the business expansion plans, finance capital expenditures, service debt obligations and for general corporate purposes. Such notes are listed and quoted on the Singapore Exchange Securities Trading Limited (SGX-ST).

In 2017, EDC made a partial redemption totaling to \$89.0 million (₱4,525.4 million) in nominal amount for \$99.1 million (₱5,040.0 million), resulting to a loss on extinguishment of \$10.1 million (₱514.6 million). The amount of loss is presented as part of “Other income (charges)” account in the consolidated statements of income. The Notes redeemed were cancelled and subsequently de-listed from the SGX-ST in accordance with the procedures thereof.

Peso Public Bonds

On December 4, 2009, EDC received ₱12.0 billion proceeds from the issuance of fixed rate Peso public bonds - split into two tranches - ₱8.5 billion, due after five years and six months and ₱3.5 billion, due after seven years, paying a coupon rate of 8.6418% and 9.3327%, respectively. The peso public bonds are also listed on Philippine Dealing & Exchange Corp. (PDEX).

Effective November 14, 2013, certain covenants of the peso public bonds were aligned with the 2013 Peso fixed-rate bonds through consent solicitation exercise held by EDC. Upon securing the required consents, a Supplemental Indenture embodying the parties’ agreement on the proposed amendments was signed on November 7, 2013 between EDC and Rizal Commercial Banking Corporation (RCBC)-Trust and Investments Group in its capacity as trustee for the bondholders. On December 5, 2016 and June 4, 2015, EDC fully settled the ₱3.5 billion and ₱8.5 billion fixed-rate Peso public bonds, respectively.

IFC

EDC entered into a loan agreement with IFC, a shareholder of EDC, on November 27, 2008 for \$100.0 million (₱4.1 billion). On January 7, 2009, EDC opted to draw the loan in Peso. The loan is payable in 24 equal semi-annual installments after a three-year grace period at an interest rate of 7.4% per annum for the first five years subject to repricing for another 5 to 10 years. Under the loan agreement, EDC is restricted from creating liens and is subject to certain financial covenants.

On May 20, 2011, the EDC signed a 15-year \$75.0 million loan facility with IFC to fund its medium-term capital expenditures program. The loan was drawn in peso on September 30, 2011, amounting to \$69.3 million (₱3,262.5 million). The loan is payable in 24 equal semi-annual installments after a three-year grace period at an interest rate of 6.657% per annum. The loan includes prepayment option, which allows EDC to prepay all or part of the loan anytime starting from the date of the loan agreement until maturity. The prepayment amount is equivalent to the sum of the principal amount of the loan to be prepaid, redeployment cost and prepayment premium.

Issuance of FXCN and Prepayment of FRCN

On April 4, 2012, EDC signed a 10-year FXCN facility agreement amounting to ₱7.0 billion which is divided into two tranches. The proceeds from the first tranche amounting to ₱3.0 billion were used by EDC to prepay in full the Series One and Series Three of the previously issued FRCN totaling to ₱2,781.4 million. Subsequently, on May 3, 2012, the FRCN Series Two was also prepaid in full for



₱4,211.1 million using the proceeds from the second FXCN tranche amounting to ₱4.0 billion. The FXCN tranches 1 and 2 bears a coupon rate of 6.6173% and 6.6108% per annum, respectively.

Debt issuance costs amounting to \$2.4 million (₱100.2 million) was capitalized as part of the new FXCN.

Amended FXCN

On April 30, 2015, EDC and the Noteholders amended the FXCN loan agreement to reduce the interest rate to 5.25% for both Tranche 1 and Tranche 2 as well as to effect other amendments in order to align the same with the other loan covenants of EDC.

Transaction costs related to the amended FXCN amounting to \$1.4 million were capitalized to the carrying amount of the FXCN loan.

Refinanced Syndicated Term Loan

On June 17, 2011, EDC entered into a credit agreement for the \$175.0 million (₱7,630.0 million) transferable syndicated term loan facility with ANZ-Manila Branch, BTMU, Chinatrust (Philippines) Commercial Banking Corporation, ING Bank N.V.-Manila Branch, Maybank Group, Mizuho Bank, Ltd, and Standard Chartered Bank (SCB) as Mandated Lead Arrangers and Bookrunners. The purpose of this loan is to refinance the old \$175.0 million syndicated term loan availed on June 30, 2010 with scheduled maturity of June 30, 2013. This loan carries an interest of LIBOR plus a margin of 175 basis points and has an installment repayment scheme which commenced on June 27, 2013 until June 27, 2017.

On June 19, 2017, EDC fully settled the \$175.0 million refinanced syndicated term loan.

2013 Peso Fixed-Rate (FXR) Bonds

On May 3, 2013, EDC issued fixed-rate peso bonds with an aggregate principal amount of \$162.0 million (₱7.0 billion). The FXR bonds, which have been listed on the PDEX, are comprised of \$69.4 million (₱3.0 billion) seven-year bonds at 4.1583% and \$92.6 million (₱4.0 billion) 10-year bonds at 4.7312% due on May 3, 2020 and May 3, 2023, respectively. Interest is payable semi-annually starting November 3, 2013. Transaction costs incurred in connection with the issuance of the seven-year bonds and 10-year bonds amounted to \$0.9 million and \$1.2 million, respectively. The net proceeds of the FXR bonds were used to partially fund the 87 MW Burgos Wind project located in Burgos, Ilocos Norte.

US\$80 Million Term Loan

On March 21, 2013, EDC entered into a credit agreement with certain banks to avail of a term loan facility of up to \$80.0 million with availability period of 12 months from the date of the agreement.

On December 6, 2013, EDC availed of the full amount of the term loan with maturity date of June 21, 2018. The proceeds are intended to be used by EDC for business expansion, capital expenditures, debt servicing, and for general corporate purposes. The term loan carries an interest rate of 1.8% margin plus LIBOR. Debt issuance costs related to the term loan amounted to \$1.9 million, including front-end fees and commitment fee. The repayment of the term loan shall be made based on the following schedule: 4.0% and 5.0% of the principal amount on the 15th and 39th month from the date of the credit agreement, respectively; and 91.0% of the principal amount on maturity date.

EBWPC Loan

On October 17, 2014, EDC secured a \$315.0 million financing facility agreement, which covers a Peso Commercial Debt Facility of ₱5.6 billion, an ECA Debt Facility of \$150.0 million, and a USD Commercial Debt Facility of \$37.5 million, from local and foreign banks for the construction of the



150 MW Burgos Wind project in Ilocos Norte. The facility consists of U.S. Dollar and Philippine Peso-denominated tranches which will mature in 15 years. Portion of the proceeds received from the financing facility was used to settle the outstanding bridge loans availed in October 2014. Total borrowing costs amounted to \$1.8 million.

Under the agreement of the EBWPC's project financing, EBWPC's debt service is guaranteed by EDC. In the last quarter of 2014, EBWPC entered into four (4) interest rate swap agreements with an aggregate notional amount of \$150.0 million. This is to partially hedge the interest rate risks on its ECA and Commercial Debt Facility (Hedged Loan) that is benchmarked against six (6) months U.S. LIBOR.

On June 15, 2015, EBWPC has fully drawn the \$315.0 million financing agreement in ECA Debt Facility, USD Commercial Debt Facility, and the Peso Commercial Debt Facility with various banks. As part of the agreement, EBWPC has provided a DSRA which will cover the principal and interest payments of the loan due in next six (6) months amounting to \$15.0 million (₱749.1 million) and \$6.9 million (₱346.9 million) as of December 31, 2017 and 2016, respectively (see Note 9).

GCGI Loan

On March 6, 2015, GCGI completed the execution of separate loan agreements with Asia United Bank Corporation, Bank of the Philippine Islands (BPI), BDO Unibank, Inc. (BDO), DBP, Land Bank of the Philippines (Landbank), RCBC, Robinsons Bank Corporation, and Union Bank for the total amount of \$180.6 million (₱8.5 billion) at 5.25% per annum maturing on March 6, 2022. BDO Capital and Investment Corporation acted as sole arranger.

As part of the agreement, GCGI has provided a DSRA which will cover the principal and interest payments of the loan amounting to \$9.0 million (₱447.7 million) and \$9.3 million (₱466.5 million) as of December 31, 2017 and 2016, respectively (see Note 9).

BGI Loan

On September 9, 2015, BGI completed the execution of separate loan agreements with BDO, BPI, and Security Bank for the total amount of \$106.2 million (₱5.0 billion) with a maturity period of 10 years. The initial drawdown amounting to ₱2.5 billion was made on October 7, 2015, while the remaining ₱2.5 billion was drawn on December 7, 2015. BGI may voluntarily prepay all or any part of the principal amount of the loan commencing on and from the 42nd month of the initial drawdown date with a prepayment penalty. BDO Capital and Investment Corporation acted as a structuring supervisor and sole bookrunner.

As part of the agreement, BGI has provided a DSRA which will cover the principal and interest payments of the loan amounting to \$4.2 million (₱208.6 million) and \$4.3 million (₱214.1 million) as of December 31, 2017 and 2016, respectively (see Note 9).

₱291.2 Million Term Loan

On December 8, 2015, EDC secured a ₱291.2 million loan from DBP. The term loan carries an interest rate of 5.75% per annum and will mature on December 17, 2030. The proceeds were used to finance the Burgos Solar Phase 1 project. On December 17, 2017, the loan agreement was amended to reduce the interest rate to 5.50%.

₱1.5 billion Term Loan

On June 24, 2016, EDC secured a ₱1.5 billion loan at 5.25% per annum maturing on December 5, 2026 with Union Bank. The proceeds were used to refinance the outstanding ₱3.5 billion fixed rate bonds, which matured on December 4, 2016, and to fund other general corporate purposes.



₱1.0 Billion Term Loan

On December 1, 2016, EDC secured a ₱1.0 billion loan at 5.58% per annum maturing on December 5, 2031 with Security Bank and SB Capital Investment Corporation. The proceeds were used to refinance the outstanding ₱3.5 billion fixed rate bonds, which matured on December 4, 2016, and to fund other general corporate purposes.

UBP ₱2.0 Billion Term Loan

On April 5, 2017, EDC secured a ₱2.0 billion loan at 5.44% per annum maturing on April 12, 2032 with Union Bank.

SBC ₱3.0 Billion Term Loan

On May 17, 2017, EDC secured a ₱3.0 billion loan at 5.32% per annum maturing on May 4, 2027 with Security Bank.

PNB ₱500.0 Million Term Loan

On May 26, 2017, EDC secured a ₱500.0 million loan at 4.74% per annum maturing on June 1, 2022 with PNB.

BPI ₱1.0 Billion Term Loan

On May 26, 2017, EDC secured a ₱1.0 billion loan at 5.21% per annum maturing on June 1, 2027 with BPI.

SBC ₱1.0 Billion Term Loan

On April 26, 2017, EDC secured a ₱1.0 billion loan at 5.43% per annum maturing on May 4, 2032 with Security Bank.

SBC ₱500.0 Million Term Loan

On July 26, 2017, EDC secured a ₱500.0 million loan at 5.49% per annum maturing on May 4, 2032 with Security Bank.

Unused Credit Facilities

As of December 31, 2017 and 2016, EDC has unused credit facilities from various local banks equivalent to \$495.3 million (₱24.7 billion) and \$452.3 million (₱22.5 billion), respectively, which may be availed for future operating activities.

Loan Covenants

The loan covenants covering EDC's outstanding debts include, among others, maintenance of certain level ratios such as: current ratio, debt-to-equity ratio, net financial debt-to-adjusted EBITDA ratio, and debt-service coverage ratios. As of December 31, 2017 and 2016, EDC, EBWPC, GCGI, and BGI are in compliance with the loan covenants of all their respective outstanding debts.

Parent Company

The details of the Parent's long-term debts are as follows:

	2017	2016
\$300.0M Notes	\$91,000	\$297,353
\$200.0M Term Facility	187,003	192,790
Total	278,003	490,143
Less current portion	19,794	5,787
Noncurrent portion	\$258,209	\$484,356



\$300.0 Million Notes

On October 9, 2013, the Parent Company issued \$250.0 million U.S. Dollar denominated Senior Unsecured Notes (the “Notes”) due on October 9, 2023 at the rate of 6.50% per annum, payable semi-annually in arrears on April 9 and October 9 of each year. On October 31, 2013, additional Notes of \$50.0 million were issued and consolidated to form a single series with the Notes. The \$50.0 million Notes are identical in all respects to the original Notes, other than with respect to the date of issuance and issue price. The Notes are issued in registered form in amounts of \$200,000 and integral multiples of \$1,000 in excess thereof. The Notes are represented by a permanent global certificate (“Global Certificate”) in fully registered form that has been deposited with the custodian for and registered in the name of a nominee for a common depositary for Euroclear bank SA/NV and Clearstream Banking, *societe anonyme*. The Notes are listed on the SGX-ST.

The Parent Company may, at its option, redeem all, (but not part) of the Notes at any time at par, plus accrued interest, in the event of certain tax changes. Upon the occurrence of a Change of Control, the Noteholders shall have the right, at its option, to require the Parent Company to repurchase all, (but not part) of the outstanding Notes at a redemption price equal to 101.0% of the principal amount plus accrued and unpaid interest, no earlier than 30 days and no later than 60 days following notice given to Noteholders of a Change of Control. The Parent Company may at any time and from time to time prior to October 9, 2018 redeem all or a portion of the Notes at a redemption price equal to 100.0% of the principal amount of the Notes redeemed, plus the Applicable Premium, accrued and unpaid interest, if any, to (but not including) the date of redemption. In addition, at any time prior to October 9, 2018, the Parent Company may on any one or more occasions redeem up to 35% of the aggregate principal amount of the Notes, at a redemption price equal to 106.5% of the principal amount of notes redeemed plus accrued and unpaid interest, with the net cash proceeds of certain equity offerings. Finally, at any time and from time to time after October 9, 2018, the Parent Company may on any one or more occasions redeem all or a part of the Notes at a specified redemption price (expressed in percentages of the principal amount) plus accrued and unpaid interest, if any, to (but not including) the date of redemption.

On October 13, 2017, the Parent Company bought back \$58.3 million of the Notes from the market with the applicable premium. Total settlement, including premium and accrued interest, amounted to \$62.7 million. These Notes were subsequently cancelled thereafter. The loss on extinguishment amounting to \$4.4 million is presented as part of “Other income (charges)” account in the consolidated statement of income.

On November 8, 2017, the Parent Company sent a Notice of Redemption to Noteholders stating that the Parent Company intends to redeem the Notes in the aggregate principal amount of \$150.0 million on December 15, 2017 at a certain Redemption Price based on a formula stated in the Trust Deed. In the Final Notice of Redemption, the Parent Company informed the Noteholders that the Applicable Premium as of Redemption Date is at 6.684% of the face value. Loss on extinguishment amounted to \$10.0 million and is presented as part of “Other income (charges)” account in the consolidated statement of income.

As a result of the foregoing, a total of \$208.3 million of the Notes have been bought back and redeemed. As of December 31, 2017, \$91.7 million of the Notes remain outstanding.

The Notes are direct, unconditional and unsecured obligations of the Parent Company, ranking *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Parent Company, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors’ right. As of December 31, 2017 and 2016, the Parent Company is in compliance with the terms of the Notes.



The movements of the unamortized debt issuance costs account as of December 31, 2017 and 2016 are as follows:

	2017	2016
Balances at beginning of year	\$2,647	\$2,947
Accretion during the year charged to the “Interest expense and financing charges” account (see Note 20)	(291)	(300)
Unamortized debt issuance costs charged to “Interest expense and financing charges” account (see Note 20)	(1,666)	—
Balances at end of year	\$690	\$2,647

\$200.0 Million Term Facility

On September 22, 2015, the Parent Company signed an unsecured \$200.0 million Term Loan Agreement with BDO as Lender and BDO Capital as Arranger. The proceeds are intended to be used to repay invest in and/or finance the Parent Company’s subsidiaries to enable the latter to fund capital expenditures for the 420 MW San Gabriel natural gas-fired power plant and other projects, and fund other general corporate requirements. On September 29, 2015, the Parent Company fully availed the term loan of \$200.0 million that will fully mature in September 2025.

The interest rate of the loan is computed semi-annually, every March and September, using fixed interest rates of: (i) 4.90% per annum from drawdown date to the March 31, 2016 (repricing date), and (ii) 5.09% per annum each successive six months from Repricing Date to maturity date.

In addition, the facility imposes standard loan covenants on the Parent Company and requires the Parent Company to maintain a debt service coverage ratio of at least 1.2:1 and a debt-to-equity ratio of at most 2.5:1. The obligations of the Parent Company under this Term Loan Agreement are unsecured. As of December 31, 2017 and 2016, the Parent Company is in compliance with the terms of the Term Loan Agreement.

The movements of the unamortized debt issuance costs account as of December 31, 2017 and 2016 are as follows:

	2017	2016
Balances at beginning of year	\$1,210	\$1,513
Accretion during the year charged to the “Interest expense and financing charges” account (see Note 20)	(213)	(303)
Balances at end of year	\$997	\$1,210

\$100.0 Million Notes Facility

On December 17, 2010 (the “Effective Date”), the Parent Company, BDO, and BDO Capital & Investment Corporation (as Arranger) executed the unsecured Notes Facility Agreement granting the Parent Company a facility to borrow an aggregate principal amount of \$100.0 million. The Notes Facility was equally divided into two tranches: (i) Tranche A with a term of six years from drawdown date and (ii) Tranche B with a term of seven years from drawdown date. The maturity dates of Tranche A and Tranche B were expected to be on March 29, 2017 and March 29, 2018, respectively.



The Notes Facility offered the Parent Company the option of pricing the loan at a fixed or floating rate. The Parent Company elected to avail of the loans at fixed interest rates of 6.4979% and 6.8052% initially for Tranche A and Tranche B, respectively. The interest on the Notes Facility was payable on a semi-annual basis.

On October 11, 2012, the Parent Company and BDO executed an amendment to the Notes Facility Agreement to amend the interest rate to 5.09091% for both Tranche A and Tranche B effective October 16, 2012 until the respective maturity dates.

On September 29, 2015, the Parent Company made its last debt service payment and voluntarily prepaid the full outstanding principal plus accrued interest totalling to \$96.4 million.

Accretion of debt issuance costs charged to the “Interest expense and financing charges” account amounted to \$0.3 million for the year ended December 31, 2015. The unamortized debt issuance costs charged directly to the “Interest expense and financing charges” account amounted to \$0.8 million for the year ended December 31, 2015 (see Note 20).

FGPC

Long-term debts of FGPC consist of U.S. dollar-denominated borrowings availed from various lenders to finance the operations of its power plant complex.

Nature	Repayment Schedule	Facility Amount	Outstanding Balances	
			2017	2016
New term loan facility with various local and a foreign banks and with interest at six-month LIBOR plus 1.00% margin	Repayment to be made in various semi-annual installments from 2017 up to 2024	\$500,000	\$459,679	\$–
Covered foreign currency-denominated loans payable to foreign financing institutions with annual interest at six months LIBOR plus 3.25% margin and political risk insurance (PRI) premium	Repayment to be made in various semi-annual installments from 2009 up to 2021	\$312,000	–	\$202,389
Uncovered foreign currency-denominated loans payable to foreign financing institutions with annual interest at six months LIBOR plus margin of 3.50% on the 1st to 5th year, 3.75% on the 6th to 7th year and 3.90% on the succeeding years	Repayment to be made in various semi-annual installments from 2009 up to 2018	\$188,000	–	17,622
Total			459,679	220,011
Less current portion			70,175	39,427
Noncurrent portion			\$389,504	\$180,584

On April 5, 2017 (the “Refinancing Date”), FGPC entered into a 7-year Facility Agreement covering a \$500.0 million term loan facility with six banks namely: Bank of Commerce, BPI, BDO, PNB, Security Bank, and Sumitomo Mitsui Banking Corporation Singapore Branch. The proceeds will be used to repay in full the aggregate principal, accrued interest and fees outstanding under the existing facilities, to fund the debt service reserve amount in the debt reserve account, and to pay down a portion of the Parent Company’s existing loans, as well as pre-fund its upcoming maturities.



On May 19, 2017, FGPC availed of the \$500.0 million term loan facility with a 7-year tenor until May 2024. As a result of the refinancing, a portion of the proceeds of the term loan facility was used to pay the outstanding loans amounting to \$222.4 million, and the remaining balance, after funding of the DSRA and payment of other fees and expenses. Net proceeds were upstreamed to First Gen on June 28, 2017 as dividends and advances which are non-interest bearing.

With respect to the new term loan facility, the interest rate is computed semi-annually, every May and November, using the six-month LIBOR floating benchmark rate plus 100 basis points, except for the first and the last interest periods wherein the benchmark rate will be the LIBOR for such period nearest to the duration of the first and the last interest periods, respectively.

The movements of the unamortized debt issuance costs account as of December 31, 2017 and 2016 are as follows:

	2017	2016
Balances at beginning of year	\$2,429	\$3,544
Additions during the year	5,479	—
Accretion for the year charged to the “Interest expense and financing charges” account (see Note 20)	(1,230)	(1,115)
Unamortized debt issuance costs charged to “Interest expense and financing charges” account (see Note 20)	(2,071)	—
Balances at end of year	\$4,607	\$2,429

FGP

Long-term debts of FGP consist of U.S. dollar-denominated borrowings availed from various lenders to partly finance the operations of its power plant complex.

Nature	Repayment Schedule	Facility Amount	Outstanding Balances	
			2017	2016
Term loan facility with various local banks and with interest at six-month LIBOR plus 2.25% margin	Repayment to be made in various semi-annual installments from 2013 up to 2022	\$420,000	\$288,261	\$321,717
Less current portion			41,510	33,456
Noncurrent portion			\$246,751	\$288,261

On October 3, 2012 (the “Refinancing Date”), FGP entered into a Facility Agreement covering a \$420.0 million term loan facility with seven local banks namely: BDO, BPI, PNB, RCBC, Union Bank, The Hongkong and Shanghai Banking Corporation Limited, and Security Bank. The proceeds will be used to repay in full the aggregate principal, accrued interest and fees outstanding under the existing facilities, to fund the debt service reserve amount in the debt reserve account, to fund FGP’s general and corporate working capital requirements, and to upstream the remaining balance to First Gen to fund its investments in other power projects.

On October 22, 2012, FGP availed of the \$420.0 million term loan facility with a 10-year tenor until October 2022. As a result of the refinancing, a portion of the proceeds of the term loan facility was used to pay the outstanding loans amounting to \$77.4 million, and the remaining balance, after funding of the debt service reserve account and payment of other fees and expenses, was upstreamed to First Gen on November 5, 2012 as dividends and advances which are interest-bearing.



With respect to the term loan facility, the interest rate is computed semi-annually, every June and December, using the six-month LIBOR floating benchmark rate plus 225 basis points, except for the first and the last interest periods wherein the benchmark rate will be the LIBOR for such period nearest to the duration of the first and the last interest periods, respectively. The term loan facility offers FGP the one-time option to reset the floating interest rate to a fixed interest rate to be applicable to all or a portion of the outstanding loans on December 10, 2015 or on December 10, 2017 by informing the facility agent five (5) banking days prior to the effective date of the resetting of the interest rate. The fixed interest rate shall be effective on December 10, 2015 to December 10, 2017, as applicable. FGP did not avail of the option to reset the floating interest rate to a fixed interest rate on December 10, 2015 and 2017.

Movements of debt issuance costs as of December 31, 2017 and 2016 are as follows:

	2017	2016
Balances at beginning of year	\$2,283	\$2,876
Accretion for the year charged to the "Interest expense and financing charges" account (see Note 20)	(544)	(593)
Balances at end of year	\$1,739	\$2,283

The covenants in the term loan facilities of FGP's and FGPC's financing agreements are limited to restrictions with respect to: change in corporate business; amendment of constituent documents; incurrence of other loans; granting of guarantees or right of set-off; maintenance of good, legal and valid title to the critical assets of the site free from all liens and encumbrances other than permitted liens; transactions with affiliates; and maintenance of specified debt service coverage ratio and debt to equity ratio. FGP's and FGPC's real and other properties and shares of stock are no longer mortgaged and pledged as part of security to the lenders. Instead, FGP and FGPC covenant to its lenders that it shall not permit any indebtedness to be secured by or to benefit from any lien on the critical assets of the site except with the consent of the lenders. As of December 31, 2017, FGP and FGPC are in compliance with the terms of the said agreements.

The balance of FGP's and FGPC's unrestricted security accounts in the consolidated statements of financial position as of December 31, 2017 and 2016 amounted to \$86.0 million and \$74.1 million, respectively (see Notes 5 and 9).

FNPC

Long-term debt of FNPC pertains to U.S. Dollar-denominated borrowings availed from KfW IPEX-Bank of Germany (KfW-IPEX).

Nature	Repayment Schedule	Facility Amount	Carrying value	
			2017	2016
Export credit facility with KfW IPEX-Bank of Germany (KfW) and with fixed interest rate per annum of 3.12% plus 25 basis points	Repayment to be made in various semi-annual installments from 2016 up to 2028	\$265,000	\$184,067	\$200,072
Less current portion			16,265	16,005
Noncurrent portion			\$167,802	\$184,067



On July 10, 2014, FNPC signed a \$265.0 million Export Credit Facility with KfW-IPEX with a tenor of 13.7 years to partially finance the 420 MW San Gabriel natural gas-fired power project. This facility has an export credit guarantee provided by Euler Hermes, acting on behalf of the Federal Republic of Germany. The proceeds of the loan will be used primarily to finance the eligible German and non-German goods and services under the Supply Contract of FNPC with Siemens AG, the equipment supplier. FNPC (as the Borrower) and AlliedGen (as the Pledgor) also signed a Pledge Agreement wherein AlliedGen has pledged over 100% of the issued and outstanding capital stock of FNPC in favor of KfW-IPEX. Furthermore, the Parent Company signed a Guarantee and Indemnity Agreement with KfW-IPEX, guaranteeing FNPC's punctual performance on all its payment obligations under the Export Credit Facility loan agreement. With respect to the Export Credit Facility, the interest is paid semi-annually, every March and September, using the fixed interest rate (per annum) of 3.12% plus 25 basis points. In addition, FNPC pays a commitment fee of 0.6% per annum on the undrawn amount.

Upon completion of construction of San Gabriel natural gas-fired power project, FNPC no longer availed the undrawn portion of the Export Credit Facility. Total drawdowns amounted to \$229.4 million as of December 31, 2016.

In 2016, deferred debt issuance cost amounting to \$0.9 million pertaining to undrawn portion was written-off, and is included under "Others" in the "Other income (charges)" account in the consolidated statement of income. Also, in 2016, FNPC and Euler Hermes have finalized the allocation of credit insurance premium between the drawn and undrawn portions of the credit facility. FNPC will receive from Euler Hermes a refund amounting to \$1.0 million pertaining to the undrawn portion of the credit insurance premium, and it is presented as part of "Others" in the "Receivables" account in the consolidated statement of financial position (see Note 6). In 2017, FNPC already collected the amount of receivable.

The movements of the unamortized debt issuance costs account as of December 31, 2017 and 2016 are as follows:

	2017	2016
Balances at beginning of year	\$20,600	\$17,855
Additions during the year	–	5,766
Accretion during the year charged to "Property, plant and equipment" account (see Note 10)	–	(2,067)
Accretion during the year charged to "Interest expense and financing charges" account (see Note 20)	(3,184)	(954)
Balances at end of year	\$17,416	\$20,600

Red Vulcan

On November 26, 2007 (the "Drawdown Date"), Red Vulcan availed of Philippine peso-denominated staple financing amounting to \$658.8 million (₱29,200.0 million) (the "Secured Indebtedness") in relation to the stake sale of 60% of EDC's issued and outstanding capital stock under an Omnibus Loan and Security Agreement (the "Staple Financing Agreement"). The Staple Financing was originally made available by a group of local lenders; namely, the DBP, BDO, and Landbank (collectively referred to as the "Staple Financing Lenders"). The interest rate of the secured indebtedness was computed using the 6-month PDST-F benchmark rate plus the applicable interest margin. The staple financing was for a maximum term of 18 months from Drawdown Date.



As set forth in the original Staple Financing Agreement, Red Vulcan was restricted to declare or pay dividends (other than stock dividend) to its stockholders or partners without the consent of all Staple Financing Lenders. Red Vulcan was also restricted, except for permitted borrowings, to incur any long-term debt, increase its borrowings, or re-avail of existing facilities with other banks or financial institutions. In addition, all of the shares of stock held by Red Vulcan in EDC at that time, which represented 60% of EDC's issued and outstanding capital stock, consisting of 6,000.0 million common stocks and 7,500.0 million preferred stocks (collectively, the "Pledged Shares"), were pledged as primary security for the due and prompt payment of the secured indebtedness. The Pledged Shares were adjusted to reflect the 25% stock dividend to the shareholders of EDC declared in 2009.

On November 28, 2008, DBP and Landbank assigned to BDO Unibank, Inc.-Trust and Investments Group (BDO Trust) their corresponding portions of the staple financing loan amounting to \$110.4 million (₱5,310.0 million).

On May 14, 2009 (the "Closing Date"), Red Vulcan signed an amended and restated Omnibus Loan and Security Agreement with BDO and BDO Trust (the "Lenders") to extend the term of the loan for a maximum of five years and one day from the Closing Date, inclusive of a two-year grace period on the principal. Interest is payable every May and November of each year at six-month PDST-F benchmark rate plus 2.5% interest margin per annum. In May 2015, the PDST-F was replaced with PDSTR-2 by way of an amendment to the agreement. Several prepayments have been made by Red Vulcan since the beginning of the loan. Moreover, by 2010, BDO remained as the only Lender to Red Vulcan.

On July 11, 2011, pursuant to the amended and restated Omnibus Loan and Security Agreement (Amendment No. 3), the Lenders agreed to a partial release of the Pledged Assets and Pledged Shares ("Pledged Securities").

On February 21, 2013, pursuant to the amendment and restated Omnibus Loan and Security Agreement (Amendment No. 4), the Lenders agreed to release the Pledged Assets and a partial release of the Pledged Shares.

Also pursuant to Amendment No. 4 of the Staple Financing Agreement, the Lenders agreed to extend the term of the loan for another three years and six months from the original maturity date of May 15, 2014. The loan will mature on November 14, 2017.

On September 18, 2017, Red Vulcan prepaid and fully settled the outstanding balance of the loan for the total amount of \$21.5 million inclusive of interest and taxes amounting to \$0.4 million. Following the full payment, the Pledged Securities were released.

The unamortized debt issuance costs incurred in connection with the availing of long-term debt by Red Vulcan are deducted against the long-term debt. Movements of debt issuance costs are as follows:

	2017	2016
Balances at beginning of year	\$76	\$269
Accretion during the year charged to "Interest expense and financing charges" account (see Note 20)	(65)	(188)
Unamortized debt issuance costs charged to "Interest expense and financing charges" account (see Note 20)	(10)	—
Foreign exchange adjustments	(1)	(5)
Balances at end of year	\$—	\$76



FG Hydro

Details of FG Hydro's long-term debt as of December 31 are as follows:

	2017	2016
Long-term debt	\$19,641	\$36,304
Less current portion	3,507	5,500
Noncurrent portion	\$16,134	\$30,804

On May 7, 2010, FG Hydro signed a secured loan agreement for a \$112.0 million (₱5.0 billion) Peso loan with PNB and Allied Bank with a tenor of ten years. With the merger of PNB and Allied Bank in February 2013, FG Hydro's outstanding loan as of that date was consolidated under PNB. The loan was secured by Real Estate and Chattel mortgages on all present and future mortgageable assets of FG Hydro. The loan carried interest at 9.025% subject to re-pricing after five years.

On November 7, 2012, FG Hydro's outstanding loan amounting to \$103.8 million (₱4.3 billion) was restructured by way of an amendment to the loan agreement. The amended agreement provided for a change in the determination of the applicable interest rates and extended the maturity date of the loan by two years with the last repayment to be made on November 7, 2022. FG Hydro has the option to select its applicable interest rate between a fixed or a floating interest rate. FG Hydro initially opted to avail of the loan at the floating rate which was the higher of the six-month PDST-F rate plus a margin of 1.50% per annum or the BSP overnight rate plus a margin of 1% per annum as determined on the interest rate setting date. On May 7, 2015, both parties agreed to replace the six-month PDST-F rate with the six-month PDST-R2 rate as the floating benchmark rate, while the floor rate for a floating loan was pegged at the BSP overnight rate. FG Hydro still has a one-time option to convert to a fixed interest rate for the remaining life of the loan at least five days before any interest setting date. The principal and the interest on the loan are payable on a semi-annual basis. On February 29, 2016, the loan agreement was amended to release from the loan security all present and future chattel and non-critical real assets as specified under the amendment.

On May 8, 2017 and November 7, 2016, FG Hydro made a voluntary partial prepayments of the principal loan balance amounting to \$12.0 million (₱0.6 billion) and \$20.1 million (₱1.0 billion), respectively.

FG Hydro is obligated to comply with certain covenants with respect to maintaining specified debt-to-equity and minimum debt service coverage ratios, as set forth in its loan covenant with creditors. As of December 31, 2017 and 2016, FG Hydro is in compliance with these covenants.



15. Other Noncurrent Liabilities

This account consists of:

	2017	2016
Asset retirement obligations (see Note 10)	\$22,243	\$23,064
Provision for sick and vacation leaves	6,046	5,447
Others (see Note 3)	15,036	12,537
	\$43,325	\$41,048

Asset Retirement Obligations

This account consists of the asset retirement obligations of FGP, FGPC and FG Bukidnon. Under their respective ECCs, FGP and FGPC have legal obligations to dismantle their respective power plant assets at the end of their useful lives. FG Bukidnon, on the other hand, has contractual obligation under the lease agreement with PSALM to dismantle its power plant asset at the end of its useful life. FGP, FGPC and FG Bukidnon established their respective provisions to recognize their estimated liability for the dismantlement of the power plant assets.

This account also includes the provision for rehabilitation and restoration costs of EDC which pertain to the present value of estimated costs of legal and constructive obligations required to restore all the existing sites upon termination of the cooperation period. The nature of these restoration activities includes dismantling and removing structures, rehabilitating wells, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is constructed or the ground or environment at the site is disturbed. When the liability is initially recognized, the present value of the estimated costs is capitalized as part of the carrying amount of the related FCRS and production wells under "Property, plant and equipment" and "Exploration and evaluation assets" accounts (see Notes 10 and 12).

Movements of the asset retirement obligations follow:

	2017	2016
Balances at beginning of year	\$23,064	\$25,180
Accretion for the year charged to "Interest expense and financing charges" account (see Note 20)	1,067	1,089
Effect of revision of estimate	(1,793)	(2,023)
Foreign exchange adjustments	(95)	(1,182)
Balances at end of year	\$22,243	\$23,064

The revision in estimate was attributable to changes in discount rates used.

Provision for Sick Leave and Vacation Leave

Sick and annual vacation leaves with pay are given to active employees subject to certain requirements set by First Gen Group. These leaves are convertible into cash upon separation of the employees. At the end of the year, any remaining unused sick and vacation leave are accrued up to maximum allowed number of leave credits which is based on the employees' length of service. For EDC, vacation and sick leave credits exceeding the maximum allowed for accrual are forfeited.



Others

Others include EDC's estimate of the probable costs for the resolution of EDC's pending assessments from various regulatory agencies and outstanding legal cases including the corresponding interest thereon. Such estimated costs were developed in consultation with in-house and external legal counsels, and are based on the analysis of the potential outcomes. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

16. Equity

a. Capital Stock

Details and movements of the Parent Company's capital stock are as follows:

	Number of Shares		
	2017	2016	2015
Redeemable preferred stock (Series "B")			
- ₱0.50 par value			
Authorized	1,000,000,000	1,000,000,000	1,000,000,000
Issued and outstanding	1,000,000,000	1,000,000,000	1,000,000,000
Redeemable preferred stock (Series "E")			
- ₱0.50 par value			
Authorized	1,500,000,000	1,500,000,000	1,500,000,000
Issued and outstanding	468,553,892	468,553,892	468,553,892
Redeemable preferred stock (Series "F")			
- ₱10.00 par value			
Authorized	100,000,000	100,000,000	100,000,000
Issued	100,000,000	100,000,000	100,000,000
Outstanding	63,202,160	63,624,990	63,635,000
Redeemable preferred stock (Series "G")			
- ₱10.00 par value			
Authorized	135,000,000	135,000,000	135,000,000
Issued	133,750,000	133,750,000	133,750,000
Outstanding	126,855,520	128,723,720	133,750,000
Common stock - ₱1 par value			
Authorized	5,000,000,000	5,000,000,000	5,000,000,000
Issued			
Balances at beginning of year	3,660,943,557	3,660,943,557	3,643,320,457
Issuance of shares through private placement	—	—	17,623,100
Balances at end of year	3,660,943,557	3,660,943,557	3,660,943,557

As of December 31, 2017, the Parent Company's redeemable preferred stock consists of the following:

- The Series "B" preferred stocks have voting rights, entitled to cumulative dividends of two centavos (₱0.02) a share and redeemable at the option of the Parent Company.
- The Series "E" preferred stocks have voting rights, entitled to receive dividends at one centavo (₱0.01) a share and redeemable at the option of the Parent Company.
- The Series "F" preferred stocks have non-voting rights except in the cases provided by law, issue value of one hundred pesos (₱100.00) a share, dividend rate of 8.0% on the issue price, entitled to receive cumulative dividends, and redeemable at the option of the Parent Company.



- The Series “G” preferred stocks have non-voting rights except in the cases provided by law, issue value of one hundred pesos (₱100.00) a share, dividend rate of 7.7808% on the issue price, entitled to receive cumulative dividends, and redeemable at the option of the Parent Company.

Preferred stocks, regardless of series, are non-participating and non-convertible to common stocks.

On May 16, 2012, the BOD of the Parent Company approved the extension of the two-year share buyback program which was previously approved by the BOD of the Parent Company on May 12, 2010 covering up to 300.0 million of the Parent Company’s common stocks representing approximately 9% of the Parent Company’s total outstanding common stocks. The number of shares and buyback period are subject to revision from time to time as circumstances may warrant, subject to the proper disclosures to regulatory agencies, by the BOD of the Parent Company. The Parent Company will undertake a buyback transaction only if and to the extent that the price per share is deemed extremely undervalued, if share prices are considered highly volatile, or in any other instance where the Parent Company believes that a buyback will result in enhancing shareholder value. On May 12, 2014, the stockholders and the BOD of the Parent Company approved the extension of the buyback program for another two years from June 1, 2014 to May 31, 2016 under the same terms and conditions as the original share buyback program. There are no stocks purchased under the program from May 16, 2012 to May 31, 2016.

During the May 12, 2014 Annual Stockholders’ Meeting, the stockholders and the BOD of the Parent Company approved a two-year buyback program covering the repurchase of up to ₱5.0 billion worth of Series “F” and “G” redeemable preferred stocks from the open market. The two-year period commenced on June 1, 2014 and ended on May 31, 2016. Under the Series “F” and “G” redeemable preferred stocks buy-back program, the maximum amount of the shares and buyback period will be subject to revision by the BOD from time to time as circumstances warrant, subject to proper disclosures to regulatory agencies. The program will not involve active and widespread solicitation from shareholders in general, and not adversely affect the Parent Company’s prospective and existing development projects. The program will be executed in open market through the trading facilities of the PSE and be implemented under the supervision of the Parent Company’s Chief Executive Officer, President, and Chief Finance Officer. On October 6, 2015, the Parent Company purchased from the open market 36,365,000 Series “F” redeemable preferred stocks at an issue price of ₱110.0 per share. The transaction was made pursuant to a two-year buyback program approved by the stockholders and BOD on May 12, 2014.

On May 11, 2016, the BOD of the Parent Company approved during its Organizational board meeting the two-year extension of the buy-back programs from June 1, 2016 to May 31, 2018. The two-year extension covers the: (i) common stock buy-back program covering up to 300.0 million of the Parent Company’s common stocks; and (ii) Series “F” and “G” Preferred Shares buyback program covering up to ₱10.0 billion worth of said redeemable preferred stocks. In 2016, the Parent Company purchased from the open market 10,010 and 5,026,280 Series “F” and Series “G” redeemable preferred stocks, respectively. Total payments for the buyback of the Series “F” and Series “G” redeemable preferred stocks amounted to ₱1.1 million (\$0.02 million) and ₱598.8 million (\$12.2 million). In 2017, the Parent Company purchased from the open market 422,830 and 1,868,200 Series “F” and Series “G” redeemable preferred stocks, respectively. Total payments for the buyback of the Series “F” and Series “G” redeemable preferred stocks amounted to ₱45.8 million (\$0.9 million) and ₱211.7 million (\$4.2 million), respectively.

In 2018, the Parent Company purchased from the open market 6,091,200 common stocks for ₱90.5 million (\$1.8 million).



On January 20, 2015, the Parent Company authorized the issuance and sale of an aggregate of 297,029,800 common stocks to be taken from its unissued capital stock and treasury stock at an identical issue price of ₱25.25 per share (the “Offer Price”). The price represents a 2.9% discount to the last traded price of ₱26.00 per share. The placement was conducted via an accelerated bookbuilding process (see Note 1).

On March 12, 2015 and May 13, 2015, the BOD and the stockholders of the Parent Company approved the following amendments/matters to Article Seventh of the Parent Company’s Amended Articles of Incorporation:

- to create 160 million Series “H” preferred stocks with a par value of ₱10.0 per share with the following features: issue value and dividend rate to be determined by the BOD at the time of issuance, entitled to cumulative dividends, non-voting, non-participating, redeemable at option of the Parent Company and in the event of liquidation, dissolution, distribution of assets or winding-up of the Parent Company shall be entitled to be paid at their issue value plus any accrued and unpaid dividends thereon;
- to increase the authorized capital stock from ₱8,600.0 million to ₱10,200.0 million; and,
- to file the corresponding amendments to Article Seventh of the Parent Company’s Amended Articles of Incorporation to reflect the above items.

On March 15, 2018, the BOD of the Parent Company approved the amendment to Article Seventh of the Parent Company’s Amended Articles of Incorporation to increase the authorized capital stock from ₱8,600.0 million to ₱11,600.0 million by way of creating 300.0 million Series "H" preferred stocks with a par value of P10.0 a share. This amends the March 12, 2015 resolutions of the BOD increasing the authorized capital stock for ₱8,600.0 million to ₱10,200.0 million by creation of 160.0 million Series "H" preferred stocks.

b. Deposits for future stock subscriptions

On October 30, 2015, FPH made deposits for future stock subscriptions amounting to \$2.1 million (₱100.0 million) for its subscription to the Series “H” preferred stocks of the Parent Company. The deposits were recorded as part of “Accounts payable and accrued expenses” as of December 31, 2015. In 2016, the Parent Company reclassified the balance to “Deposits for future stocks subscriptions” account upon its application for an increase in authorized capital stock to create Series “H” preferred stocks.

c. Retained Earnings

Following are the dividends declared and paid by the Parent Company in 2017, 2016 and 2015:

2017

Declaration date	Record date	Payment date	Shareholders	Description	Dividend per share	Total amount (in USD)	Total amount (in PHP)
Nov. 24, 2017	Jan. 2, 2018	Jan. 25, 2018	Series “B” Preferred	Regular	₱0.02	\$389	₱20,000
Nov. 24, 2017	Jan. 2, 2018	Jan. 25, 2018	Series “E” Preferred	Regular	0.01	91	4,686
Nov. 24, 2017	Jan. 2, 2018	Jan. 25, 2018	Series “F” Preferred	Regular	4.00	4,920	252,809
Nov. 24, 2017	Jan. 2, 2018	Jan. 25, 2018	Series “G” Preferred	Regular	3.8904	8,563	440,026
Nov. 24, 2017	Jan. 2, 2018	Jan. 25, 2018	Series “G” Preferred*	Regular	0.38904	104	5,349
Sept. 26, 2017	Oct. 10, 2017	Oct. 30, 2017	Common	Regular	0.35	25,170	1,281,330
June 15, 2017	June 29, 2017	July 25, 2017	Series “F” Preferred	Regular	4.00	5,071	252,809
June 15, 2017	June 29, 2017	July 25, 2017	Series “G” Preferred	Regular	3.8904	8,827	440,026
June 15, 2017	June 29, 2017	July 25, 2017	Series “G” Preferred*	Regular	0.38904	107	5,349
						\$53,242	₱2,702,384

*Pertains to the 13,750,000 Series “G” preferred stocks issued to FPH by way of private placement.



2016

Declaration date	Record date	Payment date	Shareholders	Description	Dividend per share	Total amount (in USD)	Total amount (in PHP)
Nov. 28, 2016	Dec. 29, 2016	Jan. 25, 2017	Series "B" Preferred	Regular	₱0.02	\$406	₱20,000
Nov. 28, 2016	Dec. 29, 2016	Jan. 25, 2017	Series "E" Preferred	Regular	0.01	95	4,686
Nov. 28, 2016	Dec. 29, 2016	Jan. 25, 2017	Series "F" Preferred	Regular	4.00	5,171	254,500
Nov. 28, 2016	Dec. 29, 2016	Jan. 25, 2017	Series "G" Preferred	Regular	3.8904	9,088	447,294
Nov. 28, 2016	Dec. 29, 2016	Jan. 25, 2017	Series "G" Preferred*	Regular	0.38904	109	5,349
Sept. 14, 2016	Sept. 28, 2016	Oct. 14, 2016	Common	Regular	0.35	27,463	1,281,330
June 15, 2016	June 29, 2016	July 25, 2016	Series "F" Preferred	Regular	4.00	5,439	254,540
June 15, 2016	June 29, 2016	July 25, 2016	Series "G" Preferred	Regular	3.8904	9,977	466,848
June 15, 2016	June 29, 2016	July 25, 2016	Series "G" Preferred*	Regular	0.38904	114	5,349
						\$57,862	₱2,739,896

*Pertains to the 13,750,000 Series "G" preferred stocks issued to FPH by way of private placement.

2015

Declaration date	Record date	Payment date	Shareholders	Description	Dividend per share	Total amount (in USD)	Total amount (in PHP)
Nov. 26, 2015	Dec. 23, 2015	Jan. 25, 2016	Series "B" Preferred	Regular	₱0.02	\$431	₱20,000
Nov. 26, 2015	Dec. 23, 2015	Jan. 25, 2016	Series "E" Preferred	Regular	0.01	101	4,686
Nov. 26, 2015	Dec. 23, 2015	Jan. 25, 2016	Series "F" Preferred	Regular	4.00	5,490	254,540
Nov. 26, 2015	Dec. 23, 2015	Jan. 25, 2016	Series "G" Preferred	Regular	3.8904	10,070	466,848
Nov. 26, 2015	Dec. 23, 2015	Jan. 25, 2016	Series "G" Preferred*	Regular	0.38904	116	5,349
July 22, 2015	Aug. 5, 2015	Aug. 20, 2015	Common	Regular	0.35	28,468	1,281,330
June 15, 2015	July 1, 2015	July 27, 2015	Series "F" Preferred	Regular	4.00	8,966	400,000
June 15, 2015	July 1, 2015	July 27, 2015	Series "G" Preferred	Regular	3.8904	10,464	466,848
June 15, 2015	July 1, 2015	July 27, 2015	Series "G" Preferred*	Regular	0.38904	120	5,349
						\$64,226	₱2,904,950

*Pertains to the 13,750,000 Series "G" preferred stocks issued to FPH by way of private placement.

As of December 31, 2017 and 2016, total unpaid cash dividends on preferred stocks amounting to \$14.5 million (₱722.9 million) and \$14.7 million (₱731.8 million), respectively, are presented as "Dividends payable" in the consolidated statements of financial position.

In 2017, 2016 and 2015, the Parent Company declared cash dividends on common stocks amounting to \$25.2 million (₱1,281.3 million), \$27.5 million (₱1,281.3 million) and \$28.5 million (₱1,281.3 million), respectively. The amount of dividends on common stocks held by subsidiaries amounted to \$0.4 million, \$0.5 million and \$0.4 million in 2017, 2016 and 2015, respectively.

The retained earnings balance is restricted to the extent of: (a) acquisition price of the treasury stocks amounting to \$127.6 million and \$122.1 million as of December 31, 2017 and 2016, respectively; and (b) the undistributed net earnings of subsidiaries and associates amounting to \$468.6 million and \$494.6 million as of December 31, 2017 and 2016, respectively. Undistributed earnings of the subsidiaries and associates are not available for dividend distribution until such time that the Parent Company receives the dividends from these investee companies.



d. Treasury Stocks

(i) Movements in the number of common stocks held in treasury are as follows:

	2017	2016	2015
Balances at beginning of year	61,162,900	58,874,700	330,531,400
Common stocks issued through private placement	–	–	(279,406,700)
Common stocks acquired through market by subsidiaries during the year	1,000,000	2,288,200	7,750,000
Balances at end of year	62,162,900	61,162,900	58,874,700

On January 20, 2015, the Parent Company authorized the issuance of 279,406,700 common stocks to be taken from its treasury stock at issue price of ₱25.25 per share (the “Offer Price”). The price represents a 2.9% discount to the last traded price of ₱26.00 per share.

As of December 31, 2017 and 2016, the number of common stocks of Parent Company held by subsidiaries totaled to 62,162,900 and 61,162,900, respectively. The costs of these Parent Company common stocks held by subsidiaries amounted to \$24.6 million and \$24.3 million as of December 31, 2017 and 2016, respectively. These are included as part of “Treasury stocks” account in the equity section of the consolidated statements of financial position.

In 2017, 2016 and 2015, the portion of cash dividends declared pertaining to common stocks held by subsidiaries, and thus reverted to retained earnings amounted to \$0.4 million, \$0.5 million and \$0.4 million, respectively.

(ii) On October 6, 2015, the Parent Company purchased from the open market 36,365,000 Series “F” redeemable preferred stocks at a market price of ₱110.00 per share. The transaction was made pursuant to a two-year buyback program approved by the BOD on May 12, 2014. Total payment for the buyback of the Series “F” redeemable preferred stocks amounted to \$85.6 million (₱4.0 billion).

In 2016, the Parent Company purchased from the open market 10,010 and 5,026,280 Series “F” and Series “G” redeemable preferred stocks, respectively. Total payments for the buyback of the Series “F” and Series “G” redeemable preferred stocks amounted to \$0.02 million (₱1.1 million) and \$12.2 million (₱598.8 million), respectively.

In 2017, the Parent Company purchased from the open market 422,830 and 1,868,200 Series “F” and Series “G” redeemable preferred stocks, respectively. Total payments for the buyback of the Series “F” and Series “G” redeemable preferred stocks amounted to \$0.9 million (₱45.8 million) and \$4.2 million (₱211.7 million), respectively.

As of December 31, 2017 and 2016, the Parent Company has total Series “F” and Series “G” redeemable preferred stocks held in treasury amounting to \$103.0 million and \$97.8 million, respectively.



e. Non-controlling Interests

For the years ended December 31, 2017 and 2016, the NCI arises from the profits or losses and net assets not held by First Gen Group in EDC and Subsidiaries. Financial information of subsidiaries that have material NCI interests are provided below:

	2017	2016
Accumulated balances of NCI		
EDC and Subsidiaries	\$581,918	\$426,618
Total comprehensive income allocated to NCI		
EDC and Subsidiaries for years ended	\$69,185	\$66,137

In 2017, 2016 and 2015, EDC declared and paid cash dividends to its non-controlling common stockholders amounting to \$25.7 million (₱1,296.2 million), \$51.0 million (₱2,407.8 million) and \$43.2 million (₱1,951.3 million), respectively.

The details of EDC's treasury stock are as follows:

Date of Acquisition	Number of Shares	Average price per share	Amounts in PHP	Amounts in USD
January 8, 2016	3,700,000	₱5.6394	₱20,921	\$442
January 11, 2016	900,000	5.5475	5,006	106
April 8, 2016	2,000,000	5.6370	11,303	239
May 2, 2016	390,000	5.6623	2,215	48
May 3, 2016	1,000,000	5.6350	5,650	119
December 11, 2015	3,000,000	5.7267	17,226	380
December 14, 2015	2,000,000	5.5813	11,191	247
Total	12,990,000		₱73,512	\$1,581

As of December 31, 2017 and 2016, EDC has treasury common stocks amounting to \$1.6 million (₱73.5 million).

Following are the summarized financial information of EDC and Subsidiaries (amounts in thousands):

Consolidated Statements of Financial Position as of December 31, 2017 and 2016

	2017		2016	
	In USD	In Php	In USD	In Php
Current assets	\$540,625	₱26,993,412	\$512,672	₱25,490,062
Non-current assets	2,214,975	110,593,710	2,218,739	110,315,723
Total Assets	\$2,755,600	₱137,587,122	\$2,731,411	₱135,805,785
Current liabilities	\$373,967	₱18,672,175	\$352,334	₱17,518,051
Non-current liabilities	1,208,075	60,319,187	1,316,927	65,477,639
Total Liabilities	1,582,042	78,991,362	1,669,261	82,995,690
Total Equity	1,173,558	58,595,760	1,062,150	52,810,095
Total Liabilities and Equity	\$2,755,600	₱137,587,122	\$2,731,411	₱135,805,785



Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015

	2017		2016		2015	
	In USD	In Php	In USD	In Php	In USD	In Php
Revenues from sale of electricity	\$660,376	₱33,255,191	\$723,988	₱34,235,563	\$758,515	₱34,360,460
Costs of sale of electricity	(298,551)	(15,034,405)	(290,927)	(13,757,233)	(318,755)	(14,439,513)
General and administrative expenses	(105,542)	(5,314,860)	(117,794)	(5,570,203)	(145,403)	(6,586,687)
Financial income (expenses)	(76,571)	(3,855,960)	(89,252)	(4,220,482)	(94,129)	(4,264,019)
Other income (charges)	(1,462)	(73,595)	14,842	701,862	(7,289)	(330,196)
Income before income tax	178,250	8,976,371	240,857	11,389,507	192,939	8,740,045
Provision for income tax	(20,550)	(1,034,874)	(35,399)	(1,673,924)	(19,441)	(880,673)
Net income	157,700	7,941,497	205,458	9,715,583	173,498	7,859,372
Other comprehensive income (loss)	(3,154)	(158,848)	15,119	714,957	(3,158)	(143,045)
Total comprehensive income	\$154,546	₱7,782,649	\$220,577	₱10,430,540	\$170,340	₱7,716,327

Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015

	2017		2016		2015	
	In USD	In Php	In USD	In Php	In USD	In Php
Operating activities	\$374,925	₱18,880,451	\$368,665	₱17,433,256	\$485,363	₱21,986,794
Investing activities	(120,442)	(6,065,197)	(171,658)	(8,117,269)	(295,816)	(13,400,376)
Financing activities	(232,355)	(11,700,913)	(342,646)	(16,202,863)	(109,878)	(4,977,449)
Net increase (decrease) in cash and cash equivalents	\$22,128	₱1,114,341	(\$145,639)	(₱6,886,876)	\$79,669	₱3,608,969

f. Cumulative Translation Adjustments

The details of cumulative translation adjustments (net of NCI's share) as of December 31 are as follows:

	2017	2016
Net losses on cash flow hedge - net of tax (see Note 25)	\$20,748	\$7,525
Foreign exchange adjustments	(153,896)	(143,013)
Balances at end of year	(\$133,148)	(\$135,488)

The movements in the "Cumulative translation adjustments" account (net of NCI's share) for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Balances at beginning of year	(\$135,488)	(\$65,584)
Net gains on cash flow hedge - net of tax (see Note 25)	13,223	7,230
Foreign exchange adjustments	(10,883)	(77,134)
Balances at end of year	(\$133,148)	(\$135,488)



17. Share-based Payment Plans

Employee Stock Option Plan (ESOP)

Under the Parent Company's ESOP which was approved by the BOD in July 2002, there was only one option grant which was dated July 1, 2003. Options awarded pursuant to this option grant are no longer exercisable following the Option Expiration Date of July 1, 2013. There is currently no ESOP in place.

Employee Stock Purchase Plan (ESPP)

In accordance with the provisions of the ESPP, the plan expired on April 15, 2015, or ten (10) years from the plan's adoption date of April 15, 2005. No award or issuance of shares has been granted to any employee under the plan, and no ESPP is currently in place.

18. Related Party Transactions

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

The following are the significant transactions with related parties:

- a. Due to a related party represents noninterest-bearing U.S. dollar and Philippine peso-denominated emergency loans to meet working capital and investment requirements of certain entities in the Lopez Group.
- b. First Gen Group leases its office premises where its new principal offices are located from Rockwell Land Corporation (Rockwell), a subsidiary of FPH [(see Note 26(n))]. Total rent expense included under "Business and related expenses" in the "General and administrative expenses" account in the consolidated statements of income amounted to \$1.3 million in 2017 and 2016, respectively (see Note 19).
- c. First Gen Group leased its office premises where its previous principal offices were located from First Philippine Realty Corporation (FPRC), a subsidiary of FPH [(see Note 26(n))]. Total rent expense included under "Business and related expenses" in the "General and administrative expenses" account in the consolidated statements of income amounted to \$0.5 million in 2015 (see Note 19).
- d. The Parent Company is engaged as EDC's consultant to render services pertaining to financial, business development and other matters under a Consultancy Agreement. On March 8, 2015, the Parent Company and EDC agreed to extend the Consultancy Agreement for a period of 24 months, from January 1, 2015 to December 31, 2016, for a monthly fee of \$0.6 million (₱28.4 million, net of withholding taxes plus VAT). On November 23, 2016, the Parent Company and EDC agreed to further extend the Consultancy Agreement for a period of 24 months, from January 1, 2017 to December 31, 2018, for a monthly fee of \$0.6 million (₱28.0 million, net of withholding taxes plus VAT).
- e. Following the usual bidding process, EDC awarded to First Balfour, Inc. (First Balfour) procurement contracts for various works such as civil, structural and mechanical/ piping works in EDC's geothermal, solar and wind power plants. EDC also engaged the services of Thermaprime



Well Services, Inc. (Thermaprime), a subsidiary of First Balfour, for the drilling services such as, but not limited to, rig operations, rig maintenance, well design and engineering. As of December 31, 2017 and 2016, the outstanding balances of EDC's payables to First Balfour and Thermaprime totaled to \$16.5 million and \$26.3 million, respectively, recorded under "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

First Balfour is a wholly owned subsidiary of FPH.

f. GSPA between Prime Meridian and FGP

On December 4, 2015, Prime Meridian (as "Buyer") and FGP (as "Seller") entered a GSPA wherein the Seller shall sell and tender for delivery to Buyer at the Delivery Point, and Buyer shall purchase and take from Seller the quantities of natural gas determined by Buyer to meet the operating requirements of the Avion power plant, provided that such quantities shall not exceed the Available Daily Gas Quantity and the Available Annual Gas Quantity, as applicable, and provided further that, the Seller shall have no obligation to tender for delivery quantity of natural gas if there is restriction or expected restriction in the availability of natural gas or if the quantity of natural gas is or will not be sufficient after taking into consideration the operational requirements of the Seller.

g. Project Development and Technical Consultancy Services Agreement

On September 1, 2016, the Parent Company entered into a Project Development and Technical Consultancy Services Agreement (the Agreement) with FNPC and Prime Meridian relating to the development, construction, and completion of the 420 MW San Gabriel and the 97 MW Avion power plants (collectively referred to as the "Project" or "Power Plant"). Under the Agreement, the Parent Company shall render engineering and environmental studies, consultation, procurement of licenses and permits for, supervision of site planning and preparation for construction, engineering, and construction management of the Project.

The above services shall commence during the period of development and construction of the power plant up to its full completion, unless sooner terminated or otherwise extended as may be agreed by the parties.

The commissioning of the San Gabriel and Avion Power Plants were completed in November 2016 and September 2016, respectively. As of December 31, 2016, FNPC and Prime Meridian paid the Parent Company a fixed fee amounting to \$15.0 million and \$5.0 million (net of VAT), respectively.

h. Completion Works Agreement

Following the termination of contract between Prime Meridian and IEG and EPCo's, Prime Meridian has engaged First Balfour to complete works including procurement of various works such as civil, structural and architectural, and mechanical and electrical works in the Avion Plant. Prior to termination, First Balfour was the sub-contractor of EPCo based on the previous contract. Total cost incurred in 2016 amounting to \$4.7 million (₦230.0 million) were capitalized as part of "Property, plant and equipment" account in the consolidated statements of financial position (see Note 10).

i. Intercompany Guarantees

Parent Company

During the February 26, 2014 meeting, the BOD of the Parent Company approved the confirmation, ratification and approval of the authority of the Parent Company, pursuant to Clause (i) of the Second Article of the Parent Company's Amended Articles of Incorporation, to act as a guarantor or co-obligor or assume any obligation of any person, corporation or entity in which the



Corporation may have an interest, directly or indirectly, including but not limited to FNPC, which is the operating company of the 420 MW San Gabriel power plant and Prime Meridian, which is the operating company of the 97 MW Avion power plant, under such terms and conditions as the Parent Company's duly authorized representatives may deem necessary, proper or convenient in the best interest of the Parent Company and its relevant subsidiary. On May 12, 2014, the stockholders of the Parent Company ratified and confirmed such authority.

On July 10, 2014, the Parent Company signed a Guarantee and Indemnity Agreement with KfW-IPEX, guaranteeing FNPC's punctual performance on all its payment obligations under the Export Credit Facility loan agreement.

As of December 31, 2016, the Parent Company issued guarantees totalling to \$8.0 million, in favor of the Board of Investments (BOI), to guarantee the payment of customs duties waived in the event that FNPC and/or Prime Meridian does not comply with the terms and conditions of their respective Certificates of Authority specifically on the installation and permanent use of imported capital equipment, spare parts and accessories that were installed in the San Gabriel and Avion power plants. On February 8, 2017, the BOI granted the respective requests of FNPC and Prime Meridian for the cancellation of the Parent Company guarantees in view of San Gabriel and Avion power plants' compliance of its obligations under their respective Certificates of Authority.

EDC

EDC issued letters of credit amounting to \$80.0 million in favor of its subsidiary, EDC Chile Limitada, as evidence of its financial support for EDC Chile Limitada's participation in the bids for geothermal concession areas by the Chilean Government.

EDC also issued letters of credit in favor of its subsidiaries in Peru, namely, EDC Peru S.A.C. and EDC Energia Verde Peru S.A.C. at \$0.27 million each as evidence of EDC's financial support for the geothermal authorizations related to the exploration drilling activities of the said entities.

- j. Compensation of key management personnel are as follows:

	2017	2016	2015
Other short-term employee benefits	\$16,670	\$24,870	\$23,922
Retirement benefits (see Note 21)	1,151	1,292	1,447
Share-based payments of EDC	–	–	(117)
	\$17,821	\$26,162	\$25,252

Terms and Conditions of Transactions with Related Parties. As mentioned above, except for the letters of credit issued by EDC in favor of EDC Chile Limitada, EDC Peru S.A.C. and EDC Energia Verde Peru S.A.C., and the Parent Company guarantees issued to FNPC and Prime Meridian in relation to the construction of San Gabriel and Avion power plants, respectively, there have been no other guarantees provided for or received from any other related party during the years ended December 31, 2017, 2016 and 2015. The outstanding balances at the end of each year are unsecured and interest-free and settlement occurs in cash.



Details of amounts due from related parties (included in the Receivables account), and due to a related party are as follows:

Transactions for the Years ended						Net Amounts due from/to	
		December 31				related parties as of	
Related Party	Nature of Transactions	Terms	2017	2016	2015	2017	2016
Due from related parties (see Note 6)							
		Unsecured and					
FGNEC	Interest-free advances	payable by demand	\$—	\$—	(\$8)	\$168	\$168
FGen Northern Power	Interest-free advances	- do -	2	149	—	151	149
First Philec	Marketing services	- do -	2	6	—	8	6
FPIC	Interest-free advances	- do -	—	(772)	—	—	—
LIRF	Interest-free advances	- do -	—	—	(151)	—	—
QRC	Interest-free advances	- do -	—	—	(217)	—	—
Others	Interest-free advances	- do -	133	196	(124)	1,402	1,269
			\$137	(\$421)	(\$500)	\$1,729	\$1,592
Due to a related party							
		Unsecured and					
FGHC International Ltd.	Interest-free advances	payable by demand	\$—	\$—	\$—	\$145	\$145

No impairment loss was recognized on the amounts due from related parties for the years ended December 31, 2017, 2016 and 2015. This assessment is undertaken each financial year through review of the financial position of each of the related parties and the market in which the related party operates.

Due from related parties - Others are advances to FPH, Lopez Holdings, and FPH Capital Resources, Inc. (FCRI). Lopez Holdings is the intermediate parent company of First Gen through FPH. FCRI is a subsidiary of FPH.

19. Costs and Expenses

Costs of Sale of Electricity

	2017	2016	2015
Fuel cost	\$633,454	\$475,675	\$725,774
Depreciation and amortization (see Notes 10 and 11)	202,722	188,744	176,231
Power plant operations and maintenance [see Notes 7 and 26(h)]	200,984	166,990	206,824
Others (see Notes 7, 9 and 13)	37,725	40,981	36,980
	\$1,074,885	\$872,390	\$1,145,809



General and Administrative Expenses

	2017	2016	2015
Staff costs	\$58,260	\$66,312	\$67,454
Professional fees	43,839	51,758	59,461
Insurance, taxes and licenses	48,249	38,572	38,813
Business and related expenses (see Note 18)	16,860	16,958	26,054
Depreciation and amortization (see Notes 10 and 11)	9,210	8,840	9,744
Spare parts and supplies issued (see Note 7)	2,591	2,195	3,374
Repairs and maintenance	2,575	3,817	4,703
Provision for impairment of spare parts and supplies inventories (see Note 7)	1,400	1,236	1,567
Provision for impairment loss (see Notes 6 and 12)	3,557	1,485	2,137
	\$186,541	\$191,173	\$213,307

20. Financial Income (Expense)

Interest Income

	2017	2016	2015
Cash and cash equivalents (see Note 5)	\$7,991	\$7,896	\$9,747
DSRA (see Note 9)	1,040	199	104
Others	1,101	869	224
	\$10,132	\$8,964	\$10,075

“Others” include interest income on AFS securities and financial assets at FVPL.

Interest Expense and Financing Charges

	2017	2016	2015
Interest on:			
Long-term debt	\$145,056	\$148,665	\$146,243
Swap fees	2,592	9,269	12,449
Liability from litigation	155	165	175
Accretion on:			
Debt issuance costs (see Note 14)	8,693	7,182	6,732
Asset retirement obligation (see Note 15)	1,067	1,089	897
Unamortized debt issuance costs (see Note 14)	4,166	—	803
Swap termination fee (see Note 25)	13,368	—	—
	\$175,097	\$166,370	\$167,299



21. Retirement Benefits

The following tables summarize the funded status and amounts recognized in the consolidated statements of financial position for the retirement plans and the components of net retirement benefit expense recognized as part of “Power plant operations and maintenance” in the “Costs of sale of electricity” account and “Staff costs” in the “General and administrative expenses” account in the consolidated statements of income.

The net retirement assets (liabilities) are presented in the consolidated statements of financial position as follows:

	2017	2016
Net retirement assets (see Note 12)	\$972	\$2,597
Net retirement and other post-employment benefits liabilities	(20,462)	(26,306)

Net retirement assets are included in the “Other noncurrent assets” account (see Note 12) while the net retirement and other post-employment benefits liabilities are presented in the “Noncurrent liabilities” portion of the consolidated statements of financial position.

Under the existing regulatory framework, Republic Act (R.A.) 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee’s retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The amounts recognized in the consolidated statements of financial position are as follows:

December 31, 2017

	First Gen	FGPC	FGP	FGHC	EDC & Subsidiaries	Others	Total
Present value of defined benefit obligation	\$5,671	\$6,349	\$4,962	\$2,418	\$64,998	\$305	\$84,703
Fair value of plan assets	(5,693)	(4,326)	(5,912)	(2,017)	(47,265)	–	(65,213)
Net retirement liabilities (assets)	(\$22)	\$2,023	(\$950)	\$401	\$17,733	\$305	\$19,490

December 31, 2016

	First Gen	FGPC	FGP	FGHC	EDC & Subsidiaries	Others	Total
Present value of defined benefit obligation	\$6,348	\$6,632	\$4,825	\$2,403	\$63,562	\$274	\$84,044
Fair value of plan assets	(6,928)	(5,255)	(6,842)	(2,129)	(39,181)	–	(60,335)
Net retirement liabilities (assets)	(\$580)	\$1,377	(\$2,017)	\$274	\$24,381	\$274	\$23,709

The amounts recognized in the consolidated statements of income are as follows:

December 31, 2017

	First Gen	FGPC	FGP	FGHC	EDC & Subsidiaries	Others	Total
Current service cost	\$716	\$643	\$522	\$131	\$4,036	\$75	\$6,123
Net interest	(31)	71	(103)	12	1,271	13	1,233
Retirement benefits expense	\$685	\$714	\$419	\$143	\$5,307	\$88	\$7,356



December 31, 2016

	First Gen	FGPC	FGP	FGHC	EDC & Subsidiaries	Others	Total
Current service cost	\$645	\$639	\$429	\$120	\$5,687	\$81	\$7,601
Settlement gain	—	—	—	—	(8,891)	—	(8,891)
Net interest	(52)	26	(106)	5	1,913	10	1,796
Retirement benefits expense	\$593	\$665	\$323	\$125	(\$1,291)	\$91	\$506

December 31, 2015

	First Gen	FGPC	FGP	FGHC	EDC & Subsidiaries	Others	Total
Current service cost	\$865	\$769	\$526	\$133	\$5,659	\$54	\$8,006
Net interest	(77)	(62)	(116)	(5)	1,707	11	1,458
Retirement benefits expense	\$788	\$707	\$410	\$128	\$7,366	\$65	\$9,464

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

December 31, 2017

	First Gen	FGPC	FGP	FGHC	EDC & Subsidiaries	Others	Total
Balances at beginning of year	\$6,348	\$6,632	\$4,825	\$2,403	\$63,562	\$274	\$84,044
Current service cost	716	643	522	131	4,036	75	6,123
Interest cost	305	313	232	108	3,309	13	4,280
Benefits paid	(362)	(229)	(9)	—	(4,014)	—	(4,614)
Actuarial losses (gains) due to:							
Experience adjustments	(661)	(517)	46	(34)	1,593	17	444
Changes in demographic assumptions	(470)	(336)	(405)	(100)	—	(66)	(1,377)
Changes in financial assumptions	(173)	(127)	(228)	(80)	(3,235)	(7)	(3,850)
Foreign exchange adjustments	(32)	(30)	(21)	(10)	(253)	(1)	(347)
Balances at end of year	\$5,671	\$6,349	\$4,962	\$2,418	\$64,998	\$305	\$84,703

December 31, 2016

	First Gen	FGPC	FGP	FGHC	EDC & Subsidiaries	Others	Total
Balances at beginning of year	\$5,463	\$6,110	\$4,304	\$2,255	\$94,324	\$208	\$112,664
Current service cost	645	639	429	120	5,687	81	7,601
Interest cost	258	271	193	98	4,432	10	5,262
Benefits paid	—	(37)	—	—	(22,286)	—	(22,323)
Settlement gain	—	—	—	—	(8,891)	—	(8,891)
Actuarial losses (gains) due to:							
Experience adjustments	382	128	337	82	(2,055)	1	(1,125)
Changes in financial assumptions	(48)	(109)	(170)	(18)	(4,276)	(10)	(4,631)
Foreign exchange adjustments	(352)	(370)	(268)	(134)	(3,373)	(16)	(4,513)
Balances at end of year	\$6,348	\$6,632	\$4,825	\$2,403	\$63,562	\$274	\$84,044

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

December 31, 2017

	First Gen	FGPC	FGP	FGHC	EDC & Subsidiaries	Total
Balances at beginning of year	\$6,928	\$5,255	\$6,842	\$2,129	\$39,181	\$60,335
Interest income	336	242	335	96	2,038	3,047
Return on plan assets, excluding interest income	(1,169)	(912)	(1,220)	(198)	(2,817)	(6,316)
Contributions paid	—	—	—	—	12,973	12,973
Benefits paid	(362)	(229)	(9)	—	(4,014)	(4,614)
Foreign exchange adjustments	(40)	(30)	(36)	(10)	(96)	(212)
Balances at end of year	\$5,693	\$4,326	\$5,912	\$2,017	\$47,265	\$65,213
Actual return on plan assets	(\$833)	(\$670)	(\$885)	(\$102)	(\$779)	(\$3,269)



December 31, 2016

	First Gen	FGPC	FGP	FGHC	EDC & Subsidiaries	Total
Balances at beginning of year	\$6,467	\$5,588	\$6,524	\$2,135	\$53,633	\$74,347
Interest income	310	245	299	93	2,519	3,466
Return on plan assets, excluding interest income	538	(245)	402	21	2,251	2,967
Contributions paid	—	—	—	—	5,337	5,337
Benefits paid	—	(37)	—	—	(22,286)	(22,323)
Foreign exchange adjustments	(387)	(296)	(383)	(120)	(2,273)	(3,459)
Balances at end of year	\$6,928	\$5,255	\$6,842	\$2,129	\$39,181	\$60,335
Actual return on plan assets	\$848	\$—	\$701	\$114	\$4,770	\$6,433

First Gen Group expects to contribute \$1.8 million to its defined benefit retirement plan in 2018.

Retirement plans

The retirement funds of the Parent Company, FGHC and FGP are maintained and managed by BDO Trust, while the retirement fund of FGPC is maintained and managed by the BPI Asset Management. In addition, EDC's retirement fund is maintained by BPI Asset Management and BDO Trust, while GCGI's and BGI's retirement funds are maintained by BDO Trust. These trustee banks are also responsible for investment of the plan assets. The investing decisions of the Plan are made by the respective retirement committees of the said companies.

The plan assets' carrying amount approximates their fair value since these are either short-term in nature or marked-to-market.

The plans' assets and investments by each class as of December 31, 2017 and 2016 are as follows:

	2017	2016
Investments quoted in active market		
Quoted equity investments		
Holding firms	\$9,378	\$13,068
Industrial - electricity, energy, power and water	7,973	12,589
Property	2,602	1,203
Services - casinos and gaming	1,028	529
Mining	927	155
Retail	771	194
Industrial - food, beverage and tobacco	444	794
Financials - banks	235	106
Golf and country club	105	104
Services - telecommunications	9	444
Industrial - construction, infrastructure allied services	—	7
	23,472	29,193
Investments in debt instruments:		
Government securities	14,140	10,631
Investments in corporate bonds	11,257	9,249
	25,397	19,880
Investment in mutual funds	529	493
Unquoted investments:		
Cash and cash equivalents	15,487	10,308
Receivables and other assets	351	488
Liabilities	(23)	(27)
	15,815	10,769
Fair value of plan assets	\$65,213	\$60,335



- Cash and cash equivalents include regular savings and time deposits;
- Investments in corporate debt instruments, consisting of both short-term and long-term corporate loans, notes and bonds, which bear interest ranging from 4.63% to 4.89% and have maturities from 2018 to 2023;
- Investments in government securities, consisting of retail treasury bonds that bear interest ranging from 2.13% to 11.70% and have maturities from 2018 to 2040; and
- Investment in equity securities pertain to listed shares in PSE and include investments in the following securities:

	Relationship	2017	2016
Lopez Holdings	Intermediate parent company	\$7,347	\$11,045
FPH (Voting common stocks)	Parent company	3,354	3,340
First Gen:	Reporting entity		
Voting common stocks		4,014	4,607
Non-voting preferred stocks		604	6,628
		\$15,319	\$25,620

The carrying amounts of investments in equity securities also approximate their fair values since they are marked-to-market.

For the year ended December 31, 2017, unrealized losses arising from investments in Lopez Holdings, First Gen and FPH amounted to \$0.8 million, \$0.1 million and \$0.6 million, respectively.

For the year ended December 31, 2016, unrealized gains arising from investments in Lopez Holdings and First Gen, amounted to \$1.2 million and \$2.0 million, respectively while unrealized loss arising from investment in FPH amounted to \$0.4 million.

The details of the realized losses for the year ended December 31, 2017 are as follows:

Type of security:	First Gen	FGPC	FGP	FGHC
Investment in shares of stock	(\$700)	\$28	(\$697)	(\$119)
Investment in government securities	(14)	(79)	(11)	(9)
Investment in corporate debt instruments and others	(1)	1	(36)	(12)
	(\$715)	(\$50)	(\$744)	(\$140)

The voting rights over these equity securities are exercised by the trustee banks.

- Other financial assets held by these plans are primarily accrued interest income on cash deposits and debt securities held by the plans; and dividend receivable from equity securities.
- Liabilities of the plans pertain to trust fee payable and retirement benefits payable.



The principal actuarial assumptions used in determining retirement benefit obligations for First Gen Group as of January 1, 2017 and 2016 are as follows:

	2017	2016
Discount rate	5.21%-5.80%	4.59%-5.65%
Future salary increase rate	5%-8%	5%-8%
Medical costs trend rate	7%	7%

The sensitivity analysis below was determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2017 assuming all other assumptions were held constant.

	Increase/Decrease in Percentage Point	Effect on Present Value of Defined Benefit Obligation
Discount rate	+1%	(\$6,744)
	-1%	7,695
Future salary increases	+1%	7,648
	-1%	(6,835)
Medical costs trend	+1%	90
	-1%	(78)

For EDC, the estimated weighted average duration of benefit payment is 15 years in 2017 and 2016, while the estimated weighted average duration of benefit payment for the Parent Company, FGHC, FGP, FGPC, and others is 6 to 30 years in 2017 and 2016.

Following are the information about the maturity profile of the defined benefit obligations as of December 31, 2017, 2016 and 2015:

	2017	2016	2015
Less than one (1) year	\$6,306	\$2,421	\$2,369
One (1) year up to five (5) years	24,403	7,538	5,281
More than five (5) years up to 10 years	66,964	17,446	12,115
More than 10 years up to 15 years	74,019	16,834	19,079
More than 15 years up to 20 years	119,161	15,432	13,656
More than 20 years	11,652	19,411	16,382



22. Income Tax

- a. The deferred income tax assets (liabilities) of First Gen Group are presented in the consolidated statements of financial position as follows:

	2017	2016
Deferred income tax assets	\$30,808	\$30,711
Deferred income tax liabilities	(29,368)	(32,861)

The components of these deferred income tax assets (liabilities) as of December 31, 2017 and 2016 are as follows:

	2017	2016
<i>Deferred income tax items recognized in the consolidated statements of income:</i>		
Deferred income tax assets on:		
Impairment loss on property, plant and equipment	\$12,542	\$12,633
Unrealized foreign exchange losses	11,969	7,349
Unrealized foreign exchange losses - BOT power plants	7,748	9,899
Capitalized project development costs	5,175	5,175
Revenue generated during testing period of BGI power plant	3,081	3,094
Asset retirement obligations	3,644	2,696
Allowance for impairment loss	3,381	3,201
Provision for impairment of spare parts and supplies inventories	797	662
Excess amortization of debt issuance costs under effective interest method over straight-line method	203	577
NOLCO	16	272
Retirement benefit obligation and others	3,073	9,162
	\$51,629	\$54,720
Deferred income tax liabilities on:		
Difference between the carrying amounts of nonmonetary assets and their related tax bases	(\$20,061)	(\$28,675)
Difference in fair value versus cost of property, plant and equipment of EDC	(14,832)	(14,784)
Difference between fair value and book value resulting from business combinations	(3,769)	(4,779)
Capitalized borrowing costs	(6,106)	(6,106)
Prepaid major spare parts	(532)	(1,235)
Capitalized asset retirement obligations	(1,315)	(1,401)
Capitalized costs and losses during commissioning period of the power plants	(1,151)	(2,266)
Difference in fair value versus cost of spare parts and supplies inventories	(250)	(275)
EDC calamity losses	(70)	(40)
	(48,086)	(59,561)

(Forward)



	2017	2016
<i>Deferred income tax items recognized directly in other comprehensive income:</i>		
Deferred income tax assets on		
Derivative liabilities (see Note 25)	\$1,420	\$4,564
Deferred income tax liability on retirement benefit asset and others	(3,523)	(1,873)
	(2,103)	2,691
	\$1,440	(\$2,150)

- b. Certain deferred income tax assets of the Parent Company and certain subsidiaries have not been recognized since management believes that it is not probable that sufficient future taxable income for these entities will be available against which they can be utilized. The deductible temporary differences of certain items in the consolidated statement of financial position and carryforward benefits of NOLCO and MCIT of the Parent Company and certain subsidiaries for which no deferred income tax assets have been recognized consist of the following:

	2017	2016
NOLCO	\$144,469	\$136,332
Unrealized foreign exchange losses	67,765	88,179
MCIT	1,090	1,029
Accrual for retirement benefits	402	417
Others	1,500	267

As of December 31, 2017 and 2016, the taxable temporary differences representing the excess of the carrying amount of the investments in subsidiaries over the tax base amounted to \$327.8 million and \$341.9 million, respectively. There is no corresponding deferred income tax liability recognized since these temporary differences pertain to investment in domestic companies and, accordingly, the reversals of these temporary differences are through regular dividend distribution not subject to income tax.

- c. Provision for current income tax in 2017, 2016 and 2015 includes the RCIT of FG Bukidnon, FGP, FGPC, and Prime Meridian. The provision for current income tax also includes the MCIT of FNPC for 2017 and 2015, and RCIT for 2016. In 2017, 2016 and 2015, FGPC and FGP computed its current income tax using the Optional Standard Deduction (OSD) method.



- d. The balance of NOLCO as of December 31, 2017 may be used by the Parent Company and certain subsidiaries as additional deductions against their respective future taxable income. Similarly, the MCIT balance as of December 31, 2017 may be applied as credit against future income tax liabilities of the Parent Company and certain subsidiaries.

The balances of NOLCO and MCIT, with their corresponding years of expiration, are as follows:

Incurring for the Year Ended December 31	Available Until December 31	NOLCO		MCIT	
		<i>(In U.S. Dollar)</i>	<i>(In Philippine Peso)</i>	<i>(In U.S. Dollar)</i>	<i>(In Philippine Peso)</i>
2015	2018	\$54,572	₱2,724,760	\$454	₱22,658
2016	2019	35,878	1,791,378	512	25,558
2017	2020	54,072	2,699,796	124	6,178
		\$144,522	₱7,215,934	\$1,090	₱54,394

- e. A reconciliation between the statutory income tax rate and effective income tax rate follows:

	2017	2016	2015
Statutory income tax rate	30.00%	30.00%	30.00%
Income tax effect of:			
Foregone itemized deduction before reconciling items	10.99	6.75	9.17
Optional standard deduction	(12.66)	(8.70)	(11.67)
Income Tax Holiday (ITH) incentives	(1.82)	(0.57)	(1.12)
Unrealized foreign exchange gains (losses)	(0.13)	1.28	3.18
Movement of temporary differences reversing during ITH	(0.09)	(0.02)	0.27
Unrecognized deferred income tax asset on provision for impairment loss and others	(3.23)	(2.15)	(7.04)
Effective income tax rate	23.06%	26.59%	22.79%

- f. The BIR issued Revenue Regulation (RR) No. 16-2008 which implemented the provisions of R.A. 9504 on OSD. This regulation allowed both individual and corporate tax payers to use OSD in computing their taxable income. For corporations, they may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions. The provisions of R.A. No. 9504 and RR No. 16-2008 became effective on July 1, 2008.



g. Registrations with the BOI

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



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

23. Earnings Per Share Calculations

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

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

24. Financial Risk Management Objectives and Policies

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

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



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

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

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

Interest Rate Risk

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

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

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

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

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

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

