

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

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016, 2015 and 2014



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REPORT OF INDEPENDENT AUDITORS

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of SMC Global Power Holdings Corp. and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our 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 Matter

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

Valuation of Trade and Other Receivables

The risk -

The Group's disclosures about the measurement and impairment assumptions to determine the recoverability and carrying amount of trade and other receivables are included in the significant accounting policies in Notes 3, 4 and 8 in the consolidated financial statements. As required by Philippine Accounting Standard 39, an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets measured at amortized cost is impaired. The determination of the recoverable amounts is subject to significant estimation, as a result, we assessed that the impairment testing is a key audit matter. Given the significant estimation, there is a risk that potential impairment loss in trade and other receivables may not be adequately provided for resulting in over valuation of the Group's trade and other receivables.

Our response -

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

We have:

- Assessed the recoverability of trade and other receivables with reference to the historical levels of impairment losses on trade receivables and credit history of the counterparties.
- Considered the consistency of judgments by the management regarding the recoverability of trade and other receivables to consider whether there is evidence of management bias through discussion with management on their rationale and obtained evidence to support judgment areas.
- Discussed with management regarding the level and aging of trade and other receivables and recoverability of amounts due from customers.
- Evaluated the calculations of the impairment testing as well as the presentation and the relevant disclosures within the consolidated financial statements.



Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2016 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



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

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

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

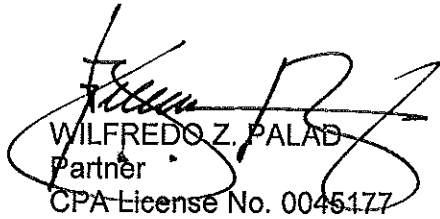
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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

The engagement partner on the audit resulting in this independent auditors' report is Mr. Wilfredo Z. Palad.

R.G. MANABAT & CO.



WILFREDO Z. PALAD
Partner

CPA License No. 0045177

SEC Accreditation No. 0027-AR-4, Group A, valid until August 24, 2018

Tax Identification No. 106-197-186

BIR Accreditation No. 08-001987-6-2016

Issued April 12, 2016; valid until April 11, 2019

PTR No. 5904939MD

Issued January 3, 2017 at Makati City

March 13, 2017

Makati City, Metro Manila

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015
(In Thousands)

	<i>Note</i>	2016	2015
ASSETS			
Current Assets			
Cash and cash equivalents	7, 27, 28	P21,491,385	P22,241,361
Trade and other receivables - net	4, 6, 8, 19, 27, 28	22,342,846	18,473,625
Inventories	4, 6, 9, 19	2,272,289	1,263,218
Prepaid expenses and other current assets	6, 10	17,683,020	15,068,747
		63,789,540	57,046,951
Assets held for sale	11, 13	184,324	-
Total Current Assets		63,973,864	57,046,951
Noncurrent Assets			
Investments and advances - net	4, 12	16,245,454	10,612,937
Property, plant and equipment - net	4, 13	246,488,027	255,452,996
Deferred exploration and development costs	4, 6, 14	693,379	689,548
Intangible assets and goodwill - net	4, 14, 15	2,572,119	2,413,249
Deferred tax assets	4, 24	2,955,570	2,745,943
Other noncurrent assets - net	16, 19, 27, 28	1,020,771	2,248,226
Total Noncurrent Assets		269,975,320	274,162,899
		P333,949,184	P331,209,850
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	17, 19, 27, 28	P37,729,415	P32,841,050
Finance lease liabilities - current portion	4, 6, 27, 28	16,344,246	16,546,763
Current maturities of long-term debt - net of debt issue costs	18, 27, 28	1,040,690	15,647,244
Income tax payable		127,198	99,275
Total Current Liabilities		55,241,549	65,134,332
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	18, 27, 28	65,283,036	42,960,617
Finance lease liabilities - net of current portion	4, 6, 27, 28	153,745,290	162,646,430
Deferred tax liabilities	24	4,785,217	3,882,930
Other noncurrent liabilities	6, 20	223,468	150,283
Total Noncurrent Liabilities		224,037,011	209,640,260
Total Liabilities		279,278,560	274,774,592

Forward

	Note	2016	2015
Equity	21		
Capital stock		P1,062,504	P1,062,504
Additional paid-in capital		2,490,000	2,490,000
Undated subordinated capital securities		26,933,565	26,933,565
Equity reserves		785,279	785,279
Reserve for retirement plan	20	(26,371)	(15,648)
Retained earnings		23,425,647	25,179,558
Total Equity		54,670,624	56,435,258
		P333,949,184	P331,209,850

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In Thousands, Except Per Share Data)

	<i>Note</i>	2016	2015	2014
REVENUES	5, 6, 19, 29			
Sale of power		P72,250,309	P73,849,465	P80,080,157
Retail and other power-related services		5,722,121	3,657,226	4,213,433
		77,972,430	77,506,691	84,293,590
COST AND EXPENSES				
Cost of power sold:				
Energy fees	5, 6	20,477,903	23,224,178	30,775,896
Coal, fuel oil and other consumables	5, 6, 9, 19	10,046,687	10,376,590	11,945,280
Power purchases	5, 6	7,836,564	8,330,550	6,045,468
Depreciation and amortization	5, 6, 13, 15	6,164,942	6,466,398	6,143,866
Plant operations and maintenance fees	5, 6, 19, 22	476,344	502,211	575,632
Operating expenses	5, 6, 19, 22	6,239,650	4,904,135	2,911,930
		51,242,090	53,804,062	58,398,072
INCOME FROM OPERATIONS		26,730,340	23,702,629	25,895,518
INTEREST INCOME	5, 7, 16	200,502	414,444	549,977
GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT	5, 13	116,357	-	-
EQUITY IN NET LOSSES OF ASSOCIATES AND JOINT VENTURES	5, 12	(294,795)	(528,445)	(22,345)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	5, 6, 18	(12,354,229)	(13,130,252)	(13,168,470)
OTHER INCOME (CHARGES) - Net	5, 6, 23	(6,881,754)	(5,926,050)	68,225
INCOME BEFORE INCOME TAX		7,516,421	4,532,326	13,322,905
INCOME TAX EXPENSE - Net	5, 24, 25	3,365,759	2,703,408	2,693,423
NET INCOME		P4,150,662	P1,828,918	P10,629,482
Basic/Diluted Earnings (Loss) Per Share	26	P0.97	(P0.07)	P7.73

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In Thousands)

	<i>Note</i>	2016	2015	2014
NET INCOME		P4,150,662	P1,828,918	P10,629,482
OTHER COMPREHENSIVE INCOME				
Item that will not be reclassified to profit or loss				
Reserve for retirement plan	20	(15,319)	(22,354)	-
Income tax benefit	24	4,596	6,706	-
		(10,723)	(15,648)	-
TOTAL COMPREHENSIVE INCOME		P4,139,939	P1,813,270	P10,629,482

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In Thousands)

	<i>Note</i>	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Equity Reserves	Reserve for Retirement Plan	Retained Earnings	Total Equity
Balance as of January 1, 2016		P1,062,504	P2,490,000	P26,933,565	P785,279	(P15,648)	P25,179,558	P56,435,258
Net income for the year		-	-	-	-	-	4,150,662	4,150,662
Equity reserve for retirement plan - net of tax	20	-	-	-	-	(10,723)	-	(10,723)
Total comprehensive income for the year		-	-	-	-	(10,723)	4,150,662	4,139,939
Cash dividends and distributions:								
Common	21	-	-	-	-	-	(3,000,000)	(3,000,000)
Undated subordinated capital securities	21	-	-	-	-	-	(2,904,573)	(2,904,573)
Balance as of December 31, 2016		P1,062,504	P2,490,000	P26,933,565	P785,279	(P26,371)	P23,425,647	P54,670,624
Balance as of January 1, 2015		P1,062,504	P2,490,000	P13,110,066	P785,279	P -	P29,301,328	P46,749,177
Net income for the year		-	-	-	-	-	1,828,918	1,828,918
Equity reserve for retirement plan - net of tax	20	-	-	-	-	(15,648)	-	(15,648)
Total comprehensive income for the year		-	-	-	-	(15,648)	1,828,918	1,813,270
Issuance of undated subordinated capital securities	21	-	-	13,823,499	-	-	-	13,823,499
Cash dividends and distributions:								
Common	21	-	-	-	-	-	(4,500,000)	(4,500,000)
Undated subordinated capital securities	21	-	-	-	-	-	(1,450,688)	(1,450,688)
Balance as of December 31, 2015		P1,062,504	P2,490,000	P26,933,565	P785,279	(P15,648)	P25,179,558	P56,435,258
Balance as of January 1, 2014		P1,062,504	P2,490,000	P -	P785,279	P -	P29,395,060	P33,732,843
Net income/total comprehensive income for the year		-	-	-	-	-	10,629,482	10,629,482
Issuance of undated subordinated capital securities	21	-	-	13,110,066	-	-	-	13,110,066
Cash dividends and distributions:								
Common	21	-	-	-	-	-	(10,000,000)	(10,000,000)
Undated subordinated capital securities	21	-	-	-	-	-	(723,214)	(723,214)
Balance as of December 31, 2014		P1,062,504	P2,490,000	P13,110,066	P785,279	P -	P29,301,328	P46,749,177

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In Thousands)

	<i>Note</i>	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P7,516,421	P4,532,326	P13,322,905
Adjustments for:				
Interest expense and other financing charges	5, 6, 18	12,354,229	13,130,252	13,168,470
Unrealized foreign exchange losses - net		7,446,813	7,505,369	1,584,500
Depreciation and amortization	5, 6, 13, 15, 22	6,341,931	6,539,813	6,187,640
Impairment losses on trade and other receivables	8, 22, 23	1,210,451	374,801	144,393
Impairment losses on property, plant and equipment	13	323,788	-	-
Equity in net losses of associates and joint venture	5, 12	294,795	528,445	22,345
Impairment losses on concession assets		20,460	-	-
Retirement benefit expense	20	8,388	6,611	8,978
Gain on sale of property, plant and equipment	5, 13	(116,357)	-	-
Interest income	5, 7, 16	(200,502)	(414,444)	(549,977)
Operating income before working capital changes		35,200,417	32,203,173	33,889,254
Decrease (increase) in:				
Trade and other receivables - net	8	(657,993)	(749,571)	(3,037,652)
Inventories	9	(1,009,071)	101,815	134,102
Prepaid expenses and other current assets	10	(2,614,273)	(6,647,768)	(1,902,310)
Other noncurrent assets	16	1,227,455	221,001	1,290,895
Increase (decrease) in:				
Accounts payable and accrued expenses	17	4,505,312	4,686,593	5,136,893
Other noncurrent liabilities		49,479	(565,860)	670,486
Cash generated from operations		36,701,326	29,249,383	36,181,668
Interest income received		203,493	426,480	546,350
Income taxes paid		(2,640,580)	(1,517,632)	(1,675,452)
Finance cost paid		(3,182,682)	(2,907,116)	(2,196,778)
Net cash flows provided by operating activities		31,081,557	25,251,115	32,855,788

Forward

	Note	2016	2015	2014
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment	13	P13,820,388	P -	P -
Proceeds from sale of investment		-	-	16,228,991
Noncurrent receivable	16	-	(253,812)	-
Additions to deferred exploration and development costs	14	(3,831)	(17,765)	(145,784)
Additions to intangible assets	6, 15	(271,991)	(117,735)	(593,649)
Net additions to investments and advances	12	(5,927,312)	(529,105)	(4,622,823)
Additions to property, plant and equipment	13, 18	(14,862,133)	(33,832,759)	(17,299,444)
Net cash flows used in investing activities		(7,244,879)	(34,751,176)	(6,432,709)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from long-term debt	18	30,684,375	8,825,000	1,500,000
Proceeds from short-term borrowing		14,364,000	-	-
Proceeds from issuance of undated subordinated capital securities	21	-	13,823,499	13,110,066
Distributions to undated subordinated capital securities holders	21	(2,904,573)	(1,450,688)	(723,214)
Cash dividends paid	21	(3,000,000)	(4,500,000)	(10,000,000)
Payment of short-term borrowing		(14,364,000)	-	-
Payments of finance lease liabilities	6	(23,873,363)	(22,280,118)	(20,123,987)
Payment of long-term debt	18	(25,514,700)	(1,373,100)	(193,200)
Net cash flows used in financing activities		(24,608,261)	(6,955,407)	(16,430,335)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		21,607	392,535	(813,621)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(749,976)	(16,062,933)	9,179,123
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		22,241,361	38,304,294	29,125,171
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	P21,491,385	P22,241,361	P38,304,294

See Notes to the Consolidated Financial Statements.

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

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

1. Reporting Entity

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

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

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

2. Basis of Preparation

Statement of Compliance

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

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on March 13, 2017.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting, except for the defined benefit retirement liability which is measured at present value of the defined benefit retirement obligation.

Functional and Presentation Currency

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

Basis of Consolidation

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

	Percentage of Ownership	
	2016	2015
<i>Power Generation</i>		
San Miguel Energy Corporation (SMEC)	100	100
South Premiere Power Corp. (SPPC)	100	100
Strategic Power Devt. Corp. (SPDC)	100	100
SMC PowerGen Inc. (SPI)	100	100
Limay Power Generation Corporation ^(c)	100	100
SMC Consolidated Power Corporation (SCPC) ^(b)	100	100
San Miguel Consolidated Power Corporation (SMCPC) ⁽ⁱ⁾	100	100
Central Luzon Premiere Power Corp. (CLPPC) ^(e)	100	100
Limay Premiere Power Corp. (LPPC) ^{(b) (e)}	100	100
Mariveles Power Generation Corporation (MPGC) ^{(e) (g)}	49	100
PowerOne Ventures Energy Inc. (PVEI) ^(j)	100	100
<i>Retail and Other Power-related Services</i>		
San Miguel Electric Corp. (SMELC)	100	100
Albay Power and Energy Corp. (APEC)	100	100
SMC Power Generation Corp. (SPGC) ^(k)	100	100
<i>Coal Mining</i>		
Daguma Agro-Minerals, Inc. (DAMI) ^(a)	100	100
Sultan Energy Phils. Corp. (SEPC) ^(a)	100	100
Bonanza Energy Resources, Inc. (BERI) ^(a)	100	100
<i>Others</i>		
Mantech Power Dynamics Services Inc. (MPDSI) ^{(h) (l)}	100	100
Safetech Power Services Corp. (SPSC) ^{(h) (l)}	100	100
Ondarre Holding Corporation (OHC) ^{(d) (m)}	100	100
Golden Quest Equity Holdings Inc. (GQEH) ^{(a) (e) (m)}	100	100
Grand Planters International, Inc. (GPII) ^{(f) (m)}	100	100

(a) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as of December 31, 2016.

(b) Construction of power plants on-going as of December 31, 2016.

(c) Indirectly owned by the Parent Company through SPI and has not yet started commercial operations as of December 31, 2016.

(d) Acquired in February 2015 and has not yet started commercial operations as of December 31, 2016.

(e) Incorporated in 2015 and has not yet started commercial operations as of December 31, 2016.

(f) Acquired in September 2015.

(g) On June 16, 2016, ownership of the Parent Company was reduced to 49% due to the purchase of MPGC common shares by Meralco Powergen Corporation and Zygnet Prime Holdings, Inc., representing 49% and 2% interest in MPGC, respectively.

(h) Incorporated in 2015 and started commercial operations in 2016.

(i) On December 26, 2016, SMCPC started its commercial operations for Unit 1 of 2 x 150 Mega Watt (MW) Coal-fired Power Plant in Malita, Davao.

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

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

(l) Involved in providing local manpower services for operating and maintaining power generation facilities.

(m) For investing in land properties.

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

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

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

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

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

3. Significant Accounting Policies

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

Adoption of New and Amended Standards and Interpretations

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

Amendments to Standards and Interpretations Adopted in 2016

The Group has adopted the following PFRS starting January 1, 2016 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative (*Amendments to PAS 1, Presentation of Financial Statements*). The amendments clarify the following: (i) the materiality requirements apply to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different nature or function; (ii) that specific line items to be presented in the statements of financial position, statements of income and statements of comprehensive income can be disaggregated and additional guidance on subtotals to be presented in these statements; (iii) that entities have flexibility as to the order in which they present the notes to the financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to statements of income.
- Accounting for Acquisitions of Interests in Joint Operations (*Amendments to PFRS 11, Joint Arrangements*). The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisition is accounted for as a business combination or as the acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination.
- Clarification of Acceptable Methods of Depreciation and Amortization (*Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets*). The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices.

- *Annual Improvements to PFRS Cycles 2012 - 2014* contain changes to four standards, of which *Changes in Method for Disposal (Amendments to PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations)* is applicable to the Group. PFRS 5 is amended to clarify that: (a) if an entity changes the method of disposal of an asset or disposal group - i.e., reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale, or vice versa, without any time lag - the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognizes any write-down (impairment loss) or subsequent increase in the fair value of the asset or disposal group, less costs to sell or distribute; and (b) if an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting. Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed.

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

New and Amended Standards and Interpretations Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2016 and have not been applied in preparing the consolidated financial statements. Unless otherwise indicated, none of these are expected to have a significant effect on the consolidated financial statements.

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

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

The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. When the Group first applies the amendments, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12, Income Taxes)*. The amendments clarify that: (a) the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset; (b) the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences; (c) the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and (d) an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted. On initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which the following are applicable to the Group:
 - *Clarification of the Scope of the Standard (Amendments to PFRS 12, Disclosure of Interests in Other Entities)*. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted.
 - *Measuring an associate or joint venture at fair value (Amendments to PAS 28, Investments in Associates)*. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

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

- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at Fair Value through Profit or Loss (FVPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management.

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

- Classification and Measurement of Share-based Payment Transactions (*Amendments to PFRS 2, Share-based Payment*). The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments - i.e. the modified grant date method. The amendments also introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (a) the terms of the arrangement permit or require a company to settle the transaction net by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (b) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the company withholds in excess of the employee's tax obligation associated with the share-based payment. The amendments also clarify that the Group is to apply the following approach when a share-based payment is modified from cash-settled to equity-settled: (a) at the modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognized to the extent that the goods or services have been received up to that date; and (b) the difference between the carrying amount of the liability derecognized as at the modification date and the amount recognized in equity as at that date is recognized in profit or loss immediately.

The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2018, with early application permitted. The amendments were approved by the FRSC on September 14, 2016 but are still subject to the approval by the Board of Accountancy.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- *Philippine Interpretation IFRIC-22 Foreign Currency Transactions and Advance Consideration*. The amendments clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item. The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

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

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (*Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Investments in Associates*). The amendments address an inconsistency in the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business whether it is housed in a subsidiary or not. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However on January 13, 2016, the FRSC decided to postpone the effective date until the 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.

Financial Assets and Financial Liabilities

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

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

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

Financial Assets

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

The Group has no financial assets at FVPL, AFS financial assets and HTM investments as of December 31, 2016 and 2015.

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

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

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

The Group's cash and cash equivalents, trade and other receivables, restricted cash and noncurrent receivable are included under this category (Notes 7, 8, 16, 27 and 28).

Financial Liabilities

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

As of December 31, 2016 and 2015, the Group has no financial liabilities at FVPL.

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

The Group's liabilities arising from its trade or borrowings such as accounts payable and accrued expenses, finance lease liabilities and long-term debt are included under this category (Notes 17, 18, 27 and 28).

Embedded Derivatives

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

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

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

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

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

The Group does not have any embedded derivatives as of December 31, 2016 and 2015.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

Debt Issue Costs

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using specific identification method or first-in-first-out method for materials and supplies, specific identification method or weighted average method for coal inventories and weighted average method for fuel oil and other consumables. Net realizable value is the current replacement cost.

Business Combination

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

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

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

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

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

▪ *Goodwill in a Business Combination*

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

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

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

▪ *Intangible Assets Acquired in a Business Combination*

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

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

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

Transactions under Common Control

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

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

Investments in Shares of Stock of Associates and Joint Ventures

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

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

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

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investments in the shares of stock of associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investments in shares of stock of associates or joint ventures is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investments in shares of stock of associates or joint ventures. Such impairment loss is recognized as part of "Equity in net losses of associates and joint ventures" account in the consolidated statements of income.

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

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

Property, Plant and Equipment

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

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

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

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

	Number of Years
Power plants	10 - 43
Leasehold improvements	5 - 25 or term of the lease whichever is shorter
Other equipment	2 - 15
Building	15 - 25

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

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

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

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

Intangible Assets

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

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

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

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

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

Power Concession Assets and Obligations

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

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

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

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

The power concession right is amortized using the straight-line method over the concession period and assessed for impairment whenever there is an indication that the asset may be impaired.

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

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

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

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

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

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

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

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

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

Mining Rights

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

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

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

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

The amortization of mining rights will commence upon commercial operations.

Deferred Exploration and Development Costs

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

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

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

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

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

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

Impairment of Non-financial Assets

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

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

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

Fair Value Measurements

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

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

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

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

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

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

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

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

Provisions

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

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

Capital Stock and Additional Paid-in Capital

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

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

Undated Subordinated Capital Securities

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

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

Retained Earnings

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

Revenue Recognition

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

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

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

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

Others

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

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

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

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

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

Cost and Expense Recognition

Costs and Expenses. Costs and expenses are decreases in economic benefits during the 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. Cost of power sold is debited for the direct costs related to power generation, retail and distribution of electricity, and/or trading. Expenses are recognized when incurred.

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

Share-based Payment Transactions

Under the Group's Long-term Incentive Plan for Stock Options (LTIP) and Employee Stock Purchase Plan (ESPP), executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby the executives and employees render services as consideration for equity instruments of SMC. Such transactions are handled centrally by SMC.

Share-based transactions in which SMC grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transactions.

The cost of LTIP is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of SMC. ESPP is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment 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 when the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expenses recognized for share-based payment transactions at each reporting date until the vesting date reflect the extent to which the vesting period has expired and SMC's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or 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.

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 a modification of the original award.

Leases

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

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

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

Finance Lease

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

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

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

Operating Lease

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

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

Borrowing Costs

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

Employee Benefits

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

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

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

Defined Benefit Cost comprise the following:

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

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

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

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

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

Foreign Currency Translations

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

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assets Held for Sale

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

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

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

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

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

Related Parties

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

Basic and Diluted Earnings Per Common Share (EPS)

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

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Parent Company and the weighted average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive instruments.

As of December 31, 2016, 2015 and 2014, the Group has no dilutive equity instruments as disclosed in Note 26 to the consolidated financial statements.

Operating Segments

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

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

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

Contingencies

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

Events After the Reporting Date

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

4. Use of Judgments, Estimates and Assumptions

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

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

Judgments

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

Finance Lease - Group as Lessee. In accounting for its Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

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

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P170,089,536 and P179,193,193 as of December 31, 2016 and 2015, respectively (Note 6).

The combined carrying amounts of power plants under finance lease amounted to P177,759,894 and P182,946,297 as of December 31, 2016 and 2015, respectively (Note 13).

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

Rent income recognized in the consolidated statements of income amounted to P21,147, P28,104 and P18,434 in 2016, 2015 and 2014, respectively (Notes 6 and 23).

Rent expense recognized in the consolidated statements of income amounted to P351,091, P360,091 and P115,849 in 2016, 2015 and 2014, respectively (Notes 6 and 22).

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

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

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

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

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

Asset Acquisition and Business Combinations. In 2015, the Group acquired land and building, through the acquisition of a legal entity, for purposes of power plant expansion. At the time of acquisition, the Group considered whether the acquisition represented an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the real estate property. The consideration is made to the extent that the significant business processes are acquired and the additional services to be provided.

The acquired land and building were classified as part of property, plant and equipment. The Group had determined that the acquisition did not represent a business since there were no integrated set of activities acquired in addition to the property and the Group has no obligation to perform ancillary services (Note 13).

Contingencies. The Group is currently involved in various pending claims and cases which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and cases has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently do not believe that these pending claims and cases will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 29).

Estimates and Assumptions

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

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

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

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

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Note 28.

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

The allowance for impairment losses on trade and other receivables amounted to P2,451,818 and P1,241,487 as of December 31, 2016 and 2015, respectively. The carrying amount of trade and other receivables amounted to P22,342,846 and P18,473,625 as of December 31, 2016 and 2015, respectively (Note 8).

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

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

The Group assessed that no write-down of inventories to net realizable value is necessary as of December 31, 2016 and 2015.

The carrying amount of inventories amounted to P2,272,289 and P1,263,218 as of December 31, 2016 and 2015, respectively (Note 9).

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

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

Property, plant and equipment, net of accumulated depreciation and amortization, amounted to P246,488,027 and P255,452,996 as of December 31, 2016 and 2015, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P36,822,438 and P33,916,821 as of December 31, 2016 and 2015, respectively (Note 13).

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

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

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

The Group's mining activities are all in the preparatory stages as of December 31, 2016. All related costs and expenses from the mining activities are currently deferred as exploration and development costs, which will be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2016 and 2015.

Deferred exploration and development costs amounted to P693,379 and P689,548 as of December 31, 2016 and 2015, respectively (Note 14).

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

Intangible assets with finite useful lives such as mining rights and computer software amounted to P1,874,279 and P1,896,886 as of December 31, 2016 and 2015, respectively (Note 15).

Intangible assets with indefinite useful life amounted to P8,866 as of December 31, 2016 and 2015 (Note 15).

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

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

The carrying amount of power concession right amounted to P688,974 and P507,497 as of December 31, 2016 and 2015, respectively (Notes 6 and 15).

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

The carrying amount of goodwill amounted to P8,866 as of December 31, 2016 and 2015 (Note 15).

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

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

The carrying amount of goodwill and mining rights as a result of the business combination amounted to P8,866 and P1,719,726, respectively, as of December 31, 2016 and 2015 (Note 15).

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

Deferred tax assets arising from MCIT and NOLCO have not been recognized because the management believes that it is not probable that future taxable income will be available against which the Group can utilize the benefits therefrom (Note 24).

Deferred tax assets from temporary differences amounted to P2,955,570 and P2,745,943 as of December 31, 2016 and 2015, respectively (Note 24).

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

The Group assessed that its non-financial assets are not impaired as of December 31, 2016 and 2015.

The combined carrying amounts of investments and advances, property, plant and equipment, deferred exploration and development costs and other intangible assets with finite useful lives amounted to P265,990,113 and P269,159,864 as of December 31, 2016 and 2015, respectively (Notes 12, 13, 14 and 15).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 20 to the consolidated financial statements and include discount rate and salary increase rate.

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

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

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

The present value of defined benefit retirement obligation amounted to P69,364 and P45,657 as of December 31, 2016 and 2015, respectively (Note 20).

Asset Retirement Obligation. Determining ARO requires estimation of the cost of dismantling, installing and restoring the leased properties to their original condition. The Group determined that there are no ARO as of December 31, 2016 and 2015.

5. Segment Information

Operating Segments

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

The coal mining companies, which were acquired in 2010, have not yet started commercial operations and are in the preparatory stage of mining activities (Note 14). The mining companies' total assets do not exceed 10% of the combined assets of all operating segments. Accordingly, management believes that as of December 31, 2016 and 2015, the information about this component of the Group would not be useful to the users of the consolidated financial statements.

Segment Assets and Liabilities

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

Inter-segment Transactions

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

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

Major Customers

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

	2016	2015	2014
Manila Electric Company (Meralco)	P39,565,977	P40,889,098	P47,233,747
WESM	4,153,980	6,217,243	9,622,839

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

Operating Segments

Financial information about reportable segments follows:

	For the Years Ended December 31																	
	Power Generation			Retail and Other Power-related Services			Coal Mining			Others			Eliminations			Consolidated		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Sales																		
External	P72,250,309	P73,849,465	P80,080,157	P5,722,121	P3,657,226	P4,213,433	P -	P -	P -	P -	P -	P -	P -	P -	P -	P77,972,430	P77,506,691	P84,293,590
Inter-segment	8,964,899	6,769,834	4,872,675	14,629	-	-	-	-	-	132,000	-	-	(9,111,528)	(6,769,834)	(4,872,675)	-	-	-
	81,215,208	80,619,299	84,952,832	5,736,750	3,657,226	4,213,433	-	-	-	132,000	-	-	(9,111,528)	(6,769,834)	(4,872,675)	77,972,430	77,506,691	84,293,590
Cost and Expenses																		
Cost of power sold	48,198,409	51,933,914	56,304,969	5,711,781	3,723,643	4,053,848	-	-	-	-	-	-	(8,907,750)	(6,757,630)	(4,872,675)	45,002,440	48,899,927	55,486,142
Operating expenses	6,111,655	4,791,985	2,697,961	849,499	226,397	37,204	28,495	17,831	23,919	1,599,204	1,294,215	767,846	(2,349,203)	(1,426,293)	(615,000)	6,239,650	4,904,135	2,911,930
	54,310,064	56,725,899	59,002,930	6,561,280	3,950,040	4,091,052	28,495	17,831	23,919	1,599,204	1,294,215	767,846	(11,256,953)	(8,183,923)	(5,487,675)	51,242,090	53,804,062	58,398,072
Segment Result	P26,905,144	P23,893,400	P25,949,902	(P824,530)	(P292,814)	P122,381	(P28,495)	(P17,831)	(P23,919)	(P1,467,204)	(P1,294,215)	(P767,846)	P2,145,425	P1,414,089	P615,000	P26,730,340	P23,702,629	P25,895,518
Interest income																200,502	414,444	549,977
Interest expense and other financing charges																(12,354,229)	(13,130,252)	(13,168,470)
Equity in net losses of associates and joint ventures																(294,795)	(528,445)	(22,345)
Gain on sale of power plant and other equipment																116,357	-	-
Other income (charges) - net																(6,881,754)	(5,926,050)	68,225
Income tax expense - net																(3,365,759)	(2,703,408)	(2,693,423)
Consolidated Net Income																P4,150,662	P1,828,918	P10,629,482

	For the Years Ended December 31											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Other Information												
Segment assets	P300,511,384	P297,302,968	P2,765,423	P2,773,437	P734,328	P749,318	P34,520,658	P45,618,031	(P26,355,752)	(P31,006,033)	P312,176,041	P315,437,721
Investments and advances - net	9,832,438	4,566,249	196,723	192,012	-	-	52,595,284	43,451,916	(46,378,991)	(37,597,240)	16,245,454	10,612,937
Intangible assets and goodwill - net											2,572,119	2,413,249
Deferred tax assets											2,955,570	2,745,943
Consolidated Total Assets											P333,949,184	P331,209,850
Segment liabilities	P232,894,743	P240,770,768	P3,704,565	P2,788,300	P776,554	P763,125	P751,230	P1,613,602	(P30,084,673)	(P33,751,269)	P208,042,419	P212,184,526
Long-term debt											66,323,726	58,607,861
Income tax payable											127,198	99,275
Deferred tax liabilities											4,785,217	3,882,930
Consolidated Total Liabilities											P279,278,560	P274,774,592
Capital expenditures	P14,849,968	P31,066,140	P -	P2,893	P -	P48	P12,165	P2,763,740			P14,862,133	P33,832,821
Depreciation and amortization of property, plant and equipment and intangible assets	6,201,578	6,469,103	25,639	21,394	15,229	15,136	99,485	34,180			6,341,931	6,539,813
Noncash items other than depreciation*	7,755,076	6,198,795	779,891	164,633	(3)	-	769,731	2,051,798			9,304,695	8,415,222

*Noncash items other than depreciation and amortization include unrealized foreign exchange gain/losses, impairment losses on trade and other receivables and on property, plant and equipment and others, equity in net earnings (losses) of associates and joint ventures and retirement benefit expense.

6. Significant Agreements and Lease Commitments

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

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

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

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

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

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

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P20,477,903, P23,224,178 and P30,775,896 in 2016, 2015 and 2014, respectively. SMEC and SPDC renewed their performance bonds in United States dollar (US\$) amounting to US\$58,187 and US\$20,305 which will expire on November 3, 2017 and January 25, 2017, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2018.

On June 16, 2015, SPPC renewed its performance bond amounting to US\$60,000 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 29).

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

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

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P9,667,662, P10,212,753 and P10,711,071 in 2016, 2015 and 2014, respectively.

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

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

2015	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US\$250,209	P11,774,823	P11,980,712	P23,755,535
More than 1 year and not later than 5 years	1,071,953	50,446,106	51,333,916	101,780,022
Later than 5 years	1,118,634	52,642,925	53,617,024	106,259,949
	2,440,796	114,863,854	116,931,652	231,795,506
Less: Future finance charges on finance lease liabilities	383,180	18,032,425	34,569,888	52,602,313
Present values of finance lease liabilities	US\$2,057,616	P96,831,429	P82,361,764	P179,193,193

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

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

2015	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US\$197,094	P9,275,262	P7,271,501	P16,546,763
More than 1 year and not later than 5 years	767,797	36,132,517	25,606,142	61,738,659
Later than 5 years	1,092,725	51,423,650	49,484,121	100,907,771
	US\$2,057,616	P96,831,429	P82,361,764	P179,193,193

b. Market Participation Agreements (MPA)

SMEC, SPDC, SPPC and SCPC entered into an MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the ERC. PEMC's market fees charged to SMEC, SPDC and SPPC recognized in the consolidated statements of income amounted to P160,669, P219,681 and P233,701 in 2016, 2015 and 2014, respectively (Note 22).

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

In March 2013, SMELC entered into an MPA for Supplier as Direct WESM Member - Customer Trading Participant Category with the PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. SMELC has a standby letter of credit, expiring on December 26, 2017, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

c. Power Supply Agreements

SMEC, SPPC, SPDC, SPI, and SMCP have Power Supply Agreements with various counterparties, including related parties, to sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties.

Certain customers, particularly electric cooperatives and industrial customers, are billed based on the time-of-use (TOU) per kilowatt hour (kWh) while others are billed at capacity-based rate. As stipulated in the contracts, each TOU-based customer has to pay the minimum charge based on the contracted power using the basic energy charge and/or adjustments if customer has not fully taken or failed to consume the contracted power. For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month.

SMEC, SPPC and SPDC can also purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements. Power purchases amounted to P7,836,564, P8,330,550 and P6,045,468 in 2016, 2015 and 2014, respectively.

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

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

Revenue from sale of capacity of the San Roque Power Plant amounted to P758,134, P1,274,893 and P1,488,437 in 2016, 2015 and 2014, respectively, and was recognized as part of "Sale of power" account in the consolidated statements of income.

e. Coal Supply Agreements

SMEC has supply agreements with various coal suppliers for the Sual Power Plant's coal requirements.

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

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

g. Retail Supply Agreements

SMELC has retail supply agreements with customers to supply or sell electricity purchased from WESM, SMEC or other generators. All agreements provide for renewals or extensions subject to terms and conditions mutually agreed by the parties.

The customers are billed based on the capacity charge and associated energy charge. As stipulated in the contracts, each customer has to pay the capacity charge based on the contracted capacity using the capacity fee and associated energy fee with adjustments if customer has not fully taken or failed to consume the contracted capacity.

h. Distribution Wheeling Service (DWS) Agreements

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

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

i. Lease Agreements

Group as Lessee

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

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

- iv. In November 2015, SCPC leased parcels of land from NVRC for the construction of 2 x 150 MW Coal-fired Power Plant (Limay Coal-fired Power Plant - Phase I) and ash dump facility. This is covered by two lease agreements, each having an initial term of 25 years with an option to renew for a further 25 years. The agreements contain a clause allowing the annual escalation adjustments of rental rates starting on certain anniversary dates.
- v. On December 7, 2015, LPPC leased a parcel of land from NVRC for the construction of its 2 x 150 MW Coal-fired Power Plant (Limay Coal-fired Power Plant - Phase II) for a period of 25 years from the effective date. LPPC has the option to renew this lease for another 25 years. The rent shall be increased annually by 6.0% starting from the second anniversary of the lease execution.
- vi. DAMI leases a parcel of land in General Santos City with SMC. The existing lease agreement is for a 10-year period up to June 30, 2023, subject to renewal. The rent is subject to an automatic 10.0% per annum escalation rate. Rent for the year, capitalized in "Deferred exploration and development costs" account in the consolidated statements of financial position, amounted to P402 and P405 as of December 31, 2016 and 2015, respectively (Note 14).

- vii. In 2016, SMCPC entered into an agreement with Kyron Landholdings Inc. for the sub-lease of a parcel of land for the construction, erection and installation of its 2 x 150 MW Coal-fired Power Plant in Malita, Davao (Malita Coal-fired Power Plant). The initial term of the lease is for a period of 25 years with the option to renew for a further 25 years. Beginning January 1, 2018 until the end of the term, the rental shall be increased by 5.1% per annum.

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

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

	2016	2015
Not later than 1 year	P119,335	P63,593
More than 1 year and not later than 5 years	244,067	138,776
Later than 5 years	1,871,061	1,381,648
	P2,234,463	P1,584,017

Rent expense recognized in the consolidated statements of income amounted to P351,091, P360,091 and P115,849 in 2016, 2015 and 2014, respectively (Note 22).

Group as Lessor

- i. In 2014, the Parent Company has an operating sub-lease agreement with Clariden Holdings, Inc., an entity under common control, for a period of 2 years which is renewable upon agreement between the parties. The agreement expired on December 31, 2016.
- ii. In May 2011, GPII entered into an agreement with Limay Energen Corporation (LEC), an entity under common control, to lease certain portions of 3 parcels of land located in Limay, Bataan. The lease term is for a period of 10 years up to May 2021, with an option to renew not later than 6 months prior to expiration and a 3.0% escalation rate of the rental every year from signing of the contract. LEC executed a deed of assignment on July 19, 2012, assigning all rights and obligations to the leased area to Petron. Petron is the assignee for the remaining period of the lease effective June 1, 2012. The agreement was terminated effective June 1, 2015.
- iii. In May 2011, GPII entered into an agreement with NVRC, for the lease of certain parcels of land located in Limay, Bataan with a total area of 612,193 square meters. The lease term is for a period of 10 years up to May 2021, with an option to renew not later than 6 months prior to expiration and a 3.0% escalation rate of the rental every year from signing of the contract. This Agreement was subsequently amended, reducing the leased area to 340,646 square meters effective October 1, 2013. This was further amended reducing the leased area to 130,980 square meters and with a corresponding reduction in the monthly rental effective December 1, 2016.

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

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

	2016	2015
Not later than 1 year	P6,007	P46,517
More than 1 year and not later than 5 years	21,892	183,394
Later than 5 years	-	20,204
	P27,899	P250,115

Rent income recognized under the "Miscellaneous income (charges)" account in "Other Income (Charges)" account in the consolidated statements of income amounted to P21,147, P28,104, and P18,434 in 2016, 2015 and 2014, respectively (Note 23).

j. Concession Agreement

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

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

The Concession Agreement include, among others, the following rights and obligations: i) as Concession Fee, APEC shall pay to ALECO: (1) separation pay of ALECO employees in accordance with the Concession Agreement; (2) the amount of P2,100 every quarter for the upkeep of residual ALECO (fixed concession fees); ii) if the net cash flow of APEC is positive within 5 years or earlier from date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,048,529; iii) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and iv) at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO. In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. ALECO formally turned over the operations to APEC on February 26, 2014.

The Group recognized as intangible assets all costs directly related to the Concession Agreement. The intangible assets consist of: a) concession rights, which include fixed concession fees and separation pay of ALECO employees amounting to P384,317. Fixed concession fees are recognized at present value using the discount rate at the inception date with a corresponding concession payable recognized; and b) infrastructure, which includes the costs of structures and improvements, distribution system and equipment. Cost of infrastructure amounted to P386,083, and P159,086 as of December 31, 2016 and 2015, respectively. Interest expense on concession payable is included as part of "Interest expense and other financing charges" account in the consolidated statements of income amounted to P6,127, P6,254 and P4,769 in 2016, 2015 and 2014, respectively. Amortization of concession assets recognized in the "Depreciation and amortization" account in the consolidated statements of income amounted to P45,520, P21,296 and P14,610 in 2016, 2015 and 2014, respectively.

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

	2016	2015
Not later than 1 year	P2,407	P2,273
More than 1 year and not later than 5 years	11,136	10,515
Later than 5 years	91,083	94,110
	P104,626	P106,898

Power concession assets consist of:

	Concession Fee	Completed Projects/Others	Asset Under Construction	Total
Cost				
January 1, 2015	P384,317	P111,995	P -	P496,312
Additions	-	47,091	-	47,091
December 31, 2015	384,317	159,086	-	543,403
Additions	-	72,824	154,173	226,997
December 31, 2016	384,317	231,910	154,173	770,400
Accumulated Depreciation and Amortization				
January 1, 2015	12,811	1,799	-	14,610
Additions	15,373	5,923	-	21,296
December 31, 2015	28,184	7,722	-	35,906
Additions	15,373	30,147	-	45,520
December 31, 2016	43,557	37,869	-	81,426
Carrying Amount				
December 31, 2015	P356,133	P151,364	P -	P507,497
December 31, 2016	P340,760	P194,041	P154,173	P688,974

The Group accounted for revenue and costs relating to construction or upgrade services in accordance with PAS 11 based on the stage of completion of work performed. The fair value of the construction and upgrade services provided is equal to the recorded cost of the intangible asset built up from day one until the construction activity ceases. Construction revenue and construction cost amounted to P226,997, P47,091 and P111,995 in 2016, 2015 and 2014, respectively (Note 23).

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	2016	2015
Cash in banks and on hand		P2,089,297	P4,390,785
Short-term investments		19,402,088	17,850,576
	27, 28	P21,491,385	P22,241,361

Cash in banks earn interest at the respective bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates. Interest income from cash and cash equivalents amounted to P176,681, P261,338 and P356,852 in 2016, 2015 and 2014, respectively.

8. Trade and Other Receivables

Trade and other receivables consist of:

	<i>Note</i>	2016	2015
Trade		P12,269,984	P12,415,742
Non-trade		6,613,459	5,664,269
Amounts owed by related parties	6, 19	5,911,221	1,635,101
		24,794,664	19,715,112
Allowance for impairment losses	4	2,451,818	1,241,487
	27, 28	P22,342,846	P18,473,625

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

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

	2016	2015
Balance at beginning of year	P1,241,487	P866,686
Impairment losses during the year	1,210,451	374,801
Amounts written-off	(120)	-
Balance at end of year	P2,451,818	P1,241,487

Impairment losses are recognized in profit or loss as follows:

	<i>Note</i>	2016	2015	2014
Operating expenses	22	P958,784	P142,658	P144,393
Other income (charges) - net	23	251,667	232,143	-
		P1,210,451	P374,801	P144,393

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

	2016				2015			
	Trade	Non-trade	Amounts Owed by Related Parties	Total	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P5,576,247	P1,031,133	P5,282,075	P11,889,455	P5,361,249	P76,388	P1,560,903	P6,998,540
Past due:								
1-30 days	671,466	73,200	8,900	753,566	561,693	50,077	16,717	628,487
31-60 days	505,682	62,467	27,134	595,283	372,998	57,261	4,994	435,253
61-90 days	201,448	10,207	31,563	243,218	201,639	2,929,235	-	3,130,874
Over 90 days	5,315,141	5,436,452	561,549	11,313,142	5,918,163	2,551,308	52,487	8,521,958
	P12,269,984	P6,613,459	P5,911,221	P24,794,664	P12,415,742	P5,664,269	P1,635,101	P19,715,112

Past due trade receivables by more than 30 days pertain mainly to output VAT. The Group believes that the unimpaired amounts that are past due are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

Non-trade receivables include the following:

- a. Due from PSALM amounting to US\$60,000 which pertains to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM in September 2015. The validity of PSALM's action is the subject of an ongoing case filed by SPPC with the Regional Trial Court (RTC) of Mandaluyong City (Note 29).
- b. As of December 31, 2016 and 2015, SMEC has receivables for the cost of fuel, market fees, coal and other charges related to the dispatch of the excess capacity of the Sual Power Plant amounting to P32,409 and P33,658. Likewise, SMEC has receivables arising from WESM transactions related to the excess capacity amounting to P1,258,519 and P1,083,353 as of December 31, 2016 and 2015, respectively. The issue on excess capacity is subject of ongoing cases (Note 29).
- c. On June 16, 2011, SMEC entered into a MOA with Hardrock Coal Mining Pty Ltd. (HCML) and Caason Investments Pty Ltd. (Caason), companies registered in Australia, for the acquisition of shares in HCML. SMEC paid Caason Australian dollars 12,000 (equivalent to P550,000), for an option to subscribe to the shares in HCML (the Deposit) with further option for SMEC to decide not to pursue its investment in HCML, which will result in the return of the Deposit to SMEC plus interest. In a letter dated July 15, 2011, SMEC notified Caason and HCML that it shall not pursue the said investment and therefore asked Caason and HCML for the return of the Deposit with corresponding interest (the Amount Due), pursuant to the terms of the MOA.

On September 2, 2014, SMEC, HCML and Caason agreed to a schedule of payment of the outstanding Amount Due to SMEC. For the years ended December 31, 2015 and 2014, HCML and Caason paid a total amount of P107,086 and P119,841, respectively, inclusive of interest and other payments, such as legal costs and expenses. Interest income amounted to nil, P105,735, and P118,824 in 2016, 2015 and 2014, respectively. As of December 31, 2016 and 2015, total outstanding receivables from HCML (net of allowance for impairment losses) amounted to P7,145 and P203,099, respectively.

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

9. Inventories

Inventories at cost consist of:

	<i>Note</i>	2016	2015
Coal	6	P2,120,657	P1,079,086
Fuel oil	19	84,885	67,599
Materials and supplies		53,322	109,820
Other consumables		13,425	6,713
		P2,272,289	P1,263,218

There were no inventory write-downs to net realizable value for the years ended December 31, 2016 and 2015. Inventories charged to cost of power sold amounted to P10,046,687, P10,376,590 and P11,945,280 in 2016, 2015 and 2014, respectively.

10. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	<i>Note</i>	2016	2015
Input VAT		P12,398,635	P10,960,202
Prepaid tax		3,735,642	2,253,885
Prepaid rent and others	6, 18	1,548,743	1,854,660
		P17,683,020	P15,068,747

Input VAT consists of input VAT on purchases of goods and services which can be offset against the output VAT payable (Note 17).

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

Prepaid rent and others pertain to the following:

- a. Prepaid rent of the Group from various operating lease agreements amounted to P39,044 and P61,961 as of December 31, 2016 and 2015, respectively (Note 6).
- b. PSALM monthly fee outage credits pertain to the approved reduction in future monthly fees payable to PSALM resulting from the outages of the Sual Power Plant in 2016 and 2015.
- c. Professional services related to project financing of SCPC (Note 18).

11. Assets Held For Sale

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

12. Investments and Advances

Investments and advances consist of:

	2016	2015
Investments in Shares of Stock of Associates and Joint Ventures		
Cost		
Balance at beginning of year	P2,074,052	P2,074,051
Additions/Reclassifications	6,509,410	1
Balance at end of year	8,583,462	2,074,052
Accumulated Equity in Net Losses		
Balance at beginning of year	(592,164)	(63,719)
Equity in net losses during the year	(293,113)	(526,463)
Adjustment to equity in net losses in prior year	(1,682)	(1,982)
Balance at end of year	(886,959)	(592,164)
	7,696,503	1,481,888
Advances	8,548,951	9,131,049
	P16,245,454	P10,612,937

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

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

a. Investment in shares of stock of associates

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

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

Subscriptions payable amounted to P28,101 as of December 31, 2016 and 2015 (Note 19).

ii. Mariveles Power Generation Corp. (MPGC)

On June 16, 2016, Meralco Powergen Corporation (MGen), a subsidiary of Meralco, and Zygnnet Prime Holdings, Inc. (Zygnnet) subscribed to 2,500 and 102 common shares of MPGC, respectively. As a result, the Parent Company now holds 49% of the outstanding capital stock of MPGC while MGen and Zygnnet holds 49% and 2%, respectively. MPGC was a wholly-owned subsidiary of the Parent Company prior to the subscription of MGen and Zygnnet. MPGC shall develop, construct, finance, own, operate and maintain a 4 x 150 MW Circulating Fluidized Bed Coal-fired Power Plant and associated facilities in Mariveles, Bataan.

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

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

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

December 31, 2016 (Unaudited)

Country of Incorporation	OEDC	MPGC
	Philippines	Philippines
Current assets	P331,180	P123,163
Noncurrent assets	1,191,043	1,841,417
Current liabilities	(639,298)	(445)
Noncurrent liabilities	(353,812)	-
Net assets	P529,113	P1,964,135
Revenue	P1,329,636	P -
Net income (losses)/total comprehensive income (losses)	P18,267	(P12,009)
Share in net income (losses)/total comprehensive income (losses)	P6,393	(P5,851)*
Carrying amount of investment	P196,723	P958,719

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

December 31, 2015 (Audited)

Country of Incorporation	OEDC
	Philippines
Current assets	P367,191
Noncurrent assets	1,157,037
Current liabilities	(901,666)
Noncurrent liabilities	(114,199)
Net assets	P508,363
Revenue	P1,288,435
Net income/total comprehensive income	P2,940
Share in net income/total comprehensive income	P1,029
Carrying amount of investment	P192,012

b. Investments in shares of stock of joint ventures

i. Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings Corporation (KWPP)

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

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

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

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

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

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

Angat Hydro

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

KWPP

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

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

December 31, 2016 (Unaudited)

Country of Incorporation	Angat Hydro Philippines	KWPP Philippines
Current assets	P2,784,190	P3,762
Noncurrent assets	19,302,522	20,684
Current liabilities	(13,339,970)	(8,274)
Noncurrent liabilities	(13,601)	(17,583)
Net assets (liabilities)	P8,733,141	(P1,411)
Revenue	P1,231,068	P -
Net losses/total comprehensive losses	(P489,425)	(P572)
Share in net losses/total comprehensive losses	(P293,655)	(P343)
Carrying amount of investment	P6,541,061	P -

December 31, 2015 (Audited)

Country of Incorporation	Angat Hydro Philippines	KWPP Philippines
Current assets	P1,144,068	P2,049
Noncurrent assets	19,717,161	19,651
Current liabilities	(20,862,372)	(5,023)
Noncurrent liabilities	(17,693)	(17,583)
Net liabilities	(P18,836)	(P906)
Revenue	P1,248,800	P -
Net losses/total comprehensive losses	(P881,958)	(P352)
Share in net losses/total comprehensive losses	(P529,174)	(P211)
Carrying amount of investment	P1,289,876	P -

Unrecognized shares in net losses in excess of the Group's interest in KWPP amounted to P343 and P211 on December 31, 2016 and 2015, respectively.

Investment in shares of stock of subsidiaries

i. *Acquisition of OHC and GPII*

On February 10, 2015, the Parent Company acquired 100% outstanding capital stock of OHC for a total consideration amount of P588,050, inclusive of transaction costs. OHC is engaged in the business of acquiring by purchase, lease, donation or otherwise, and to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop and hold for investment or otherwise, real estate of all kinds; to improve, manage or otherwise deal with or dispose of buildings, houses, apartments, and other structures of whatever kind, together with their appurtenances; and to carry on, provide support and manage the general business of any corporation, entity or joint venture.

On September 4, 2015, the Parent Company acquired 100% outstanding capital stock of GPIL for a total consideration amount of P1,820,972, inclusive of transaction costs. GPIL's primary purpose is to carry on and engage in the business of developing and converting the properties in Limay, Bataan into a multi-use industrial park with all the necessary amenities, in joint venture with any person or entity.

The following summarizes the acquired net assets from OHC and GPIL at the acquisition date:

	OHC	GPIL
Current assets	P37,609	P126,317
Noncurrent assets	550,441	2,071,882
Current liabilities	-	(5,940)
Noncurrent liabilities	-	(371,287)
Net assets	P588,050	P1,820,972

In accordance with criteria set out in paragraph 2 of PFRS 3 and based on PIC Question and Answer No. 2011 - 06 PFRS 3 (2008), and PAS 40, *Investment Property - Acquisition of Investment Properties - Asset Acquisition or Business Combination*, the Parent Company is exempt from applying acquisition method and should be accounted for as an asset acquisition based on the principles described in other PFRS. The acquired set of assets and activities does not constitute a business as defined in PFRS 3.

ii. SCPC

In 2013, SCPC started the construction of its 2 x 150 MW Limay Coal-fired Power Plant Phase I. On November 4, 2016, SCPC started the testing and commissioning phase of Unit 1 of the power plant.

iii. SMCP

In 2013, SMCP started the construction of its 2 x 150 MW Malita Coal-fired Power Plant. On December 26, 2016 SMCP started its commercial operations following the completion of Unit 1 of the power plant.

iv. SPI

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

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

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

v. PVEI

In January 2017, PVEI and K-Water granted short-term loans amounting to US\$31,800 and US\$21,200, respectively, to Angat Hydro, collectible in full plus a 4.50% interest on April 30, 2017 or at a certain date in accordance with the Terms and Conditions of the Loan Agreement dated January 3, 2017.

13. Property, Plant and Equipment

Property, plant and equipment consists of:

	Power Plants (Note 6)	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost						
January 1, 2015	P226,788,832	P346,648	P1,158,076	P5,831,097	P21,413,097	P255,537,750
Additions	-	2,649,691	159,223	10,346	31,013,561	33,832,821
Disposals	-	-	(754)	-	-	(754)
December 31, 2015	226,788,832	2,996,339	1,316,545	5,841,443	52,426,658	289,369,817
Additions	10,654,500	1,054,299	730,036	31,311	2,391,987	14,862,133
Disposals/Reclassifications	(12,469,072)	(332,055)	(978,469)	(5,831,097)	(1,126,468)	(20,737,161)
Transfers to Assets Held for Sale	-	-	-	-	(184,324)	(184,324)
December 31, 2016	224,974,260	3,718,583	1,068,112	41,657	53,507,853	283,310,465
Accumulated Depreciation and Amortization						
January 1, 2015	26,930,663	46,231	161,702	265,831	-	27,404,427
Additions	6,030,650	44,848	135,629	301,958	-	6,513,085
Disposals	-	-	(691)	-	-	(691)
December 31, 2015	32,961,313	91,079	296,640	567,789	-	33,916,821
Additions	5,826,594	51,000	141,779	229,897	-	6,249,270
Disposals/Reclassifications	(2,221,036)	(99,617)	(231,534)	(791,466)	-	(3,343,653)
December 31, 2016	36,566,871	42,462	206,885	6,220	-	36,822,438
Carrying Amount						
December 31, 2015	P193,827,519	P2,905,260	P1,019,905	P5,273,654	P52,426,658	P255,452,996
December 31, 2016	P188,407,389	P3,676,121	P861,227	P35,437	P53,507,853	P246,488,027

- a. The combined carrying amounts of power plants under finance lease amounted to P177,759,894 and P182,946,297 as of December 31, 2016 and 2015, respectively (Note 4).
- b. On September 15, 2016, the BOD of the Parent Company and SPI approved the sale of its 4 x 35 MW Limay Co-gen Power Plant located in Petron Bataan Refinery in favor of Petron. Accordingly, the carrying amount of certain property, plant and equipment, amounting to P18,093,254 as of September 30, 2016 were reclassified to "Assets held for sale" account (Note 11). SPI recognized impairment loss of P323,788 at initial classification to measure its assets held for sale at lower of their carrying amount and fair value less costs to sell (Note 23).

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

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

As of December 31, 2016, SPI received P15,966,458 as initial payment, and the balance of the receivable of P4,063,525 was included under "Trade and other receivables" account in the consolidated statements of financial position (Notes 8 and 19).

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

As of December 31, 2016, the remaining assets held for sale consist of machineries and equipment to be sold to related parties (Note 11).

- c. Additions to building, land and leasehold improvements and other equipment include acquisition of assets of OHC and GPII for the Group's power plant expansion projects.
- d. Other equipment includes machinery and equipment, transportation equipment, mining equipment, office equipment and furniture and fixtures.
- e. Capital projects in progress pertains to the following:
 - i. Project of SMCPD for the construction of 2 x 150 MW (Units 1 and 2) Malita Coal-fired Power Plant.

Following the completion of Unit 1 and the ERC grant of a Provisional Authority to Operate in favor of SMCPD in October 2016, all CPIP costs pertaining to Unit 1 were reclassified to the appropriate property, plant and equipment account.
 - ii. Projects of SCPC and LPPC for the construction of the Limay Coal-fired Power Plants Phase I and II.
 - iii. Plant optimization and pumped-storage hydropower projects of SPDC.

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

	Note	2016	2015	2014
Cost of power sold		P6,139,882	P6,445,102	P6,129,256
Operating expenses	22	109,388	67,983	43,774
		P6,249,270	P6,513,085	P6,173,030

Total depreciation and amortization recognized in the consolidated statements of income include annual amortization of capitalized interest amounting to P10,020, P13,360 and P4,453 in 2016, 2015 and 2014, respectively.

The Group has interest amounting to P610,707, P105,549 and P254,539 which were capitalized in 2016, 2015 and 2014, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 3.88% to 6.29% and from 6.06% to 6.29% in 2016 and 2015, respectively. The unamortized capitalized borrowing costs amounted to P627,126 and P446,789 as of December 31, 2016 and 2015, respectively (Note 18).

14. Deferred Exploration and Development Costs

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

	2016	2015
Balance at beginning of year	P689,548	P671,783
Additions	3,831	17,765
Balance at end of year	P693,379	P689,548

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

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

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

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

Status of Operations

In 2008 and 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI, respectively, effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	10 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

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

On January 26, 2015, DOE granted the request by DAMI, SEPC and BERI for further extension of the moratorium of their work commitments under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium is retrospectively effective from January 1, 2013 and is valid until December 31, 2016 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first. On December 5, 2016, DAMI, SEPC and BERI requested for moratorium extension of work commitments. DOE in return required the 3 mining companies to submit supplemental information which the latter complied on December 27, 2016.

As of December 31, 2016, DAMI, SEPC and BERI are in the preparatory stages of its mining activities. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of their commercial operations.

Based on management's assessment, mining rights is not impaired since the recoverable amount of mining rights still exceeds its carrying amount as of December 31, 2016 and 2015.

15. Intangible Assets and Goodwill

Intangible assets and goodwill consist of:

	Note	2016	2015
Mining rights	14	P1,719,726	P1,719,726
Power concession assets - net	4, 6	688,974	507,497
Computer software - net		154,553	177,160
Goodwill		8,866	8,866
		P2,572,119	P2,413,249

Goodwill

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

Based on management's assessment, goodwill is not impaired since the recoverable amount of the related net assets of SMEC and SPDC for which the goodwill was attributed still exceeds its carrying amount as of December 31, 2016 and 2015.

Computer Software

The movements in computer software are as follows:

	<i>Note</i>	2016	2015
Cost			
Balance at beginning of year		P184,377	P113,733
Additions		44,994	70,644
Balance at end of year		229,371	184,377
Accumulated Amortization			
Balance at beginning of year		7,217	1,786
Amortization	22	67,601	5,431
Balance at end of year		74,818	7,217
		P154,553	P177,160

16. Other Noncurrent Assets

Other noncurrent assets consist of:

	<i>Note</i>	2016	2015
Restricted cash	27, 28	P663,820	P1,311,740
Amounts owed by related parties	19, 27, 28	227,394	253,812
Deferred input VAT - net of current portion		84,876	682,674
Noncurrent receivables	27, 28	44,681	-
		P1,020,771	P2,248,226

Restricted cash comprises: (a) the amount received from PEMC totaling to P475,057 representing the proceeds of sale on WESM for a specific period in 2016, for the electricity generated from the excess capacity of the Sual Power Plant, which SMEC consigned with the RTC of Pasig City (Note 29); (b) APEC's reinvestment fund for sustainable capital expenditures and contributions collected from customers for membership fees and bill deposits which are refundable amounting to P188,763 and P102,870 as of December 31, 2016 and 2015, respectively; and (c) SPI's Cash Flow Waterfall accounts (Trust Fund) with a local bank, as part of the provisions in SPI's Facility Agreement (Note 18) totaling to P1,208,870 as of December 31, 2015. As of December 31, 2016, the remaining balance of SPI's restricted cash amounting to P4,088 was reclassified under "Cash and cash equivalents," due to the prepayment of its outstanding long-term debt in December 2016.

Amounts owed by related parties mainly pertains to loan granted by SPGC to OEDC which is collectible in equal monthly payments of principal and interest, initially pegged at 4.73% and subject to change every 6 months. The equal monthly payments of OEDC shall be made on the first day of each month commencing in January 2017 until December 2024 (Note 19).

The deferred input VAT as of December 31, 2015 mainly pertains to the remaining input VAT on the purchase of power plant from Petron in 2013, which was claimed against output VAT in 2016 (Note 17).

17. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	<i>Note</i>	2016	2015
Trade	6	P11,914,211	P12,552,148
Non-trade		19,125,230	14,840,406
Output VAT		5,569,399	4,057,706
Amounts owed to related parties	19	633,436	653,900
Accrued interest	6, 18	283,724	493,897
Withholding taxes		203,415	242,993
	27, 28	P37,729,415	P32,841,050

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

Non-trade payables include liability relating to power rate adjustments, payables to contractors and other payables to the Government except output VAT and withholding taxes. Power rate adjustments include the adjustments in November and December 2013 sale of power to WESM amounting to nil and P563,587 as of December 31, 2016 and 2015, respectively (Note 29).

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

18. Long-term Debt

Long-term debt consists of:

	<i>Note</i>	2016	2015
Bonds payable (a)		P15,000,000	P14,118,000
Less debt issue costs		157,437	4,512
		14,842,563	14,113,488
Loans payable (b)		52,670,304	45,175,700
Less debt issue costs		1,189,141	681,327
		51,481,163	44,494,373
	27, 28	66,323,726	58,607,861
Less current maturities		1,040,690	15,647,244
		P65,283,036	P42,960,617

a. Bonds Payable

i. US Dollar-denominated Bonds

On January 28, 2011, the Parent Company carried out a US\$300,000, 7%, 5-year note (the "Bonds Payable") issued under Regulations of the U.S. Securities Act of 1933, as amended. The unsecured Bonds Payable is listed in the Singapore Exchange Securities Trading Limited. The terms and conditions of the Bonds Payable contain a negative pledge provision with certain limitations on the ability of Parent Company and its material subsidiaries to create or have outstanding any security interest upon, or with respect to, any of the present or future business, undertaking, assets or revenue (including any uncalled capital) of the Parent Company or any of its material subsidiaries to secure any indebtedness, subject to certain exceptions. Upon the occurrence of a change of control, each bondholder has the right, at its option, to require the Parent Company to repurchase all (but not some only) of its bonds, at a redemption price equal to 101% of the principal amount thereof plus accrued interest on the change of control put date.

The Parent Company has agreed to observe certain covenants, including, among other things, maintaining a leverage ratio, limitation on guarantees and loans, limitation on indebtedness, limitation on restricted payments, limitation on dividends and other restrictions affecting material subsidiaries, limitation on transactions with shareholders and affiliates, limitation of asset sales, consolidation, merger and sales of assets and certain other covenants. Interest is payable semi-annually in arrears on January 28 and July 28 of each year, with first interest payment on July 28, 2011.

On December 5, 2013, the BOD was informed of the need to amend certain provisions of the Bonds Payable, including but not limited to, the definitions of "Asset Sale", "Material Subsidiary", "Non-Recourse Project Level Indebtedness", "Permitted Security Interest" and "Project Subsidiaries" and the leverage and cross-default thresholds in order to align the provisions of the Bonds Payable with the US\$700,000 Loan Facility of the Parent Company, thereby providing flexibility to enable the Parent Company to divest its non-core assets and raise funds in line with its long term growth strategy.

On January 14, 2016, the Parent Company availed of a US\$300,000 six-month term loan (the "Short-Term Loan") as bridge financing with a local bank for the redemption of the Bonds Payable that matured on January 26, 2016.

ii. Peso-denominated Bonds

On July 11, 2016, the Parent Company issued and listed in the Philippine Dealing and Exchange Corp. (PDEX) fixed rate Philippine peso-denominated bonds (the "Bonds" or "Offer") with an aggregate principal amount of P15,000,000. The Bonds were issued at the issue price of 100% of face value in three series: Series A Bonds, Series B Bonds and Series C Bonds.

The terms and interest rate of the bonds are as follows:

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

Interest on the Bonds shall be payable quarterly in arrears starting on October 11, 2016, for the first Interest Payment Date, and January 11, April 11, July 11 and October 11 of each year thereafter.

The net proceeds of the Offer was utilized primarily by the Parent Company to refinance the Short-Term Loan that matured on July 25, 2016.

Valuation Technique

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

The fair value of the long-term debt amounting to P15,129,886 as of December 31, 2016 has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 28).

Bonds payable amounted to P14,842,563 and P14,113,488 while accrued interest amounted to P159,379 and P411,775 as of December 31, 2016 and 2015, respectively. Interest expense amounted to P435,166, P1,147,860, and P1,123,679 in 2016, 2015 and 2014, respectively.

b. Loans Payable

i. Parent Company

On September 9, 2013, the Parent Company signed a US\$650,000, 5-year term loan with a syndicate of banks. The amount of the loan will bear interest at the rate of the London Interbank Offered Rate (LIBOR) plus a margin, payable in arrears on the last day of the agreed interest period. Subsequently, on November 15, 2013, the US\$650,000 Facility Agreement was amended extending the loan facility from US\$650,000 to US\$700,000.

The Facility Agreement imposes a number of covenants on the part of the Parent Company including, but not limited to, maintaining a leverage ratio throughout the duration of the term of the Facility Agreement. The terms and conditions of the Facility Agreement contains a negative pledge provision with certain limitations on the ability of the Parent Company and its material subsidiaries to create or have outstanding any security interest upon or with respect to, any of the present or future business, undertaking, assets or revenue (including any uncalled capital) of the Parent Company or any of its material subsidiaries to secure any indebtedness, subject to certain exceptions.

In March 2015, the remaining US\$200,000 was drawn by the Parent Company from the US\$700,000, 5-year term loan, which will mature in September 2018. The drawn amount from the Facility Agreement amounted to US\$700,000 in both years (equivalent to P34,804,000 and P32,942,000, as of December 31, 2016 and 2015, respectively).

ii. SCPC

On December 29, 2015, SCPC signed a US\$400,000, 7-year term loan with a syndicate of banks. Pursuant to the Facility Agreement, the amount of the loan will bear interest at the rate of the LIBOR plus a margin, payable in arrears on the last day of the agreed interest period.

The Facility Agreements impose a number of covenants on the part of SCPC including, but not limited to, maintaining a leverage ratio throughout the duration of the Facility Agreements' term. The terms and conditions of the Facility Agreement include a negative pledge provision with certain limitations on the ability of SCPC to create or have outstanding any security interest upon or with respect to any of its assets or revenues and to secure any indebtedness, subject to certain exceptions.

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

As of December 31, 2016, total drawn amount from the Facility Agreement is US\$359,339 (equivalent to P17,866,304). Repayment of the loan principal shall commence on October 31, 2017, and every 3 months thereafter. The loan includes amount owed to a related party amounting to P2,687,451 as of December 31, 2016 (Note 19).

iii. SPI

On September 27, 2013, SPI has entered into a P13,800,000, 10-year term loan with a syndicate of banks, for the acquisition of the initial 2 x 35 MW Limay Co-gen Power Plant and all other pertinent machinery, equipment, facilities and structures for the expansion of the capacity. Of this amount, P12,300,000 and P1,500,000 were drawn on September 30, 2013 and 2014, respectively. The loan includes amount owed to a related party amounting to P3,102,750 as of December 31, 2015 (Note 19).

Effective interest rate ranges from 6.06% to 6.29% in 2016 and 2015, respectively. The Facility Agreement has a final maturity date of September 2023.

Facility Agreement imposes a number of covenants on the part of SPI, including, but not limited to, maintaining a debt-to-equity ratio and a specified debt service coverage ratio throughout the duration specified under the Facility Agreement. The terms and conditions of the Facility Agreement contains certain limitations on the ability of SPI to declare or pay any dividend, distribution or other return of capital in respect of any ownership interest to SPI and any other payment to the Parent Company or its affiliates, subject to certain exceptions.

On December 23, 2016, the Parent Company pre-settled the entire loan with accrued interest amounting to P11,270,930 using the proceeds from the sale of power plant to Petron (Notes 11, 13 and 19).

Loans payable amounted to P51,481,163 and P44,494,373 while accrued interest amounted to P55,164 and P7,544 as of December 31, 2016 and 2015, respectively. Total interest expense and financing charges on loans payable amounted to P2,726,143, P1,756,754, and P1,475,532 (inclusive of P723,306, P111,147 and P266,655 capitalized in CIP in 2016, 2015 and 2014, respectively; Note 13) in 2016, 2015 and 2014, respectively.

The amortization of debt issue costs of P369,403, P262,428 and P173,978 is included as part of "Interest expense and other financing charges" account in the consolidated statements of income in 2016, 2015 and 2014, respectively.

As of December 31, 2016 and 2015, the Group is in compliance with the covenants of the debt agreements.

The movements in debt issue costs are as follows:

	Note	2016	2015
Balance at beginning of year		P685,839	P669,555
Additions		1,142,741	284,310
Amortization		(369,403)	(262,428)
Capitalized amount	13	(112,599)	(5,598)
Balance at end of year		P1,346,578	P685,839

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

Year	Gross Amount		Peso	Debt Issue Costs	Net
	Dollar Amount	Peso Equivalent of US Dollar			
2017	\$24,507	P1,218,482	P -	P177,792	P1,040,690
2018	731,945	36,392,314	-	486,317	35,905,997
2019	33,814	1,681,219	-	152,939	1,528,280
2020	35,575	1,768,764	-	139,999	1,628,765
2021	38,054	1,892,042	6,153,250	187,014	7,858,278
2022 and thereafter	195,444	9,717,483	8,846,750	202,517	18,361,716
	\$1,059,339	P52,670,304	P15,000,000	P1,346,578	P66,323,726

Contractual terms of the Group's interest bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 27.

19. Related Party Disclosures

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

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

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	22	2016 2015	P - -	P660,590 1,177,187	P252 252	P6,201 106,573	On demand or 30 days; non-interest bearing	Unsecured; no impairment
Entities Under Common Control	6, 8, 9, 17, 22	2016 2015	10,248,500 8,817,828	3,300,854 2,835,155	1,589,923 1,461,602	562,408 358,842	On demand or 30 days; non-interest bearing	Unsecured; no impairment
	8, 13	2016 2015	17,883,913 -	- -	4,063,525 -	- -	180 days; non-interest bearing	Unsecured; no impairment
Associate	8, 17	2016 2015	1,004,967 958,043	198,445 -	90,767 92,621	36,040 28,101	30 days; non-interest bearing	Unsecured; no impairment
	16	2016 2015	12,929 -	- -	254,827 253,812	- -	9 years; interest bearing	Unsecured; no impairment
Associates of Entities Under Common Control	6, 8, 9	2016 2015	763,309 735,355	199,635 118,896	102,256 78,952	28,787 6	30 days; non-interest bearing	Unsecured; no impairment
	18	2016 2015	- -	- -	- -	2,687,451 3,102,750	7 or 10 years; interest bearing	Secured
Others	8, 17	2016 2015	84,493 7,419	- 321,143	37,065 1,674	- 160,378	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2016	P29,998,111	P4,359,524	P6,138,615	P3,320,887		
		2015	P10,518,645	P4,452,381	P1,888,913	P3,756,650		

All current outstanding balances with related parties are settled in cash within twelve months from the reporting date.

- Amounts owed by related parties consist of trade and other receivables and security deposits (Notes 8).
- Amounts owed to related parties consist of trade and non-trade payables, management fees, purchases of fuel, reimbursement of expenses, rent, insurance and services rendered by related parties.
- Amounts owed by an associate consists of interest bearing loan granted to OEDC included as part of "Trade and other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position and management fees charged to Angat Hydro by PVEI (Notes 8, 16 and 23).

- d. The amount owed to associate of an entity under common control consists of interest bearing loan obtained from Bank of Commerce included as part of “Long-term debt” account in the consolidated statements of financial position (Note 18).
- e. The compensation of key management personnel of the Group amounted to P39,712, P37,509 and P32,604 for the years ended December 31, 2016, 2015 and 2014, respectively.

20. Retirement Plan

The Parent Company and SMEC have unfunded, noncontributory, defined benefit retirement plans covering all of their permanent employees. Retirement benefits expense pertains to accrual of expected retirement benefits of active employees in accordance with RA No. 7641, *The Philippine Retirement Law*. Retirement benefits expense and liability is determined using the projected unit credit method. The Group’s latest actuarial valuation date is December 31, 2016. Valuations are obtained on a periodic basis.

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

	2016	2015
Balance at beginning of year	P45,657	P16,692
Recognized in Profit or Loss		
Current service cost	6,174	5,866
Interest cost	2,214	745
	8,388	6,611
Recognized in Other Comprehensive Income		
Remeasurements:		
Actuarial (gains) losses arising from:		
Experience adjustments	17,502	22,354
Changes in financial assumptions	(2,183)	-
	15,319	22,354
Balance at the end of year	P69,364	P45,657

Defined benefit retirement obligation included as part of “Other noncurrent liabilities” account in the consolidated statements of financial position amounted to P69,364 and P45,657 as of December 31, 2016 and 2015, respectively.

The retirement costs amounting to P8,388, P6,611 and P8,978 in 2016, 2015 and 2014, respectively, are recognized as part of “Salaries, wages and benefits” under “Operating expenses” account in the consolidated statements of income (Note 22).

The reserve for retirement plan as of December 31, 2016 and 2015 comprises of net actuarial loss recognized in other comprehensive income during the year amounting to P15,319 and P22,354, respectively.

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

	2016	2015
Discount rate	4.93% - 5.38%	4.43% - 4.89%
Salary increase rate	7.00%	7.00%

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

The weighted average duration of the defined benefit retirement obligation ranges from 8.0 to 9.0 years and 8.9 to 9.2 years as of December 31, 2016 and 2015, respectively.

Sensitivity Analysis

As of December 31, 2016 and 2015, the reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit retirement obligation by the amounts shown below:

	Defined Benefit Retirement Obligation			
	2016		2015	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	(P4,151)	P4,558	(P3,060)	P3,370
Salary increase rate	4,063	(3,793)	2,991	(2,785)

Risks and Management of Risks

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

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

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

21. Equity

Capital Stock

As of December 31, 2016 and 2015, the Parent Company's authorized capital stock is P2,000,000, divided into 2,000,000,000 common shares with par value of P1 per share.

Capital stock consists of:

	2016	2015
Subscribed capital stock	P1,250,004	P1,250,004
Less subscription receivable	187,500	187,500
	P1,062,504	P1,062,504

The number of shares subscribed is 1,250,003,500 common shares as of December 31, 2016 and 2015.

Equity Reserves

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

Retained Earnings

The Parent Company's retained earnings available for dividend declaration, calculated based on the regulatory requirements of the Philippine SEC, amounted to P508,785 and P1,186,479 as at December 31, 2016 and 2015, respectively. The difference between the consolidated retained earnings and the Parent Company's retained earnings available for dividend declaration primarily consist of undistributed earnings of subsidiaries and equity method investees. Stand-alone earnings of the subsidiaries and share in net earnings of equity method investees are not available for dividend declaration by the Parent Company until declared by the subsidiaries and equity investees as dividends.

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

December 31, 2016

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

December 31, 2015

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

December 31, 2014

Date of Declaration	Stockholders of Record	Date Payable	Dividend Per Share	Amount
March 25, 2014	March 25, 2014	April 8, 2014	P1.20	P1,500,000
June 3, 2014	June 3, 2014	June 10, 2014	2.80	3,500,000
August 19, 2014	August 19, 2014	August 29, 2014	2.00	2,500,000
November 4, 2014	November 4, 2014	November 11, 2014	2.00	2,500,000
				P10,000,000

Parent Company

On December 22, 2014, the BOD approved the appropriation of retained earnings amounting to P9,128,000 for additional funding requirements on its expansion projects.

On December 23, 2015, the BOD approved the appropriation amounting to P7,700,000 for the payment of the US\$700,000, 5-year term loan that will mature in September 2018 (Note 18). Reversals during 2015 pertain to: (a) construction of power plant amounting to P2,092,750; (b) interest on bonds payable amounting to P446,250; (c) interest on loans payable amounting to P104,000; and (d) expansion projects amounting to P9,128,000.

In 2016, reversals amounted to P2,966,000 for the debt servicing of the \$700,000 loan, as intended.

Total appropriated retained earnings of the Parent Company amounted to P4,734,000, P7,700,000 and P11,771,000 as at December 31, 2016, 2015, and 2014 respectively.

SMEC, SPPC and SPDC

On December 22, 2014, the BOD of SMEC, SPPC and SPDC approved the appropriation of retained earnings for fixed monthly payments to PSALM amounting to P6,375,000, P4,370,500, and P2,604,600, respectively, pursuant to the IPPA Agreements and additional funding requirements on their expansion project.

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

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

The appropriations reversed in 2016, 2015 and 2014 were used for the required capital expenditures and fixed monthly payments of SMEC, SPPC and SPDC to PSALM, as intended.

Total combined appropriated retained earnings of SMEC, SPPC and SPDC amounted to P20,507,200, P17,455,600 and P17,631,900 as at December 31, 2016, 2015 and 2014, respectively.

Undated Subordinated Capital Securities

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

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

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

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

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

Details of distributions paid to USCS holders are as follows:

	2016	2015	2014
February	P689,223	P -	P -
May	756,804	714,616	-
August	681,412	-	-
November	777,134	736,072	723,214
	P2,904,573	P1,450,688	P723,214

On February 24, 2017, the Parent Company paid distributions to holders of the \$300,000 USCS issued in August 2015, amounting to P720,611.

On March 13, 2017, the Parent Company's BOD approved the payment of distribution in the total amount of \$11,250, plus applicable taxes, on May 7, 2017 to the holders of the \$300,000 USCS issued in May 2014.

22. Plant Operations and Maintenance Fees and Operating Expenses

Plant operations and maintenance consist of:

	Note	2016	2015	2014
Plant operations and maintenance fees	6, 19	P379,231	P440,897	P499,850
Supplies and metering		59,410	47,865	22,510
Salaries, wages and benefits		17,514	13,326	41,720
Others		20,189	123	11,552
		P476,344	P502,211	P575,632

Operating expenses consist of:

	Note	2016	2015	2014
Taxes and licenses		P982,855	P946,801	P406,979
Impairment losses on trade receivables	8	958,784	142,658	144,393
Donations		738,980	59,781	662,752
Management fees	19	652,167	1,196,789	456,727
Corporate special program		384,166	245,736	134,607
Salaries, wages and benefits	19, 20	361,854	222,994	149,113
Rent	4, 6, 19	351,091	360,091	115,849
Repairs and maintenance		308,335	138,067	65,952
Supplies		250,200	105,617	46,444
Outside services		212,975	749,207	152,512
Depreciation and amortization	13, 15	176,989	73,414	43,774
Market fees	6	160,669	219,681	233,701
Travel and transportation		141,463	57,544	37,233
Professional fees		137,303	124,221	130,019
Advertising and promotions		119,874	59,653	40,998
Insurance		63,827	65,434	38,238
Miscellaneous		238,118	136,447	52,639
		P6,239,650	P4,904,135	P2,911,930

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

On September 9, 2014, SMEC agreed to provide an additional coal unloader (the Third Unloader) to the Sual Power Plant while Team Sual Corporation (TSC) agreed to install, operate and maintain the same during the life of the Sual IPPA Agreement or until 2024. Considering, however, that TSC is not allowed to accept and install any equipment in the Sual Power Plant that it does not own, SMEC agreed to donate the same in order to implement the intention of both parties to improve the unloading capability and increase coal shipment deliveries. The Third Unloader will be part of the assets to be turned over to SMEC at the end of the Sual IPPA Agreement or until 2024.

23. Other Income (Charges)

Other income (charges) consists of:

	Note	2016	2015	2014
PSALM monthly fees reduction	6	P1,509,225	P1,858,506	P814,565
Construction revenue	4, 6	226,997	47,091	111,995
Construction cost	4, 6	(226,997)	(47,091)	(111,995)
Foreign exchange losses - net	27	(8,075,159)	(7,582,548)	(813,621)
Miscellaneous income				
(charges) - net	4, 6, 19	(315,820)	(202,008)	67,281
		(P6,881,754)	(P5,926,050)	P68,225

Miscellaneous income (charges) pertain to impairment losses on non-trade receivables and property, plant and equipment, management fees and rental income charged to related parties (Notes 6, 8, 13 and 19).

24. Income Taxes

The components of income tax expense are as follows:

	Note	2016	2015	2014
Current	25	P2,668,503	P2,181,771	P1,608,293
Deferred		697,256	521,637	1,085,130
		P3,365,759	P2,703,408	P2,693,423

Current income tax expense in 2016, 2015 and 2014 represents regular corporate income tax of 30% on taxable income, MCIT on gross income and final tax paid on interest income.

Deferred tax assets (liabilities) arise from the following:

	Note	2016	2015
Items Recognized in Profit or Loss			
Allowance for impairment losses on trade and other receivables	8	P458,043	P170,443
Defined benefit retirement obligation	20	9,507	6,991
Difference of amortization of borrowing costs over payments and others		(624,000)	(472,095)
Difference of depreciation and other related expenses over monthly payments	6	(1,684,499)	(849,032)
Item Recognized in Other Comprehensive Income			
Equity reserve for retirement plan	20	11,302	6,706
		(P1,829,647)	(P1,136,987)

The difference of depreciation and other related expenses over monthly payments represents timing difference between tax and accounting recognition of expenses.

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

	2016	2015
Deferred tax assets	P2,955,570	P2,745,943
Deferred tax liabilities	(4,785,217)	(3,882,930)
	(P1,829,647)	(P1,136,987)

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

December 31, 2016	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at End of Year
Allowance for impairment losses on trade and other receivables	P170,443	P287,600	P -	P458,043
Defined benefit retirement obligation	6,991	2,516	-	9,507
Difference of amortization of borrowing costs over payments and others	(472,095)	(151,905)	-	(624,000)
Difference of depreciation and other related expenses over monthly payments	(849,032)	(835,467)	-	(1,684,499)
Equity reserve for retirement plan	6,706	-	4,596	11,302
Net liabilities	(P1,136,987)	(P697,256)	P4,596	(P1,829,647)

December 31, 2015	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at End of Year
Allowance for impairment losses on trade and other receivables	P60,005	P110,438	P -	P170,443
Defined benefit retirement obligation	-	6,991	-	6,991
Difference of amortization of borrowing costs over payments and others	(71,912)	(42,217)	(357,966)	(472,095)
Difference of depreciation and other related expenses over monthly payments	(252,183)	(596,849)	-	(849,032)
Equity reserve for retirement plan	-	-	6,706	6,706
Net liabilities	(P264,090)	(P521,637)	(P351,260)	(P1,136,987)

As of December 31, 2016, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
Year 2016	December 31, 2019	P3,137,496	P19,932
Year 2015	December 31, 2018	2,938,533	10,195
Year 2014	December 31, 2017	2,074,956	3,824
		P8,150,985	P33,951

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

	2016	2015	2014
Statutory income tax rate	30.00%	30.00%	30.00%
Increase (decrease) in the income tax rate resulting from:			
Unrecognized deferred tax assets	17.85%	30.43%	-
Availment of optional standard deduction and others	(3.07%)	(0.78%)	(1.91%)
Income subject to ITH	-	-	(7.87%)
Effective income tax rate	44.78%	59.65%	20.22%

25. Registrations and License

Registrations with the Board of Investments (BOI)

- i. In 2013, SMCP and SCPC were granted incentives by the BOI on a pioneer status for 6 years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, the rules and regulations of the BOI and the terms and conditions prescribed. On October 5, 2016, BOI granted SCPC's request to move the start of its commercial operation and Income Tax Holiday (ITH) reckoning date from February 2016 to September 2017 or when the first kWh of energy was transmitted after commissioning or testing, or 1 month from the date of such commissioning or testing, whichever comes earlier as certified by the National Grid Corporation of the Philippines. Subsequently, on December 21, 2016, BOI granted a similar request of SMCP to move the start of its commercial operation and ITH reckoning date from December 2015 to July 2016, or the actual date of commercial operations subject to compliance with the Specific Terms and Conditions, due to delay in the implementation of the project for reasons beyond its control. The ITH incentives shall be limited only to the revenues generated from the sale of the electricity from the power plants.
- ii. On September 20, 2016, LPPC was registered with the BOI under the Omnibus Investment Code of 1987 as expanding operator of 2 x 150 MW Circulating Fluidized Bed Coal-fired Power Plant on a non-pioneer status. The BOI categorized LPPC as an "Expansion" based on the 2014 to 2016 IPP's Specific Guidelines for "Energy" in relation to SCPC's 2 x 150 MW Coal-fired Power Plant. As a registered entity, LPPC is entitled to certain incentives that include, among others, an ITH for 3 years from January 2018 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall be limited only to the revenues generated from the sale of the electricity from the power plant.
- iii. On August 26, 2015, February 11, 2016 and October 26, 2016, the BOI issued a Certificate of Authority to SMCP, SCPC and LPPC, respectively, subject to provisions and implementing rules and regulations of Executive Order No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises." Authority shall be valid for 1 year from the date of issuance.

- iv. SMEC, SPDC and SPDC are registered with the BOI as administrator/operator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for 4 years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants.
- v. On August 21, 2007, SEPC was registered with the BOI under the Omnibus Investment Code of 1987 (Executive Order No. 226), as New Domestic Producer of Coal on a Non-pioneer Status.

License Granted by the ERC

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

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

26. Basic and Diluted Earnings (Loss) Per Share

Basic and diluted EPS is computed as follows:

	2016	2015	2014
Net income attributable to equity holders of the Parent Company	P4,150,662	P1,828,918	P10,629,482
Distributions to USCS holders for the year	(2,938,623)	(1,918,382)	(962,786)
Net income (loss) attributable to common shareholders of the Parent Company (a)	1,212,039	(89,464)	9,666,696
Weighted average number of common shares outstanding (in thousands) (b)	1,250,004	1,250,004	1,250,004
Basic/Diluted Earnings (Loss) Per Share (a/b)	P0.97	(P0.07)	P7.73

As of December 31, 2016, 2015 and 2014, the Group has no dilutive debt or equity instruments.

27. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

The BOD constituted the Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD.

The Audit Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Interest Rate Risk

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

Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P14,127, P2,092 and P6,388 in 2016, 2015 and 2014, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

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

Interest Rate Risk Table

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

December 31, 2016	1 Year or Less	>1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P -	P -	P -	P -	P6,153,250	P8,846,750	P15,000,000
Interest rate							
Series A Bonds					4.3458%		
Series B Bonds						4.7575%	
Series C Bonds						5.1792%	
Floating Rate							
Foreign currency-denominated							
(expressed in Philippine peso)	1,218,482	36,392,314	1,681,219	1,768,764	1,892,042	9,717,483	52,670,304
Interest rate	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	
	P1,218,482	P36,392,314	P1,681,219	P1,768,764	P8,045,292	P18,564,233	P67,670,304

December 31, 2015	1 Year or Less	>1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P1,402,200	P1,402,200	P1,402,200	P1,402,200	P1,402,200	P3,892,950	P10,903,950
Step-down interest rate	6.0606%	6.0606%	6.0606%	6.0606%	6.0606%	6.0606%	
Philippine peso-denominated	171,000	171,000	171,000	171,000	171,000	474,750	1,329,750
Step-down interest rate	6.2921%	6.2921%	6.2921%	6.2921%	6.2921%	6.2921%	
Foreign currency-denominated							
(expressed in Philippine peso)	14,118,000	-	-	-	-	-	14,118,000
Interest rate	7%						
Floating Rate							
Foreign currency-denominated							
(expressed in Philippine peso)	-	-	32,942,000	-	-	-	32,942,000
Interest rate			LIBOR + Margin				
	P15,691,200	P1,573,200	P34,515,200	P1,573,200	P1,573,200	P4,367,700	P59,293,700

Foreign Currency Risk

The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity.

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

		2016		2015	
	Note	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	7	US\$108,229	P5,381,123	US\$210,578	P9,909,822
Trade and other receivables	8	80,301	3,992,573	81,746	3,846,983
		188,530	9,373,696	292,324	13,756,805
Liabilities					
Accounts payable and accrued expenses	17	312,823	15,553,551	278,830	13,121,735
Finance lease liabilities	6	1,880,371	93,492,054	2,057,616	96,831,429
Long-term debt	18	1,059,339	52,670,304	1,000,000	47,060,000
		3,252,533	161,715,909	3,336,446	157,013,164
Net Foreign Currency-Denominated Monetary Liabilities					
		US\$3,064,003	P152,342,213	US\$3,044,122	P143,256,359

The Group reported net losses on foreign exchange amounting to P8,075,159, P7,582,548 and P813,621 in 2016, 2015 and 2014, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 23). These mainly resulted from the movement of the Philippine peso against US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2016	49.72
December 31, 2015	47.06
December 31, 2014	44.72

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

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

	2016		2015	
	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate
Cash and cash equivalents	(P108,229)	P108,229	(P210,578)	P210,578
Trade and other receivables	(80,301)	80,301	(81,746)	81,746
	(188,530)	188,530	(292,324)	292,324
Accounts payable and accrued expenses	312,823	(312,823)	278,830	(278,830)
Finance lease liabilities	1,880,371	(1,880,371)	2,057,616	(2,057,616)
Long-term debt	1,059,339	(1,059,339)	1,000,000	(1,000,000)
	3,252,533	(3,252,533)	3,336,446	(3,336,446)
	P3,064,003	(P3,064,003)	P3,044,122	(P3,044,122)

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

Liquidity Risk

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

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

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

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

2016	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P21,491,385	P21,491,385	P21,491,385	P -	P -	P -
Trade and other receivables - net*	22,342,743	22,342,743	22,342,743	-	-	-
Noncurrent receivables (included under "Other noncurrent assets - net" account)	272,019	315,066	-	77,195	116,640	121,231
Financial Liabilities						
Accounts payable and accrued expenses*	31,095,490	31,095,490	31,095,490	-	-	-
Finance lease liabilities (including current portion)	170,089,536	213,866,933	24,689,002	24,966,835	84,101,330	80,109,766
Long-term debt - net (including current maturities)	66,323,726	77,424,824	3,618,010	38,428,920	15,077,705	20,300,189

*Excluding statutory receivables and payables

2015	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P22,241,361	P22,241,361	P22,241,361	P -	P -	P -
Trade and other receivables - net*	18,473,455	18,486,278	18,486,278	-	-	-
Restricted cash (included under "Other noncurrent assets" account - net)	1,311,740	1,311,740	1,311,740	-	-	-
Noncurrent receivables (included under "Other noncurrent assets - net" account)	253,812	309,075	-	38,634	115,903	154,538
Financial Liabilities						
Accounts payable and accrued expenses*	27,707,659	27,707,659	27,707,659	-	-	-
Finance lease liabilities (including current portion)	179,193,193	231,795,506	23,755,535	24,016,154	77,763,868	106,259,949
Long-term debt - net (including current maturities)	58,607,861	64,490,903	17,262,779	2,969,354	39,484,150	4,774,620

Credit Risk

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

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

Trade and Other Receivables

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

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

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

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

	2016	2015
Cash and cash equivalents (excluding cash on hand)	P21,490,065	P22,240,755
Trade and other receivables - net*	22,342,743	18,473,455
Restricted Cash	-	1,311,740
Noncurrent receivables (included under "Other noncurrent assets" account)	272,019	253,812
	P44,104,827	P42,279,762

*Excluding statutory receivables

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

The Group has significant concentration of credit risk. Sale of power to Meralco accounts for 51%, 53% and 56% of the Group's total revenues for the years ended December 31, 2016, 2015 and 2014, respectively. The Group does not execute any credit guarantee in favor of any counterparty.

Capital Management

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

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, distribution payment, pay-off existing debts, return capital to shareholders or issue new shares, subject to compliance with certain covenants of its long-term debt and USCS (Notes 18 and 21).

The Group defines capital as capital stock, additional paid-in capital, USCS and retained earnings, both appropriated and unappropriated.

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

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

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

28. Financial Assets and Financial Liabilities

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

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P21,491,385	P21,491,385	P22,241,361	P22,241,361
Trade and other receivables - net*	22,342,743	22,342,743	18,473,455	18,473,455
Restricted cash (included under "Other noncurrent assets - net" account)	-	-	1,311,740	1,311,740
Noncurrent receivables (included under "Other noncurrent assets - net" account)	272,019	272,019	253,812	253,812
	P44,106,147	P44,106,147	P42,280,368	P42,280,368
Financial Liabilities				
Accounts payable and accrued expenses*	P31,095,490	P31,095,490	P27,707,659	P27,707,659
Finance lease liabilities (including current portion)	170,089,536	170,089,536	179,193,193	179,193,193
Long-term debt - net (including current maturities)	66,323,726	66,611,049	58,607,861	59,760,982
	P267,508,752	P267,796,075	P265,508,713	P266,661,834

*Excluding statutory receivables and payables

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

Cash and Cash Equivalents, Trade and Other Receivables (excluding statutory receivables), Restricted Cash, and Noncurrent Receivable. The carrying amounts of these financial assets approximate their fair values primarily due to the relatively short-term nature/maturities of these financial instruments. The fair value of noncurrent receivable is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

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

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 2.18% to 4.88% and 2.39% to 4.57% as of December 31, 2016 and 2015, respectively. The discount rates used for foreign currency-denominated loans is nil and 0.43% as of December 31, 2016 and 2015, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

29. Other Matters

a. Electric Power Industry Reform Act of 2001

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

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

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

b. Contingencies

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

i. *Generation Payments to PSALM*

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

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

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

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

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

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

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

The preliminary conference on the RTC case was suspended to pave way for mediation between the parties. During the last mediation conference on January 6, 2017, mediation between the parties was terminated. The case has been referred to Judicial Dispute Resolution process at the trial court level.

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

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

ii. *Criminal Cases*

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the Department of Justice (DOJ), against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. PSALM fraudulently misrepresented its entitlement to draw on the Performance Bond posted by SPPC, resulting in actual injury to SPPC in the amount of US\$60,000. The case is still pending with the DOJ as of December 31, 2016.

SMEC

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

In a Resolution dated July 29, 2016, the DOJ found probable cause to file Information against the respondents for (a) Plunder; (b) Violation of Sec. 3(e) of the Anti-Graft and Corrupt Practices Act; and (c) Violation of Sec. 3(f) of the Anti-Graft and Corrupt Practices Act. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

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

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

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

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

iii. *Temporary Restraining Order Issued to Meralco*

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

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

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

In a resolution dated October 11, 2016, the CA directed the parties to file their respective memoranda. SPPC, SMEC SPDC and SPI filed their memoranda on December 21, 2016. The case is still pending resolution with the CA as of December 31, 2016.

c. Commitments

The outstanding purchase commitments of the Group amounted to P1,588,516 and P2,577,051 as of December 31, 2016 and 2015, respectively.

Amount authorized but not yet disbursed for capital projects as of December 31, 2016 and 2015 is approximately P23,038,949 and P32,704,535, respectively.

COVER SHEET

For AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

S	M	C		G	L	O	B	A	L		P	O	W	E	R		H	O	L	D	I	N	G	S					
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PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

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M	e	t	r	o		M	a	n	i	l	a																		

Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

COMPANY INFORMATION

Company's email Address

N/A

Company's Telephone Number/s

702-4500

Mobile Number

N/A

No. of Stockholders

8

Annual Meeting (Month / Day)

June / 1st Tuesday

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Paul D. Causon

Email Address

pcauson@smg.sanmiguel.com.ph

Telephone Number/s

702-4500

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

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

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

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