1. GENERAL INFORMATION

The financial statements of the Power Sector Assets and Liabilities Management (PSALM) Corporation were authorized for issue on February 14, 2018 as shown in the Statement of Management's Responsibility for Financial Statements signed by Mr. Arnold C. Francisco, Officer-in-Charge of PSALM Corporation.

PSALM Corporation was created on June 26, 2001 as a government-owned and controlled corporation by virtue of Section 49, Chapter VI of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001(EPIRA). It is mandated to take ownership of all the existing generation assets, independent power producer (IPP) contracts, real estate and all other disposable assets, and to assume all liabilities and obligations of the National Power Corporation (NPC).

The principal purpose of PSALM Corporation is to manage the orderly sale, disposition and privatization of NPC's assets, with the objective of liquidating in an optimal manner all of NPC's financial obligations and stranded contract costs. To strengthen the financial viability of electric cooperatives, PSALM Corporation was also tasked to assume all outstanding financial obligations of electric cooperatives with the National Electrification Administration (NEA), and other government agencies, that were incurred for financing the Rural Electrification Program (REP). Moreover, it was granted the powers to collect, administer, and apply NPC's portion of the universal charge (UC). The UC refers to the charge, if any, imposed on all electricity end-users for the following purposes:

a. Recovery of the stranded debts and stranded contract costs of NPC as well as the qualified stranded contract costs of distribution utilities resulting from the restructuring of the industry. The stranded debts of NPC refer to any unpaid obligations that have not been liquidated by the proceeds from the sales and privatization of its assets. Stranded contract costs of NPC or distribution utility refer to the excess of the contracted cost of electricity under eligible contracts over the actual selling price of the contracted energy output of such contracts in the market. Such contracts should have been approved by the Energy Regulatory Board as of December 31, 2000;

b. Missionary electrification, which refers to the provision by NPC-SPUG of power generation and its associated power delivery systems in areas that are not connected to the transmission system;

c. Equalization of taxes and royalties applied to indigenous or renewable sources of energy vis-à-vis imported energy fuels; and

d. Rehabilitation and management of watershed areas. An environmental charge equivalent to one-fourth of one centavo per kilowatt-hour (P0.0025/kWh) sales to be used solely for this purpose which shall accrue to an environmental fund to be managed by NPC.

The UC is a non-bypassable charge which is passed on and collected from all end-users on a monthly basis by the distribution utilities. The collections by the distribution utilities and National Grid Corporation of the Philippines (NGCP) in any given month shall be remitted to PSALM Corporation on or before the fifteenth (15th) of the succeeding month. Any end-user or self-generating entity not connected to a distribution utility shall remit its corresponding UC directly to NGCP.

PSALM Corporation shall exist for a period of twenty-five (25) years from the effectivity of the Electric Power Industry Reform Act of 2001 (EPIRA), unless otherwise provided by law, and all assets and liabilities of the Corporation outstanding upon the expiration of its term of existence shall revert to and be assumed by the National Government.

The Corporation's temporary office is located at the 3rd Floor TransCo Building, Power Center, Quezon Avenue, corner BIR Road, Diliman, Quezon City, Metro Manila, Philippines, until its relocation to 24th Floor Vertis North Corporate Center Tower 1, North Avenue, Quezon City, Metro Manila, Philippines.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in compliance with the Philippine Public Sector Accounting Standards (PPSAS) prescribed by the Commission on Audit through COA Resolution No. 2014-003 dated January 24, 2014.

To arrive at the financial statements, accounting policies have been consistently applied throughout the year presented.

Further, the financial statements have been prepared on the basis of historical cost, except for assets transferred from NPC which were recorded at their carrying amounts (or balances as reflected in NPC books) as of the transfer date of December 31, 2008.

The financial statements are presented in Philippine Peso, which is also the country's functional currency. Amounts shown are also in absolute value, unless otherwise stated. In the case of the Statement of Cash Flow, this is prepared using the direct method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Accounting

The financial statements are prepared on an accrual basis in accordance with the PPSAS.

3.2 Financial Instruments

a. Financial assets

i. Initial recognition and measurement

Financial assets within the scope of PPSAS 29, Financial Instruments: Recognition and Measurement, are classified as financial assets at fair value through surplus or deficit, held-to-maturity investments, loans and receivables or available-for-sale financial assets, as appropriate. PSALM Corporation determines the classification of its financial assets at initial recognition.

PSALM Corporation's financial assets include: cash and cash equivalents; trade and other receivables; loans and other loans receivables; and derivative financial instruments.

ii. Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

1. Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit include financial assets held for trading and financial assets designated upon initial recognition at fair value through surplus or deficit. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through surplus or deficit are carried in the Statement of Financial Position at fair value with changes in fair value recognized in surplus or deficit.

2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Receivables are initially measured at face value and subsequently at amortized cost. Impairment loss is recognized using an allowance account.

2.1 Power receivables

These are classified as current assets as they are expected to be collected within twelve (12) months after the financial reporting date, except the disputed and restructured accounts which are classified as noncurrent assets.

2.2 Lease receivables

As structured, the contract, in the form of an Administration Agreement, between the Independent Power Producer Administrators (IPPAs) and PSALM Corporation, can be classified as a finance lease because it substantially transfers the risks and rewards incidental to ownership to the IPPA.

Based on PPSAS 13, the contract between the IPPA and PSALM Corporation are classified as a finance lease because, in substance, the contract contains the following indicators of a finance lease:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;

- the lease term is for the major part of the economic life of the asset even if title is not transferred; and

- the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Similarly, the IPPA structure provides that:

- full ownership of the generating plant and the right to use the land transfers to the IPPA at the end of the Administration Agreement;

- the Administration Agreement is for the remaining contract period of the service concession assets under the Build-Operate-Transfer (BOT) contracts with the Independent Power Producers (IPPs), which is for the most part of the economic life of the asset given that, on the average, the estimated economic life of the transferred generating plants is thirty (30) to forty (40) years, based on their last revaluation in 1996; and

- the leased generating plant is of a specialized nature and size that operating this asset and managing its output require highly technical expertise and considerable financial capability that only qualified entities such as the IPPAs can bid for administration of their contracted capacities and eventually own and operate them.

The service concession asset privatized under a finance lease is presented as a lease receivable from the IPPA in the amount equal to the aggregate of the monthly payments to be made by the winning bidder throughout the contract period. The schedule of monthly payments was part of the Financial Bid of the IPPA and is made part of the Administration Agreement as Annex 1 to Schedule I.

IPPA receivables are classified as current assets as they are expected to be collected within twelve (12) months after the financial reporting date. Otherwise, these are classified as non-current assets.

3. Held-to-Maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when PSALM Corporation has the positive intention and ability to hold it to maturity.

After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

iii. Derecognition

PSALM Corporation derecognizes a financial asset or, where applicable, a part of a financial asset or part of PSALM Corporation of similar financial assets when:

1. The contractual rights to the cash flows from the financial asset expired or waived; and

2. The Corporation has transferred its contractual rights to receive the cash flows of the financial assets, or retains the contractual rights to receive the cash flows of the financial assets but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions set forth in PPSAS 29, Financial Instruments: Recognition and Measurement; and either the entity has:

   - transferred substantially all the risks and rewards of ownership of the financial asset; or

   - neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred the control of the asset.

iv. Impairment of financial assets

PSALM Corporation assesses at each reporting date whether there is objective evidence that 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 has 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.

Evidence of impairment may include the following indicators:

1. The debtors or a group of debtors are experiencing significant financial difficulty

2. Default or delinquency in interest or principal payments

3. The probability that debtors will enter bankruptcy or other financial reorganization

4. Observable data indicates a measurable decrease in estimated future cash flows (e.g., changes in arrears or economic conditions that correlate with defaults)

Particularly for loans and receivables, PSALM Corporation adopted a revised accounting policy in 2014 to adequately provide allowance for doubtful accounts as follows: (i) for regular accounts, an initial 10% impairment allowance is recognized for accounts that are outstanding for more than one (1) year, and a 10 percent increase is thereafter provided for every year past due; (ii) for accounts with dispute, a 15% allowance for impairment is provided, unless a more specific amount is agreed upon by both parties in its initial proceedings; and (iii) for dormant as well as closed accounts, these are provided 100% impairment allowance. However, for dormant receivables due from NGAs and GOCCs, these were not yet provided with impairment allowance due to the on-going validation and verification of the accounts.

v. Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, PSALM Corporation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If PSALM Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in surplus or deficit. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or transferred to PSALM Corporation. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in surplus or deficit.

b. Financial liabilities

i. Initial recognition and measurement

Financial liabilities within the scope of PPSAS 29 are classified as financial liabilities at fair value through surplus or deficit, or loans and borrowings, as appropriate. PSALM Corporation determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

PSALM Corporation's financial liabilities include trade and other payables and loans and borrowings.

ii. Subsequent measurement

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well through the amortization process.

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

iii. Derecognition

A financial liability is derecognized when the obligation under the liability expires or is discharged or cancelled.

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, and the difference in the respective carrying amounts is recognized in surplus or deficit.

c. **Derivative financial instruments**

PSALM Corporation uses derivative financial instruments such as Principal Only Swap (POS) to hedge its foreign currency risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to surplus or deficit. PSALM Corporation does not apply hedge accounting.

3.3 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash in bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

3.4 Inventories

Inventories are valued at cost using the moving-average method upon initial recognition.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of PSALM Corporation.

3.5 Investment Property

Investment property, similar to NPC-transferred assets, are initially measured at their carrying amounts as stated in NPC books as of the transfer date of December 31, 2008.

Investment property are derecognized when they have been disposed of. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. PSALM Corporation uses the cost model for the measurement of investment property after initial recognition.

3.6 Property, Plant and Equipment and Depreciation

a. Recognition

An item is recognized as property, plant, and equipment (PPE) if it meets the characteristics and recognition criteria as a PPE.

The characteristics of PPE are as follows:

- tangible items;
- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost or fair value of the item can be measured reliably; and
- the cost is at least P15,000.00.

b. Measurement at recognition

For the preparation of the financial statements, PSALM Corporation followed COA Circular No. 2017-04 issued on December 13, 2017, which now requires the adoption of the cost model for all classes of PPE, as oppose to the previous manner of using the appraised value in reporting PPE.

An item recognized as PPE is measured at cost. The cost of the PPE is the cash price equivalent.

Cost includes the following:

(i) its purchase price, including import duties and non-refundablepurchase taxes, after deducting trade discounts and rebates;

(ii) expenditure that is directly attributable to the acquisition of the items; and

(iii) initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

However, a PPE acquired through non-exchange transaction, such as power, energy, and electrification structures transferred from NPC, is recognized in PSALM Corporation's books at their carrying amounts as stated in NPC books as of the transfer date of December 31, 2008.

c. Measurement after recognition

After recognition, all PPE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PPE are required to be replaced at intervals, PSALM Corporation recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PPE as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized as expense in surplus or deficit as incurred.

For PPE transferred from NPC, major maintenance, which are done on periodic three – to - five year intervals, are deferred, amortized and charged to operations over the number of year's interval. Rehabilitation expenditures that would result in improvement of the plant's efficiency beyond five years are capitalized and transferred to plant cost upon completion of work orders. Regular annual maintenance, repairs and minor replacements are charged to expense in surplus or deficit as incurred.

On January 9, 2009, PSALM Corporation filed with the Energy Regulatory Commission (ERC) its petition for the adoption of proposed asset valuation guidelines using an indexation method to revalue NPC's assets to its current cost level in lieu of the conduct of an appraisal by an external appraiser.

The public consultation on the petition was held on February 23, 2009, whereupon ERC directed PSALM Corporation to revise the Asset Valuation Guidelines based on comments from interested parties. This called for the application of the revaluation method of reporting NPC-transferred PPE.

However, PPSAS 17 requires the adoption of the cost model for all classes of PPE for purposes of uniformity and consistency. Thus, beginning January 1, 2017, PSALM Corporation derecognized the accumulated revaluation, and adopted the cost model for all classes of PPE.

d. Depreciation

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

i. Initial recognition of depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

For simplicity and to avoid proportionate computation, the depreciation is for one month if the PPE is available for use on or before the 15th of the month. However, if the PPE is available for use after the 15th of the month, depreciation is for the succeeding month.

ii. Depreciation method and Estimated Useful Life

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Economic Life
Power plants transferred from NPC:	
1. Hydraulic Production	40 years
2. Thermal Production (Oil- and Coal-Fired)	35 years
3. Geothermal Production	30 years
4. Other Production (Combined-Cycle, Diesel, Barge, Gas Turbine)	20 years
Furniture, fixtures and equipment	5-10 years
Transportation equipment	7 years
Computers and accessories	5 years

For PPE transferred from NPC, the average remaining useful life was determined by subtracting the age of the asset from the estimated standard economic life.

iii. Residual value

PSALM Corporation uses a residual value equivalent to ten (10) per cent of the cost of the PPE.

iv. **Impairment**

The carrying amount is reviewed for impairment when changes in circumstances indicate that the carrying amount may not be recoverable or may have diminished. If any such indication exists, and where the carrying amount exceeds the estimated recoverable amount or recoverable service amount, the assets are written down to their recoverable amount, or recoverable service amount, and impairment loss is recognized in profit or loss.

v. **Derecognition**

PSALM Corporation derecognizes items of PPE and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized.

3.7 Leases

a. PSALM Corporation as a lessee

i. Finance lease

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased item to PSALM Corporation.

Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. PSALM Corporation also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured at the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the PSALM Corporation will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

ii. Operating lease

Operating leases are leases that do not transfer substantially all the risks and rewards incidental to ownership of the leased item to the PSALM Corporation. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

b. PSALM Corporation as a lessor

i. Finance lease

PSALM Corporation recognizes lease payments receivable under a finance lease as assets in the statement of financial position. The assets are presented as receivable at an amount equal to the net investment in the lease.

The finance revenue is recognized based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease.

ii. Operating lease

Leases in which the PSALM Corporation does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term.

Rent received from an operating lease is recognized as income on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

3.8 Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

Provisions are recognized when PSALM Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provisions are reversed.

a. Contingent liabilities

PSALM Corporation does not recognize a contingent liability, but discloses details of any contingencies in the notes to financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

b. Contingent assets

PSALM Corporation does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the PSALM Corporation in the notes to financial statements.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

3.9 Changes in Accounting Policies and Estimates

PSALM Corporation recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy were applied prospectively if retrospective application is impractical.

PSALM Corporation recognizes the effects of changes in accounting estimates prospectively by including in surplus or deficit.

It also corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- Restating the comparative amounts for prior period(s) presented in which the error occurred; or

- If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

3.10 Foreign Currency Transactions

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

- Foreign currency monetary items are translated using the closing rate;

- Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and

- Nonmonetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items; or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise, except as those arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.

3.11 Revenue from Non-Exchange Transactions

a. Recognition and measurement of assets from non-exchange transactions

An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset are recognized as an asset if the following criteria are met:

i. It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and

ii. The fair value of the asset can be measured reliably.

An asset acquired through a non-exchange transaction is initially measured at its fair value as at the date of acquisition.

b. Recognition of revenue from non-exchange transactions

An inflow of resources from a non-exchange transaction recognized as an asset is recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

c. Measurement of revenue from non-exchange transactions

Revenue from non-exchange transactions is measured at the amount of the increase in net assets recognized by the entity, unless a corresponding liability is recognized.

d. Measurement of liabilities on initial recognition from non-exchange transactions

The amount recognized as a liability in a non-exchange transaction is the best estimate of the amount required to settle the present obligation at the reporting date.

e. Government Grants (Subsidy from National Government)

An unconditional government grant is recognized in Statement of Comprehensive Income as other income when the grant becomes receivable. A conditional government grant is recognized only when there is reasonable assurance that (a) the entity will comply with any conditions attached to the grant; and (b) the grant will be received.

The grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

3.12 Revenue from Exchange Transactions

a. Sale of owned and operated power plants

Revenue/gain from sale of the generation plants is recognized in full upon the successful turnover of the asset. The sale price is payable in cash or on installment. Normal terms for installment is 40% upfront cash and the 60% balance payable in 14 equal semi-annual payments at an agreed interest. The 60% deferred payment is recorded as Asset Sale Receivable.

b. Privatization of IPP power plants

Gain from the privatization of IPPs is recorded as Other Deferred Credits – Unearned Finance Income. The earned portion will subsequently be recorded as Finance Income over the life of the Administration Agreement.

c. Dividends

Dividends or similar distributions are recognized when PSALM Corporation's right to receive payments is established.

d. Rental income

Rental income arising from a Land Lease Agreement (LLA) on investment property is accounted for on a straight-line basis over the lease terms and included in revenue.

e. Other revenues

Other revenues are recognized when it is probable that future economic benefits will be received and such future benefits can be measured reliably.

3.13 Budget Information

The annual budget is prepared on a cash basis and is published in the government website.

A separate Statement of Comparison of Budget and Actual Amounts (SCBAA) is prepared since the budget and the financial statements are not prepared on comparable basis. The SCBAA is presented showing the original and final budget and the actual amounts on comparable basis to the budget.

The annual budget figures included in the financial statements are for the controlling entity, PSALM Corporation, and therefore exclude the budget for its subsidiary, the National Transmission Corporation (TransCo). The budgets of PSALM Corporation are not made publicly available. These budget figures are those approved by the governing body both at the beginning and during the year following a period of consultation with the public.

3.14 Subsidiary

As a wholly owned subsidiary of PSALM Corporation, TransCo remits its income for the period to the former thru declaration of dividend. PSALM Corporation would then recognize the dividend income in its Statement of Comprehensive Income for the period.

3.15 Service Concession Agreements

PSALM Corporation analyzes all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, PSALM Corporation recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price.

Such is the case with the Build-Operate-Transfer (BOT) contracts entered into by NPC with the IPPs, which were eventually turned over by NPC to PSALM

Corporation during the Asset-Debt Transfer in 2008. Arising from the government's efforts to mitigate the growing problem in the supply of electricity in the late 1980s to 1990s, private entities were designated by the government to build additional facilities to ensure a long-term and stable source of electricity that would reach more end-users. These BOT contracts constitute service concession agreements thereby resulting to recognition of service concession assets and service concession arrangement payables. BOT lease obligations, stated in nominal amounts, represent obligations to Independent Power Producers (IPP). These facilities were operated and maintained by the private entities for a certain period before turning them over to the government. The arrangement resembled a finance lease wherein the paying entity (in this case, the government), has the option to acquire ownership of the property after the private sector partners recover most of the asset's costs. Hence, the commissioned capacities were classified as Service Concession Arrangements Payable.

In the books, total capacity fees for the duration of the cooperation period are capitalized and recognized as asset. A liability corresponding to the unpaid portion of the capital recovery fees is set up under Service Concession Arrangements Payable. Kalayaan 3 & 4 and Mindanao Coal are the remaining BOT assets which are amortized over 40 years and 25 years, respectively.

Upon turnover of the privatized BOT plant to the appointed Independent Power Producer Administrators (IPPA), the asset is derecognized from the books of PSALM Corporation. However, the corresponding BOT lease obligations/Service Concession Arrangements Payable are not derecognized because they are not transferred to the appointed IPPA.

3.16 Taxes

Taxes and the related fines and penalties were recognized when collected or when these were measurable and legally collectible. Taxes for current and prior periods were, to the extent unpaid, recognized as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess payment was recognized as an asset.

Unlike the NPC, whose Charter provides that it shall be exempt from direct and indirect taxes, the EPIRA does not contain a provision that exempts PSALM Corporation, as an entity, from taxation.

While PSALM Corporation as an entity is not tax-free per se, there are certain transactions of this Corporation which are exempt from taxation. As set forth and further clarified in BIR Revenue Memorandum Circular (RMC) No. 11-2012 dated March 22, 2012, which supersedes previous BIR Ruling No. 020-02 dated May 13, 2002, the tax treatment of PSALM Corporation's transactions is summarized as follows:

a. On the Sale of the NPC Generation Assets and Other Real Properties in View of the Privatization

No income and withholding taxes are due from the sale of the NPC generation assets and other real properties to winning bidders.

PSALM Corporation, the principal purpose of which is to manage the orderly sale, disposition, and privatization of NPC generation assets and other real properties, with the objective of liquidating all NPC financial obligations and stranded contract costs in an optimal manner, will not derive gain from the said sale of the NPC generation assets and other real properties. Accordingly, no income tax and consequently withholding tax is due from PSALM Corporation on its sale of the NPC generation assets and other real properties.

The sale by PSALM Corporation of the NPC generation assets and other real properties to winning bidders, is subject to Value-added Tax (VAT).

In 2005, Republic Act No. 9337 or the R-VAT law was enacted. RA 9337 imposed 12 percent Value-Added Tax (VAT) on the sale of electricity, except for the sale of electricity sourced from renewable resources such as, but not limited to, biomass, solar, wind, hydropower, geothermal, ocean energy and other emerging energy resources, which is subject to zero percent rate VAT. Thus, the sale by PSALM Corporation of generated power shall be subject to VAT at 12 percent or zero percent rate as may be applicable.

Moreover, BIR Revenue Regulations (RR) No. 16-2005 was accordingly amended by BIR RR 04-2007, and subjected the sale of real properties not primarily held for sale or for lease, but used in business, to VAT.

b. The sale by PSALM Corporation of the NPC generation assets and other real properties is subject to Documentary Stamp Tax (DST)

Pursuant to Section 196 of the Tax Code of 1997, the sale of real properties by PSALM Corporation will be subject to DST at the rate of P15 for every P1,000 based on the consideration contracted to be paid for such realty or its fair market value determined in accordance with Section 6(E) thereof, whichever is higher. When one of the contracting parties is the Government, the tax to be imposed shall be based on the actual consideration subject to the proviso that, where one party to the transaction is exempt, the other party shall pay the tax. (Section 173 of the Tax Code of 1997)

Accordingly, the sale of the NPC generation assets and other real properties by PSALM Corporation pursuant to the privatization will be subject to DST based on the fair market value or the actual consideration that PSALM Corporation will receive, whichever is higher.

The rental income of PSALM Corporation from the NPC generation assets and other real properties, prior to its sale to winning bidders, is subject to income tax and VAT.

After the transfer of the NPC generation assets and other real properties to PSALM Corporation but prior to the privatization, PSALM Corporation enters into contracts of lease with private entities where the subject of the lease are the NPC generation assets and other real properties transferred to PSALM Corporation. The income received by PSALM Corporation from the lease is subject to corporate income tax provided under Section 27(A) of the Tax Code of 1997.

Thus, while no income tax is due on PSALM Corporation on its mandate to sell the NPC generation assets and other real properties to winning bidders, revenues derived by PSALM Corporation from its leasing activities are nevertheless subject to income tax. Moreover, gross receipts of PSALM Corporation from the lease of NPC transferred assets and other assets are deemed in the ordinary course of trade or business, hence, subject to VAT under the Tax Code of 1997.

c. On the Operation of the Generation Facilities

i. Income and Withholding Tax

Currently, government-owned and/or controlled corporations (GOCCs) are now subject to income tax pursuant to Section 27 (C) of the Tax Code except for the four (4) government corporations specifically enumerated therein. PSALM Corporation is not one of the exempt GOCCs under the said provision of the Tax Code of 1997. The operation by PSALM Corporation of the NPC assets transferred to it is not its principal purpose but only incidental to its mandate to privatize the generating plants of NPC in order to avoid a massive interruption in the supply of electricity. In this regard, any income derived therefrom is subject to income tax imposed under Section 27(A) and (E) of the Tax Code of 1997.

ii. Value-added Tax

Since the sale of the electricity and sale of service by PSALM Corporation are deemed made in the course of its business, the same is subject to VAT under Section 108 of the Tax Code of 1997 (as amended by RA 9337).

d. Miscellaneous Activities

Other income/receipts derived by PSALM Corporation from miscellaneous activities such as forfeiture of performance bonds, interest income from persons other than the winning bidders, and from other activities not related with its mandate are subject to all applicable taxes under the Tax Code of 1997.

e. Real Property Tax

The amount due as Real Property Tax (RPT) is determined based on the plants' category, whether it is classified as an owned and/or operated or an IPP plant. After determining this, PSALM Corporation refers to relevant provisions of the Local Government Code of the Philippines (LGCP) for owned and/or operated plants, while it refers to Executive Order No. 27 s. 2011 (E.O. 27) for IPP plants.

There is a specific treatment for IPP plants. Following the Supreme Court ruling that the taxable entity is the IPP, the RPT billings were directly forwarded to the IPP by the concerned Local Government Units (LGUs) using a maximum of 80 percent assessment level for all machineries and equipment pursuant to the LGCP.

However, based on the Purchase Power Agreement entered into by and between NPC and the IPP, the entity responsible for the payment of RPT is NPC. As such, PSALM Corporation, as the entity created by law to assume the assets and liabilities of NPC, settled the RPT liabilities of the IPPs upon the instruction of the PSALM Corporation's Board of Directors that RPT covering power generation facilities of IPPs under BOT contracts must be settled within the parameters of E.O. 27, i.e., the tax due shall be computed based on an assessment level of 15 percent of the fair market value of the property, machinery and equipment depreciated at the rate of two percent per annum, less any amounts paid, while all fines, penalties and interest on deficient RPT shall be condoned.

Hence, settlements of all IPP-related RPT was made under the framework of E.O. 27, with the IPP remitting in advance the RPT payment to the LGUs and correspondingly reimbursed by PSALM Corporation pursuant to the terms and conditions set forth in the Reimbursement Agreement entered into by and between PSALM Corporation and the IPP.

It should be noted that on April 27, 2017, President Rodrigo R. Duterte issued Executive Order No. 19 (E.O. 19) reducing the RPT assessed on the power generation facilities of IPPs under BOT contracts with GOCCs, including any special levies accruing to the Special Education Fund, for the years 2015 and 2016 to an amount equivalent to the tax due if computed based on an assessment level of 15 percent of the fair market value of the property, depreciated at the rate of two percent per annum, less any amounts already paid by the IPPs. All interests on such deficiency real property tax liabilities were also condoned and the concerned IPPs are relieved from payment thereof. Further, Section 2 of E.O. 19 provides that if any real property tax payments for 2015 and 2016 have been made by IPPs in excess of the reduced amount under Section 1 of the E.O. 19, such excess shall be applied to their RPT for the succeeding years.

PSALM Corporation through the Department of Finance (DOF) had submitted a draft E.O. reducing and condoning the real property taxes and interest/penalties assessed on the power generation facilities of the IPPs under BOT contracts with GOCCs covering taxable year (TY) 2017 and onwards and still awaiting for President Duterte's approval for the issuance of the said E.O. Pending said issuance, the Reimbursement Agreements between PSALM Corporation and the IPPs for TY 2017 are set at 15 percent assessment level.

On the other hand, the RPT payments remitted to the respective LGUs for owned and/or operated plants were based on the provisions of Sections 218 (d) and 234 (c) and (e) of the LGCP, which categorically provided that the assessment level for GOCCs engaged in the generation and transmission of electric power is at 10 percent, and that machineries and equipment that are actually, directly, and exclusively used in the generation and transmission of electric power, and those used for pollution control and environmental protection must be exempted, respectively.

3.17 Borrowing Costs

For loans borrowed directly by PSALM Corporation, the allowed alternative treatment is used.

3.18 Employee Benefits

The employees of PSALM Corporation are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

PSALM Corporation recognizes the undiscounted amount of short term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

3.19 Assumption and Condonation of Rural Electric Cooperatives' (REC) Loans

In accordance with the EPIRA, a Memorandum of Agreement was entered into by and between the National Electrification Administration (NEA) and PSALM Corporation on October 3, 2003 to implement the assumption and condonation by PSALM Corporation of duly audited REC loans. The basis in recording the amount of REC loans to be assumed by PSALM Corporation is the initial amount recorded by the NEA, confirmed by the REC and validated by COA. This amount is subsequently credited with the actual amount audited, condoned, and paid by PSALM Corporation to NEA. This condonation will benefit the consumers in terms of reduced electricity rates and improved services by the electric cooperatives as well as NPC/PSALM Corporation in terms of making current settlement of electricity bills with the electric cooperatives.

3.20 Administration of the Universal Charge

PSALM Corporation administers the Special Trust Funds created in accordance with the Guidelines on the Remittance and Disbursements duly promulgated by PSALM Corporation, concurred by the Department of Finance (DOF) and approved by the Energy Regulatory Board as provided for in the EPIRA.

PSALM Corporation maintains separate books of accounts for these Special Trust Funds and records.

The Universal Charge (UC) refers to the charge imposed on all electricity end-users to cover payment of NPC's stranded debts and stranded contract cost, missionary electrification, preservation of NPC's watershed, and any forms of cross-subsidies for a period not exceeding three (3) years. It also serves to equalize the taxes and royalties applied to indigenous or renewable sources of energy vis-à-vis imported energy fuels.

3.21 Measurement Uncertainty

The preparation of financial statements in conformity with PPSAS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

4. CASH AND CASH EQUIVALENTS

Particulars	2017	2016
Cash on Hand	32,799	142,686
Cash in Bank-Local Currency	1,515,575,634	959,881,985
Cash in Bank-Foreign Currency	474,696,182	222,333,552
Cash Equivalents	7,762,526,265	15,320,937,007
Total Cash and Cash Equivalents	**9,752,830,880**	**16,503,295,230**

Cash equivalents are highly liquid investments of the Corporation in the form of short-term placements.

5. INVESTMENTS

5.1 Financial Assets

a. Reconciliation of the Current Financial Assets

CURRENT FINANCIAL ASSETS As at December 31, 2017 *(in thousand pesos)*				
Particulars	**Financial Assets at Fair Value through Surplus or Deficit**	**Financial Assets - Held to Maturity**	**Financial Assets – Others**	**Total**
Beginning balance as at Jan. 1, 2017	-	-	-	-
Reclassification from a different class of investment	-	-	1,000,000	1,000,000
Less: *Fair value decrease*	-	-	-	-
Balance as at Dec. 31, 2017	**-**	**-**	**1,000,000**	**1,000,000**

b. Reconciliation of the Non-Current Financial Assets

Particulars	**Financial Assets - Held to Maturity**	**Financial Assets – Others**	**Total**
	(in thousand pesos)		
Beginning balance as at Jan. 1, 2017	-	1,024,447	1,024,447
Additional investments made	-	-	-
Fair value increase[1/]	-	274,365	274,365
Amortization of discount on the acquisition of investment	-	-	-
Reclassification from a different class of investment	6,001,097	1,000,000	7,001,097
Balance as at Dec. 31, 2017	**6,001,097**	**2,298,812**	**8,299,909**

[1/] consists of interest earned and revaluation as of the period

Particulars	Financial Assets - Held to Maturity	Financial Assets – Others	Total
	(in thousand pesos)		
Beginning balance as at Jan. 1, 2016	-	765,985	765,985
Additional investments made	-	-	-
Fair value increase[1/]	-	258,462	258,462
Amortization of discount on the acquisition of investment	-	-	-
Reclassification from a different class of investment	-	-	-
Balance as at Dec. 31, 2016	**-**	**1,024,447**	**1,024,447**

[1/] consists of interest earned and revaluation as of the period

Financial Assets-Held to Maturity

This account represents the carrying amount of the 10-year Retail Treasury Bond acquired on August 15, 2013 with an interest rate of 3.25%, which will mature on August 15, 2023.

Financial Assets-Others

This account consists of the following: (1) carrying amount of the 5-year Long-term Negotiable Certificates of Time Deposit acquired on October 9, 2015 and November 5, 2013 with an interest rate of 3.75% and 3.13%, respectively, with maturity dates of May 29, 2020 and April 5, 2018; and (2) the carrying amount of the principal-only-swap executed in July 2007 to cover PSALM Corporation's maturing obligation on 2028 amounting to USD300 million.

c. Financial Assets

Particulars	As at December 31, 2017	As at December 31, 2016
	(in thousand pesos)	
Total Current Financial Assets	1,000,000	-
Total Non-Current Financial Assets	8,299,909	1,024,447
Total	**9,299,909**	**1,024,447**

5.2 Investment in Subsidiaries

This account represents the cost or fair value of investments in TransCo acquired pursuant to EPIRA. It is a reciprocal account adjusted appropriately in the books for draw downs and payments for loans incurred to finance TransCo's projects, other loan-related transactions such as recognition of interest and gain (loss) on forex due to revaluation, adjustments and corrections of TransCo's account balances prior to the asset-debt accounts transfer, and TransCo's appraisal capital and any movement thereof. It should be noted that this does not consider yet TransCo's derecognition of its accumulated appraisal capital.

Particulars	Amount
Beginning Balance as at January 1, 2017	216,332,678,048
Add: Adjustments, net	1,878,542,826
Balance as at December 31, 2017	**218,211,220,874**

6. RECEIVABLES

6.1 Loans and Receivables

Accounts	*(in thousand pesos)*					
	2017			2016 *(As Restated)*		
	Current	Non-Current	Total	Current	Non-Current	Total
Accounts Receivable (A/R)-Power	76,501,523	1,693,188	78,194,711	39,016,357	40,719,567	79,735,924
Less: Allowance for Bad Debts	(41,153,885)	-	(41,153,885)	(16,325,280)	(23,639,012)	(39,964,292)
A/R-Power, Net of Allowance	35,347,638	1,693,188	37,040,826	22,691,077	17,080,555	39,771,632
Add: Recovery/ (Refund)	34,103,057	-	34,103,057	18,030,876	-	18,030,876
Output Tax Receivable	5,936,327	100,232	6,036,559	5,765,736	142,861	5,908,597
A/R-Power, Net	**75,387,022**	**1,793,420**	**77,180,442**	**46,487,689**	**17,223,416**	**63,711,105**
A/R-Generation Payments	**27,222,053**	**-**	**27,222,053**	**25,596,771**	**-**	**25,596,771**
Receivables From UC-SCC	5,980,404	-	5,980,404	7,805,853	-	7,805,853
Receivables From UC-SD	3,844,677	20,354,175	24,198,852	-	-	-
A/R-Universal Charge	**9,825,081**	**20,354,175**	**30,179,256**	**7,805,853**	**-**	**7,805,853**
Interests Receivable - Power	7,808,574	-	7,808,574	7,730,383	-	7,730,383
Less: Allowance for Impairment	-	-	-	-	-	-
Interests Receivable, Net	**7,808,574**	**-**	**7,808,574**	**7,730,383**	**-**	**7,730,383**
Interest Receivable - Placements	**75,371**	**-**	**75,371**	**71,518**	**-**	**71,518**
TOTAL	**120,318,101**	**22,147,595**	**142,465,696**	**87,692,214**	**17,223,416**	**104,915,630**

Accounts Receivable-Power consists of trade receivables for power generation charges, including Ancillary Service Charges and restructured power receivables, net of refunds to power customers resulting from ERC decisions. It pertains to the outstanding balances of power customers, most of which were transferred by NPC to PSALM Corporation, which is subject to continuous validation and confirmation. Its main composition includes regular power accounts, restructured power accounts, deferred accounting adjustments (DAA), and accounts under dispute/delinquent accounts.

Accounts Receivable-Generation Payments are receivables due from IPP Administrators for the operating costs incurred by the corresponding BOT IPP plant. As of December 31, 2017, this account has a balance of P27.222 billion due from the following IPP Administrators:

IPP Administrators	2017	2016
	(in thousand pesos)	
South Premiere Power Corp. **(SPPC)**	22,396,041	21,746,087
Good Friends Hydro Resources Corp. **(GFHRC)**	1,064,152	877,187
FDC Misamis Power Corporation **(FMPC)**	1,027,091	443,350
FDC Utilities, Inc. **(FDCUI)**	775,136	322,366
Thermal Luzon Inc. **(TLI)**	531,586	531,594
Aboitiz Energy Solutions, Inc. **(AESI)**	321,792	322,397
Unified Leyte Geothermal Energy, Inc. **(ULGEI)**	321,677	322,640
San Miguel Energy Corporation **(SMEC)**	250,985	260,138
Vivant Sta. Clara Northern Generation Corp **(VSCNGC) ***	239,011	25,366
Vivant Energy Corporation **(VEC)**	137,407	137,335
Strategic Power Development Corp. **(SPDC)**	133,097	261,812
Waterfront Mactan Casino Hotel, Inc. **(WMCHI)**	24,078	24,176
Phinma Energy Corporation **(PEC) ****	–	322,323
Total A/R-Generation Payments	**27,222,053**	**25,596,771**

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Universal Charge-SCC Receivable represents the approved amount of Stranded Contract Cost (SCC) and Stranded Debts (SD) that will be recovered through the Universal Charge (UC).

6.2 Aging/Analysis of Accounts Receivables

Accounts	Total	Not Past Due	Past Due		
			< 30 days	30-60 days	> 60 days
	(in thousand pesos)				
1. Power*	**78,194,711**	**4,843,640**	**194,001**	**156,738**	**73,000,332**
Distribution Utility	57,156,929	983,461	2,952	-	56,170,516
Electric Cooperative	15,294,784	3,412,405	189,318	156,364	11,536,697
Industry	5,458,010	436,958	470	327	5,020,255

Accounts		Total	Not Past Due	Past Due		
				< 30 days	30-60 days	> 60 days
		(in thousand pesos)				
Government		284,269	10,101	1,257	47	272,864
Others		719	715	4	-	-
2. Generation Payments		**27,222,053**	**5,452,151**	**309,290**	**393,891**	**21,066,721**
SPPC	Ilijan	22,396,041	3,812,530	201,052	254,371	18,128,088
GFHRC	Unified Leyte	1,064,152	26	-	-	1,064,126
FMPC	Mt. Apo I & II	1,027,091	547,347	80,121	71,476	328,147
FDCUI	Unified Leyte	775,136	53	-	23,579	751,504
TLI	Pagbilao	531,586	60,449	-	-	471,137
AESI	Unified Leyte	321,792	321,225	94	224	249
ULGEI	Unified Leyte	321,677	321,382	89	206	-
SMEC	Sual	250,985	57,486	-	-	193,499
VSCNGC	Bakun	239,011	37,434	27,911	43,923	129,743
VEC	Unified Leyte	137,406	137,122	23	112	150
SPDC	San Roque	133,097	133,019	-	-	78
WMCHI	Unified Leyte	24,078	24,078	-	-	-
3. Universal Charge		**30,179,256**	**30,179,256**	**–**	**–**	**–**

* *without considering allowance for bad debts, recovery/(refund) and output tax receivable*

From the above table, it could be gleaned that the bulk of the Accounts Receivable-Generation Payments is due from SPPC, with P18.584 billion already past due. The overdue amount arose from disputed items and differences in interpretation of certain provisions of the IPP Administration Agreement, as shown below:

Expressed in thousand pesos

26 Jun. 2010 - 25 Dec. 2012 (Period A) [1/]	4,622,001
26 Dec. 2012 - 31 Dec. 2017 (Period B) [2/]	9,059,501
Value added tax	4,677,180
Subtotal	**18,358,682**
Add: Other charges	224,829
Total	**18,583,511**

[1/] Refers to the period coinciding with the term of MERALCO TSCs that resulted to disputed items.

[2/] Refers to the period after the expiration of MERALCO TSCs, when SPPC's payments were not in accordance with Schedule J of the Administration Agreement. (See Note 31.10)

PSALM Corporation also has past due accounts receivable for Generation Payments pertaining to GFHRC, FDCUI and FMPC; all of which were declared in default during the year, and had their contracts with PSALM

Corporation terminated on August 10, September 4 and December 22, 2017, respectively. In the case of VSCNGC, this is a subject of a pending case with the Cebu City for corporate rehabilitation pursuant to the Financial Rehabilitation Rules of Procedure. Further, it should be noted that before the year ended, Phinma already settled its outstanding obligations with PSALM Corporation.

6.3 Lease Receivables

Accounts	*(in thousand pesos)*					
	2017			**2016 *(As Restated)***		
	Current	**Non-Current**	**Total**	**Current**	**Non-Current**	**Total**
Finance Lease Receivable	35,363,505	243,777,294	279,140,799	33,479,792	278,473,160	311,952,952
Less: Allow. for Impairment	–	–	–	–	–	–
Net Value – Finance Lease Receivable	**35,363,505**	**243,777,294**	**279,140,799**	**33,479,792**	**278,473,160**	**311,952,952**

Finance Lease Receivables refer to the Monthly Payments that are paid by IPP Administrators (IPPAs) to PSALM Corporation at fixed amounts based on an agreed amortization schedule representing their payment for the administration of the IPP plant.

These IPPAs are qualified independent entities who were appointed by PSALM Corporation by means of a public bidding, pursuant to Section 51 of the EPIRA, who will administer, conserve, and manage the contracted energy output of NPC/PSALM Corporation IPP contracts.

As of December 31, 2017, PSALM Corporation has successfully bid out and transferred a total of seven (7) IPPs to thirteen (13) IPPAs, as shown below:

IPPA	**Power Plant**	**Cooperation Period** (mm/dd/yyyy)
San Miguel Energy Corporation **(SMEC)**	Sual	From 10/01/2009 to 10/01/2024
Therma Luzon, Inc. **(TLI)**	Pagbilao	From 10/01/2009 to 08/01/2025
Strategic Power Dev. Corp. **(SPDC)**	San Roque	From 01/26/2010 to 04/26/2028
Vivant Sta. Clara Northern Generation Corp. **(VSCNGC)** *	Bakun	From 01/26/2010 to 01/26/2026
South Premiere Power Corp. **(SPPC)**	Ilijan	From 06/26/2010 to 06/26/2022

IPPA	Power Plant	Cooperation Period (mm/dd/yyyy)
FDC Misamis Power Corp. **(FMPC)**	Mt. Apo I	From 12/26/2014 to 02/15/2022
FDC Misamis Power Corp. **(FMPC)**	Mt. Apo II	From 12/26/2014 to 06/17/2024
Good Friends Hydro Resources Corp. **(GFHRC)**	Unified Leyte	From 12/26/2014 to 08/10/2017
FDC Utilities, Inc. **(FDCUI)**	Unified Leyte	From 12/26/2014 to 09/04/2017
Phinma Energy Corporation **(PEC)** **	Unified Leyte	
Aboitiz Energy Solutions, Inc. **(AESI)**	Unified Leyte	From 12/26/2014 to 07/25/2021
Unified Leyte Geothermal Energy, Inc. **(ULGEI)**	Unified Leyte	
Waterfront Mactan Casino Hotel Inc. **(WMCHI)**	Unified Leyte	
Vivant Energy Corporation **(VEC)**	Unified Leyte	

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As of end 2017, receivable from IPPAs for the Monthly Payments stood at P279.14 billion, broken down as follows:

IPPA	Plant	*(in thousand pesos)*					
		2017			2016		
		Current	Non-Current	Total	Current	Non-Current	Total
SMEC	Sual	11,549,204	90,103,851	101,653,055	10,947,350	102,426,324	113,373,674
TLI	Pagbilao	8,059,553	65,412,564	73,472,117	7,974,205	74,142,254	82,116,459
SPPC	Ilijan	8,657,713	33,480,048	42,137,761	8,647,968	42,090,333	50,738,301
SPDC	San Roque	3,924,291	40,968,613	44,892,904	3,919,883	44,842,470	48,762,353
VSCNGC*	Bakun	3,172,744	13,812,218	16,984,962	1,990,386	14,971,779	16,962,165
Total Finance Lease Receivable		**35,363,505**	**243,777,294**	**279,140,799**	**33,479,792**	**278,473,160**	**311,952,952**

**Formerly Amlan Hydro Power, Inc.*

It should be noted that on July 26, 2017, VSCNGC submitted a Revised Rehabilitation Plant, with motion to allow presentation in open court. On August 29, 2017, PSALM Corporation manifested its position and maintained that the IPPA AA with VSCNGC should be terminated to prevent further losses to PSALM Corporation.

6.4 Inter-Agency Receivables

Accounts	2017	2016 *(As Restated)*
Due from National Government Agencies	5,119,082,189	17,527,870,915
Due from Government Corporations	10,015,025,118	10,023,675,160
Total Inter-Agency Receivables	**15,134,107,307**	**27,551,546,075**

a. Due from National Government Agencies

This account consists of the following:

Particulars	2017	2016 *(As Restated)*
Bureau of Internal Revenue	3,992,944,762	12,366,154,087
Dept. of Budget and Management	1,115,347,953	1,115,347,953
Dept. of Finance/Bureau of Treasury	10,311,543	4,045,371,852
Department of Energy	477,931	997,023
Total Due from NG Agencies	**5,119,082,189**	**17,527,870,915**

Bureau of Internal Revenue (BIR)

This account mostly pertains to deferred taxes and duties corresponding to taxes paid under protest in the amount of P3.8 billion for the sale of Pantabangan - Masiway and Magat Hydroelectric Power Plants. In a Decision dated August 8, 2017, the Supreme Court reinstated the Decisions dated March 13, 2008 and January 14, 2009 of the Secretary of Justice in OSJ Case No. 2007-3, stating that it was erroneous for the BIR to hold PSALM Corporation liable for deficiency VAT. The P3,813,080,472 deficiency VAT remitted by PSALM Corporation under protest should therefore be refunded to PSALM Corporation.

Other than the foregoing, this account includes various withholding taxes.

Department of Finance (DOF)/Bureau of Treasury (BTr)

The amount due from DOF/BTr represents advances made by NPC for the San Roque Multi-Purpose Project (SRMP) and the Bataan Nuclear Power Plant (BNPP).

As of December 31, 2017, advances for the San Roque Multi-Purposes Project (SRMP) decreased to P10 million, posting a reduction of P4.04 billion from the 2016 level of P4.05 billion. These advances arose from the Memorandum of Agreement (MOA) in 1998 by and between the Department of Finance (DOF), Department of Budget and Management (DBM), Department of Environment and Natural Resources (DENR), Department of Public Works and Highways (DPWH), National Irrigation Administration (NIA), and NPC. The decrease is attributed mostly to the partial payments received by NPC.

The SRMP is a power project of NPC approved by the National Economic Development Authority (NEDA) as one of the projects for development by the Government. San Roque is located in San Manuel, at the lower Agno

River in Pangasinan. The project was bid out by NPC on a Build-Operate-Transfer (BOT) basis, which gave rise to a Power Purchase Agreement (PPA) between NPC and the Consortium (Marubeni Corporation, Sithe Philippine Holdings, Ltd., and Italian Thai Development Public Company, Limited). As signatory to this PPA, NPC is responsible for funding the cost of the non-power component of the project estimated at USD400 million.

SRMP is the non-power component of the project. It is a project serving several purposes: (i) annual generation of 1000 GWh energy; (ii) irrigation of about 87,000-hectares service areas in Pangasinan; (iii) flood forecasting and control; and (iv) water quality and environmental protection. As the project encompasses several functional areas, its implementation was a multi-agency effort with NPC tasked to lead in the project development. To ensure that the agencies meet their obligations in the implementation of the project and the terms of the PPA, the agencies entered into a MOA.

The MOA provided, among others, that:

> DOF shall (i) secure the financing of the USD400 million for disbursement to the Consortium through NPC, (ii) ensure the timely transfer of the USD400 million fund to NPC, and (iii) ensure that the advances to be made by NPC for the project's non-power component shall not be offset against any receivables of the Government from NPC;
>
> NIA, DENR, DPWH shall (i) include SRMP as a priority project in their programs, (ii) cause the inclusion in their annual budget, over and above its ceiling, their share in the USD400 million non-power cost, (iii) give authority to DBM and BTr to remit funds directly to NPC's account; and (iv) coordinate with NPC and the Consortium in the implementation of project matters under their jurisdiction;
>
> DBM shall ensure the inclusion of each agency's contribution to SRMP, as defined in the MOA, in the agencies' respective annual budgets from 1999 to 2000; and
>
> NPC shall, among others, disburse to the Consortium the USD400 million non-power component funding in accordance with the schedule.

On September 1998, the following amendments were made to the above MOA:

> NPC to borrow for the USD400 million non-power component of the project, with repayments to NPC made over the same debt service period as the said loan;

DOF shall secure the full government guarantee for the NPC financing of the USD400 million non-power component of SRMP; and

Longer spread of the agency's budget allocation for the contribution to the USD400 million non-power component (from years 1999–2000 to 1999–2014).

b. Due from Government Corporations

This account consists of the following:

Particulars	2017	2016
Metropolitan Waterworks and Sewerage System	5,198,293,631	5,198,293,631
National Transmission Corporation	4,797,309,012	4,805,959,054
National Power Corporation	19,422,475	19,422,475
Total Due from Gov't Corporations	**10,015,025,118**	**10,023,675,160**

Metropolitan Waterworks and Sewerage System (MWSS) represents energy and capacity losses incurred by the Angat Hydroelectric Power Plant (AHEPP) due to the implementation of MWSS Angat Water Supply Optimization Project (AWSOP). The Memorandum of Understanding between NPC and MWSS on February 9, 1990 provides that MWSS shall compensate NPC the energy and capacity losses, if any, which the latter may incur as a result of the operation of the former's Auxiliary Unit No. 5. (See Note 31.15)

6.5 Other Receivables

Accounts	2017	2016 *(As Restated)*
Receivables-Disallowances/Charges	37,766,587	38,326,009
Due from Officers and Employees	562,989	598,004
Universal Charge Receivable	1,128,690,798	1,132,673,832
Other Receivables	5,028,899,280	4,768,783,898
Total Other Receivables	**6,195,919,654**	**5,940,381,743**

Other receivables pertain to transferred accounts of NPC from various private corporations, government agencies, suppliers and persons. The account is subject to validation upon submission of supporting documents/further details by NPC.

7. INVENTORIES

Accounts	2017	2016
Office Supplies Inventory		
Carrying Amount, January 1, 2017	2,735,168	2,731,902
Additions/acquisitions during the year	2,231,257	2,979,943
Expensed during the year except write-down	(2,418,614)	(2,976,677)
Write-down	–	–
Sale as a result of the plant turnover	–	–
Carrying Amount, December 31, 2017	**2,547,811**	**2,735,168**
Inventory of Fuel Stock		
Carrying Amount, January 1, 2017	2,003,869,415	2,764,580,861
Additions/acquisitions during the year	2,098,265,345	1,388,756,227
Expensed during the year except write-down	(2,434,999,132)	(1,898,434,569)
Write-down	–	–
Sale as a result of the plant turnover	–	(251,033,104)
Carrying Amount, December 31, 2017	**1,667,135,628**	**2,003,869,415**
Other Supplies and Materials Inventory		
Carrying Amount, January 1, 2017	–	–
Additions/acquisitions during the year	534,198,366	–
Expensed during the year except write-down	–	–
Write-down	–	–
Sale as a result of the plant turnover	–	–
Carrying Amount, December 31, 2017	**534,198,366**	**–**
Total Carrying Amount, December 31, 2017	**2,203,881,805**	**2,006,604,583**

Inventory of Fuel Stock represents the cost of Heavy Fuel Oil, Industrial Diesel Oil, Coal, and Lube Oil used for the operation of heavy equipment and other machineries for operation of power plants.

8. INVESTMENT PROPERTY

This pertains to properties of PSALM Corporation that are held to earn rentals under a Land Lease Agreement (LLA). Any cash generated from this is considered part of the Corporation’s privatization proceeds. Details of the properties are as follows:

Particulars	2017 *(in thousand pesos)*			2016 *(in thousand pesos)*		
	Investment Property - Land	**Investment Property - Building**	**Total**	**Investment Property - Land**	**Investment Property - Building**	**Total**
Carrying Amount, Jan. 1	1,641,705	-	1,641,705	-	-	-
Transfers from inventories/ owner-occupied property	-	-	-	1,641,705	-	1,641,705
Total	**1,641,705**	**-**	**1,641,705**	**1,641,705**	**-**	**1,641,705**
Other Changes	(37,113)	-	(37,113)	-	-	-
Carrying Amount, Dec. 31 (as per Statement of Financial Position)	**1,604,592**	**-**	**1,604,592**	**1,641,705**	**-**	**1,641,705**

Other Changes made during the year consists of the derecognition of lands that were identified to be owned by TransCo.

9. PROPERTY, PLANT AND EQUIPMENT

This consists of PSALM-acquired and NPC-transferred Property, Plant and Equipment (PPE), as follows:

PSALM-Acquired Assets	*(in thousand pesos)*		
	Furniture, Fixtures & Equipment	Transportation Equipment	Total
Carrying Amount, Jan. 1, 2017*(as Restated)*	**52,347**	**6,132**	**58,479**
Additions/Acquisitions	3,981	264	**4,245**
Total	**56,328**	**6,396**	**62,724**
Disposals	(95)	-	**(95)**
Depreciation (as per Statement of Financial Performance)	(12,784)	(1,320)	**(14,104)**
Carrying Amount, Dec. 31, 2017 (as per Statement of Financial Position)	**43,449**	**5,076**	**48,525**

PSALM-Acquired Assets	*(in thousand pesos)*		
	Furniture, Fixtures & Equipment	Transportation Equipment	Total
Gross Cost (Asset Account Balance per Statement of Financial Position)	**221,047**	**22,998**	**244,045**
Accumulated Depreciation	(177,598)	(17,922)	**(195,520)**
Accumulated Impairment Losses	-	-	**-**
Carrying Amount, December 31, 2017 (as per Statement of Financial Position)	**43,449**	**5,076**	**48,525**

In the PSALM Corporation financial report as of December 31, 2016, it presented a Revaluation Surplus/Appraisal Capital as part of its Equity. This arose from the revaluation of power plant related assets in 2010 after the asset-debt transfer from National Power Corporation (NPC) to PSALM Corporation in December 31, 2008. The revaluation is in compliance to the Energy Regulatory Commission (ERC) Order dated February 8, 2010 granting PSALM Corporation and the National Power Corporation (NPC) the provisional authority to implement the new generation rate in relation to the joint application of PSALM Corporation and NPC under the ERC Case No. 2009-004 RC, otherwise, the provisional authority shall be revoked. Thus, PPE transferred from NPC had the following carrying value before the adoption of PPSAS 17:

NPC-Transferred Assets	*(in thousand pesos)*			
	Land	Buildings & Other Structures	Machinery & Equipment	Total
Carrying Amount, beg.	5,643,892	2,125,596	16,434,854	**24,204,342**
Additions/Acquisitions	18,299	480,555	798,538	**1,297,392**
Total	**5,662,191**	**2,606,151**	**17,233,392**	**25,501,734**
Less: Disposals	–	(178,631)	(1,218,301)	**(1,396,932)**
Depreciation	–	(342,755)	(2,337,652)	**(2,680,407)**
Carrying Amount before Effect of Derecognition of Revaluation Surplus	**5,662,191**	**2,084,765**	**13,677,439**	**21,424,395**

As mentioned in Note 3.6 b, PSALM Corporation followed COA Circular No. 2017-04 issued on December 13, 2017, which now requires the adoption of the cost model for all classes of PPE, as oppose to the previous manner of using the appraised value in reporting PPE. The new carrying amount of the NPC-transferred assets are as follows:

NPC-Transferred Assets	*(in thousand pesos)*			
	Land	Buildings & Other Structures	Machinery & Equipment	Total
Carrying Amount before Effect of Derecognition of Revaluation Surplus	**5,662,191**	**2,084,765**	**13,677,439**	**21,424,395**
Add/(Less): Derecognition of Accum. Revaluation Surplus	1,878,876	1,155,472	(5,433,157)	**(2,398,809)**
Carrying Amount, end	**7,541,067**	**3,240,237**	**8,244,282**	**19,025,586**

9.1 Service Concession Assets

This account represents the total computed capacity fees of remaining Build-Operate-Transfer (BOT) projects for the duration of the cooperation period, net of accumulated amortization, as follows:

Particulars	*(in thousand pesos)*		
	Total Capacity Fee	Accumulated Amortization	Net
Kalayaan 2 Unit 3	17,387,882	(6,121,983)	**11,265,899**
Kalayaan 2 Unit 4	17,387,882	(6,121,983)	**11,265,899**
Mindanao Coal Fired 1	13,738,656	(6,173,111)	**7,565,545**
Mindanao Coal Fired 2	13,660,516	(6,047,268)	**7,613,248**
Total	**62,174,936**	**(24,464,345)**	**37,710,591**

9.2 Construction Work in Progress

In addition to the foregoing, PSALM Corporation included an amount representing Construction Work-In-Progress (CWIP) amounting to P1.64 billion. This includes on-going uprating project of Agus 6 Unit 1 and 2 amounting to P1.50 billion, among others. This will form part of the NPC-transferred assets once the project is completed and unitized.

All in all, the total property, plant and equipment as of December 31, 2017, net of accumulated depreciation, is P58.423 billion.

10. OTHER ASSETS

Particulars	*(in thousand pesos)*					
	2017			2016 *(As Restated)*		
	Current	Non-Current	Total	Current	Non-Current	Total
Advances	652	**-**	**652**	458	**-**	**458**
Prepayment	32,915,368	-	**32,915,368**	33,736,440	-	**33,736,440**
Deposits	8,876,781	-	**8,876,781**	9,055,522	-	**9,055,522**
Restricted Fund	-	4,568,553	**4,568,553**	-	3,761,536	**3,761,536**
Others	-	18,472	**18,472**	-	18,545	**18,545**
Total	**41,792,801**	**4,587,025**	**46,379,826**	**42,729,420**	**3,780,081**	**46,572,501**

11. FINANCIAL LIABILITIES

11.1 Payables

Particulars	*(in thousand pesos)*					
	2017			2016 *(As Restated)*		
	Current	Non-Current	Total	Current	Non-Current	Total
Payables						
Accounts Payable	10,289,476	-	**10,289,476**	6,514,561	-	**6,514,561**
Due to Officers and Employees	140,295	-	**140,295**	69,910	-	**69,910**
Interest Payable	1,696,953	-	**1,696,953**	1,786,072	-	**1,786,072**
ServiceConcession Arrangements Payable	37,324,462	198,879,871	**236,204,333**	32,217,353	236,769,401	**268,986,754**
Total	**49,451,186**	**198,879,871**	**248,331,057**	**40,587,896**	**236,769,401**	**277,357,297**

As of December 31, 2017, the Corporation recognized as part of its ***Accounts Payable*** liabilities amounting to P689 million and P357 million due to Sem-Calaca Power Corporation (SCPC) and Southern Philippines Power Corporation (SPPC), respectively.

The amount recognized as liability due to SCPC, which arose from the Supreme Court's Decision in G.R. No. 204719,includes interest up to December 31, 2017 amounting to P212 million. On the other hand, the amount due to SPPC as an offshoot of the Supreme Court's Decision in G.R. No. 219627 corresponds only to the principal.

Service Concession Arrangement Payable due to the IPP proponent representing Capital Recovery Fees of the BOT power plants during the cooperation period indicated in the BOT contracts. This account also includes Fixed Cost payable to BOT plants under IPP AA.

11.2 Bills/Bonds/Loans Payable

This account pertains to outstanding financial obligations, which consist mainly of domestic and foreign borrowings. The details of the account are as follows:

Particulars	2017		2016 *(As Restated)*	
	Current	Non-Current	Current	Non-Current
1.Bonds Payables-Domestic[1/]	350,000,000	23,975,000,000	19,028,000,000	24,325,000,000
Bond Issue Cost – Domestic	(18,255,835)	(82,986,625)	(26,739,139)	(101,242,460)
Net Value	**331,744,165**	**23,892,013,375**	**19,001,260,861**	**24,223,757,540**
2.Bonds Payables-Foreign	2,686,332,867	158,681,404,120	2,680,413,819	160,010,259,492
Discount on Bonds Payable-Foreign	(125,899,326)	(626,954,560)	(116,795,415)	(750,053,683)
Premium on Bonds Payable-Foreign	2,448,985	2,394,328	2,281,382	4,832,641
Bond Issue Cost – Foreign	(76,284,450)	(301,227,214)	(70,041,784)	(376,679,858)
Net Value	**2,486,598,076**	**157,755,616,674**	**2,495,858,002**	**158,888,358,592**
3.Loans Payable - Domestic	21,937,500,000	56,850,000,000	6,937,500,000	63,787,500,000
Loan-Related Cost	(37,051,749)	(96,774,603)	(35,410,421)	(133,826,352)
Net Value	**21,900,448,251**	**56,753,225,397**	**6,902,089,579**	**63,653,673,648**
4.Loans Payable - Foreign	**15,000,757**	**52,502,646**	**14,967,705**	**67,354,666**
5.Other Bills/Bonds/Loans Payables	**4,844,168**	**118,381,565**	**4,577,986**	**118,381,565**
Total	**24,738,635,417**	**238,571,739,657**	**28,418,754,133**	**246,951,526,011**

[1/]Other Investments amounting to P8.77 billion, which pertain to the Fund Management Agreement between PSALM and the Bureau of Treasury, was fully utilized for the bullet payment of a 7.75% Fixed Rate Retail Bond in 2017.

The current portion of the ***Other Bills/Bonds/Loans Payables*** pertains to the guarantee fee payable to the Asian Development Bank (ADB) for the Nomura Bond issued back in December 2002.

12. INTER-AGENCY PAYABLES

Particulars	2017		2016 (As Restated)	
	Current	Non-Current	Current	Non-Current
Due to BIR	1,285,101,569	-	5,871,192,036	-
Due to GSIS	99,344	-	4,591	-
Due to Pag-IBIG	68,090	-	2,300	-
Due to PhilHealth	16,225	-	9,525	-
Due to GovernmentCorporations	1,805,161,525	-	1,805,161,525	-
Due to Subsidiaries/Joint Venture/Associates/Affiliates	105,465,184,589	-	105,910,991,815	-
Due to Treasurer of the Philippines	35,735,211,726	-	43,005,263,865	-
Income Tax Payable	730,323,266	-	-	-
Total	**145,021,166,334**	**-**	**156,592,625,657**	**-**

Due to Government Corporations corresponds to the outstanding Assumed Rural Electrification Program (REP) Loans or financial obligations of the electric cooperatives (ECs) to the National Electrification Administration (NEA) and other government agencies incurred for the purpose of financing the REP that was assumed by PSALM Corporation as provided in Section 60 of the EPIRA.

Section 60 of the EPIRA provides that all outstanding financial obligations of the electric cooperatives (ECs) to the National Electrification Administration (NEA) and other government agencies incurred for the purpose of financing the REP shall be assumed by PSALM Corporation in accordance with the program approved by the President of the Philippines within one (1) year from the effectivity of the Act which shall be implemented and completed within three (3) years from the effectivity of the Act. Section 2, Rule 31 of the Implementing Rules and Regulations (IRR) of the EPIRA states that the assumption covers all outstanding REP-related financial obligations of the ECs as of June 26, 2001.

The Act also provides that ERC shall ensure a reduction in the rates of ECs commensurate with the resulting savings due to the removal of the amortization payments of their loans. However, any EC that shall transfer ownership or control of its assets, franchise or operations within five years shall repay PSALM Corporation the total debts including accrued interests thereon.

To carry out the aforementioned objective and that of Executive Order (EO) No. 119, Restructuring Program for Electric Cooperatives, PSALM Corporation and NEA entered into a Memorandum of Agreement (MOA) on October 3, 2003 to lay down the operational legal framework upon which the financial obligations of ECs to NEA shall be lawfully assumed by PSALM Corporation. Article IV of the MOA provides that repayment by PSALM Corporation to NEA of the assumed loans shall be for the period of 10 years in accordance with the amortization schedule as may be mutually agreed by the parties.

The condonation was subject to compliance with certain conditions required under Executive Order (EO) No. 119. On September 2, 2006, EO 460 was issued amending EO 119 giving retroactive effect to the assumption by PSALM Corporation of the rural electrification loan obligations of the ECs to NEA and other government agencies.

PSALM Corporation has paid a total of P16.27 billion out of the P18.07 billion assumed rural electrification loans of ECs from NEA, other government agencies and Local Government Units (LGUs), leaving a total outstanding balance of P1.80 billion as of December 31, 2017.

However, as to the assumed loans of ECs from NEA, it was eventually discovered that even before entering into the MOA (during the period June 27, 2001 up to March 3, 2003), NEA already collected P2.22 billion from ECs for the corresponding amortizations interest/surcharges of the loans assumed by PSALM. These collections effectively decreased the condoned REP amount. Thus, with the payment of P15.82 billion and P2.22 billion by PSALM and ECs, respectively, to NEA, the condoned REP loan amount with NEA has been fully served.

Due to the Subsidiaries/Joint Venture/Associates/Affiliates corresponds to the payments received by PSALM Corporation from the National Grid Corporation of the Philippines (NGCP) for the grant of the concession to manage the transmission business of TransCo. The initial amount set up represents the payments received from NGCP for the years 2009 to 2012.

This account will be offset by: (i) any remittances made by PSALM to TransCo; (ii) the receipt of dividends from TransCo; and (iii) the reduction in value of TransCo assets, represented by the amount of depreciation.

Due to Treasurer of the Philippines corresponds to the advances made by the National Government in payment of the purchased power from NIA - Casecnan, advances for NPC debt servicing, including guarantee fees.

13. TRUST LIABILITIES

Particulars	2017		2016 *(As Restated)*	
	Current	Non-Current	Current	Non-Current
Trust Liabilities	6,067,808,698	-	4,956,955,084	-
Guaranty/Security Deposits	1,528,337,113	-	1,308,736,156	-
Trust Liabilities	**7,596,145,811**	**-**	**6,265,691,240**	**-**

Trust liabilities consists of the forfeited performance bond of South Premiere Power Corporation (SPPC) (see Note 31.10), the Universal Charge being administered by the Corporation intended for the purposes identified under the EPIRA, and the pass-through spot revenues of Unified Leyte Strip Owners.

14. DEFERRED CREDITS/UNEARNED INCOME

Particulars	*(in thousand pesos)*			
	2017		2016 *(As Restated)*	
	Current	Non-Current	Current	Non-Current
Output Tax Payable	8,275,795	-	-	-
Deferred finance lease revenue	2,600,574	11,035,099	2,600,574	13,635,673
Other deferred credits	-	31,477,912	-	1,251,758
Other unearned revenue/income	7,865,090	20,354,175	2,243,791	-
Total	**18,741,459**	**62,867,186**	**4,844,365**	**14,887,431**

Deferred Finance Lease Revenue

This account represents the difference between the lease receivable and the dropped asset resulting from the privatization of IPP contracts through the appointment of an IPP Administrator. This is equally amortized over the term of the IPPA Agreement.

In previous years, PSALM Corporation reported this as a contra asset account that reduces its Lease Receivables (formerly Receivable from IPPAs). But with the adoption of the PPSAS, this is now reported under Deferred Credits/Unearned Income.

Other Deferred Credits

This account consists of unearned land lease rentals and Deferred Income from Rate Regulated Activities (see Note 30.1.d).

Other Unearned Revenue/Income

This account includes Deferred Income from Universal Charge for Stranded Contract Cost (SCC) and Stranded Debt (SD).

Deferred income from UC-SCC refers to the unearned portion of the amount of Universal Charge for Stranded Contract Cost (UC-SCC) that has been approved by the ERC through its decision in ERC Case No. 2011-091 RC.

Filed on June 28, 2011 by PSALM Corporation, the said petition sought to recover the stranded contract costs of NPC from 2007 to 2010 through the UC. As of December 31, 2017, this account has a balance of P5.151 billion, as shown below:

Particulars	Amount
Unearned income from Recovery of UC-SCC, beg.	2,243,791,667
Add: UC-SCC approved in July 2017	12,878,000,000
Less: Earned in 2017	(9,970,591,667)
Unearned portion as of December 31, 2017	**5,151,200,000**

Deferred income from UC-SD, on the other hand, refers to the unearned portion of the amount of Universal Charge for Stranded Debt (UC-SD) that has been approved by the ERC through its decision dated June 27, 2017 in ERC Case No. 2013-195 RC.

Filed on September 30, 2013 by PSALM Corporation, ERC Case No. 2013-195 RC sought ERC's approval for the True-Up Adjustments of NPC's Stranded Debt portion of the UC from 2011 to 2012. As of December 31, 2017, this account has a balance of P23.07 billion, as shown below:

Particulars	Amount
Total UC-SD Receivable	24,198,852,235
Less: Earned in 2017	(1,130,787,488)
Unearned portion as of December 31, 2017	**23,068,064,747**

15. PROVISIONS

Particulars	2017	2016
Other Provisions	8,404,000,000	-
Provisions	**8,404,000,000**	**-**

The above provision was recognized by PSALM Corporation in 2017 to reflect the Supreme Court's Resolution dated November 21, 2017 under G.R. No. 156208 filed by the NPC Drivers and Mechanics Association (DAMA).

Since the Resolution ruled that "petitioners who were neither rehired by the NPC or absorbed by PSALM Corporation or Transco pursuant to the 2003 reorganization and subsequently employed in the private sector shall be entitled to full back wages", PSALM Corporation accordingly recognized a provision for the claims of said former NPC employees who were not rehired. The amount recognized as provision totaled P8.40 billion, consisting of P4.70 billion principal and P3.70 billion interest as of December 31, 2017. (See Note 31.1)

16. OTHER PAYABLES

Particulars	2017	2016 *(As Restated)*
Certified Obligations	2,500,500,996	3,311,006,977
Due to Other Funds	238,428,921	181,397,905
Other Long-Term Liabilities	**2,738,929,917**	**3,492,404,882**

Due to Other Funds consists of accounts payable to Renewable Energy Developer's Cash Incentive (REDCI).

17. GOVERNMENT EQUITY (ADJUSTMENTS-CAPITAL FROM ASSET-DEBT TRANSFER)

Particulars	2017	2016
Investment in TransCo	1,647,169,759	(337,874,919)
Cleaning of Accounts-Power Receivables	(131,284,576)	(475,610,525)
Others	(7,053,560,033)	3,067,099
Investment Property	–	1,085,718,568
Various Claims	(8,651,477,258)	–
Adjustments-CADT	**(14,189,152,108)**	**275,300,223**

The above accounts that were transferred by NPC to PSALM Corporation in 2008 are subject to further reconciliation, and these will be returned to their proper accounts once reconciled.

Investment in TransCo pertains to various adjustments related to appraisal capital, construction work in progress (CWIP), and electric plant in Service (EPIS).

Cleaning of accounts - Power Receivables refers to unreconciled and undocumented receivables from various power customers which are subjected to reconciliation.

Cleaning of accounts - Others refers to the net effect of the payment for interest differential under the KFW loan and the adjustment to correct the balance of the transferred BTr advances in the books.

Others pertain to the transferred accounts from NPC which are non-moving assets and liabilities and subject to reconciliation in compliance with the COA AOM Nos. 2014-06-13 and 2014-09-2013.

Investment Property pertain to the recognized land leased assets in compliance to the PPSAS 16 *Investment Property* that were not previously recorded by NPC.

Various Claims pertain to the recognition of additional liabilities corresponding to the DAMA claims and amount due to Sem-Calaca Power Corporation as a result of the Supreme Court's Decision in G.R. No. 156208 and G.R. No. 204719, respectively.

18. SERVICE AND BUSINESS INCOME

The Corporation's service and business income consists of the following:

Particulars	2017	2016 *(As Restated)*
Service Income		
Other Service Income	1,088,143	-
Total Service Income	**1,088,143**	**-**

Particulars	2017	2016 *(As Restated)*
Business Income		
Rent/Lease Income	64,645,842	64,666,029
Power Supply System Fees	28,325,855,879	25,218,082,019
Income from Hostels/Dormitories and Other Like Facilities	6,411,339	7,231,500
Dividend Income	3,997,789,349	3,041,503,758
Interest Income	531,453,311	821,614,688
Fines and Penalties-Business Income	471,402,300	421,715,261
Management Fees	1,800,115	-
Other Business Income	33,573,514,103	36,136,287,915
Total Business Income	**66,972,872,238**	**65,711,101,170**
Total	**66,973,960,381**	**65,711,101,170**

Other service income pertains to participation fees for the bidding documents.

Rent/Lease Income refers to earned rentals from investment properties under a Land Lease Agreement (LLA).

Power Supply System Fees represent income derived from the operations of its remaining plants (otherwise referred to as Power Generation in preceding years)

Income from hostels/dormitories and other like facilities consist of fees charged for the use of accommodation, and other similar facilities within NPC Hotel and Resort Village.

Dividend Income pertains to TransCo's remittance of profits as a wholly owned subsidiary of PSALM Corporation pursuant to Section 8 of the EPIRA.

Dividend income for 2017 covers four (4) quarters (from the 3rd quarter of 2016 to the 2nd quarter of 2017) of TransCo's profits, unlike in 2016 when it covered only three (3) quarters (from the 4th quarter of 2015 to the 2nd quarter of 2016), as shown below:

Particulars	2017	2016
Dividend income	**3,997,789,349**	**3,041,503,758**

Interest income pertains mainly to the interest earned, net of taxes, on power receivables, as well as placements and regular deposits

Other business income consists of income not falling under any of the specific business income accounts, such as those derived from fuel related transactions. In the case of PSALM Corporation, this also includes income derived from the operations of plants under an IPP Administration Agreement.

19. SHARES, GRANTS AND DONATION

This pertains to the Corporation's share in the Universal Charge (UC) for the recovery of both UC-Stranded Contract Cost (UC-SCC) and UC-Stranded Debt (UC-SD), as follows:

Particulars	2017	2016
Share in Universal Charge-SCC	9,970,591,667	13,462,750,000
Share in Universal Charge-SD	1,130,787,487	-
Total	**11,101,379,154**	**13,462,750,000**

20. GAINS

In 2017, this consists of Gain on Sale of Disposed Assets amounting to P0.26 billion primarily pertaining to the sale of Sucat Thermal Power Plant.

Particulars	2017	2016 *(As Restated)*
Gain on Sale of Disposed Assets	260,538,363	15,028,951
Total	**260,538,363**	**15,028,951**

21. PERSONNEL SERVICES

This account consists of the following:

Salaries and Wages

Particulars	2017	2016
Salaries and Wages - Regular	92,092,428	87,282,341
Salaries and Wages - Contractual	889,689	749,519
Total	**92,982,117**	**88,031,860**

Other Compensation

Particulars	2017	2016
Personnel Economic Relief Allowance (PERA)	3,953,727	2,077,667
Representation Allowance (RA)	4,105,375	4,243,500
Transportation Allowance (TA)	3,933,375	3,860,500
Clothing/Uniform Allowance	810,000	875,000
Honoraria	739,500	1,103,000
Overtime and Night Pay	12,218	45,462
Year End Bonus	15,597,738	14,588,333
Cash Gift	818,250	867,500
Other Bonuses and Allowances	9,323,359	290,500
Total	**39,293,542**	**27,951,462**

Personnel Benefit Contributions

Particulars	2017	2016
Retirement and Life Insurance Premiums	11,155,789	10,519,683
Pag-IBIG Contributions	196,700	207,900
PhilHealth Contributions	772,538	864,800
Employees Compensation Insurance Premiums	196,700	208,400
Total	**12,321,727**	**11,800,783**

Other Personnel Benefits

Particulars	2017	2016
Terminal Leave Benefits	19,064,106	530,699
Other Personnel Benefits	5,731,500	7,069,659
Total	**24,795,606**	**7,600,358**

22. MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)

Traveling Expenses

Particulars	2017	2016
Traveling Expenses-Local	9,513,486	10,204,365
Traveling Expenses-Foreign	2,874,870	667,308
Total	**12,388,356**	**10,871,673**

Training and Scholarship Expenses

Particulars	2017	2016
Training Expenses	1,133,911	2,152,977
Total	**1,133,911**	**2,152,977**

Supplies and Materials Expenses

Particulars	2017	2016 *(As Restated)*
Office Supplies Expenses	2,571,887	4,139,677
Drugs and Medicines Expenses	512,004	-
Fuel, Oil and Lubricants Expenses	22,952,232,204	19,680,873,474
Other Supplies and Materials Expenses	564,956	306,116
Total	**22,955,881,051**	**19,685,319,267**

***Fuel, Oil and Lubricants* Expenses** consists of the Natural Gas and Diesel pertaining to the operations of plants under an IPPA AA and the fuel incurred in the operation of the Malaya Thermal Power Plant.

Utility Expenses

Particulars	2017	2016 *(As Restated)*
Water Expenses	418,121	770,884
Electricity Expenses	4,454,711	5,241,568
Total	**4,872,832**	**6,012,452**

Communication Expenses

Particulars	2017	2016
Postage and Courier Services	417,570	390,612
Telephone Expenses	2,178,573	2,909,537
Internet Subscription Expenses	6,513,308	3,274,626
Cable, Satellite, Telegraph and Radio Expenses	-	10,907
Total	**9,109,451**	**6,585,682**

Generation, Transmission and Distribution Expenses

For PSALM Corporation, this account is used to report expenses that can be associated with the generation of power by remaining plants, to wit:

Particulars	2017	2016 *(As Restated)*
Purchased Power Costs	16,710,129,159	15,927,229,687
Energy Purchased from PEMC	3,343,972,696	2,756,627,152
Other OPEX	1,049,290,424	1,094,908,116
OMSC	265,305,402	251,289,922
Metering/Transmission Service	46,106,090	-
Expenses related to sold plants	13,561,905	20,549,228
Total	**21,428,365,676**	**20,050,604,105**

Purchased power cost include energy fee, capital recovery fee, and O&M fee of remaining plants due to IPP proponents contracted by NPC.

Energy purchased from **PEMC** refers to electricity outsourced from the Philippine Electricity Market Corporation (PEMC) to sustain the operations of power plants or augment power supply when a plant's generated output is insufficient to meet consumers' electricity demand.

Operation and Maintenance Service Contract (OMSC) are entered into by PSALM Corporation with winning bidders in instances where the operation and maintenance agreement with third parties have already been terminated, yet the bidding for the plant has yet to proceed due to various constraints. The winning bidder shall continue the operation of the plants, prevent their deterioration, and service the power requirements of the public while waiting for their privatization.

Confidential, Intelligence and Extraordinary Expenses

Particulars	2017	2016 *(As Restated)*
Extraordinary and Miscellaneous Expenses	642,648	614,600
Total	**642,648**	**614,600**

Professional Services

Particulars	2017	2016
Legal Services	110,335,405	33,530,226
Auditing Services	8,697,586	4,367,114
Consultancy Services	2,823,519	3,349,275
Other Professional Services	27,477,140	41,435,843
Total	**149,333,650**	**82,682,458**

General Services

Particulars	2017	2016 *(As Restated)*
Janitorial Services	6,643,982	6,663,107
Security Services	7,247,009	5,710,141
Total	**13,890,991**	**12,373,248**

Repairs and Maintenance

Particulars	2017	2016
Repairs and Maintenance-Buildings & Other Structures	9,940	90,844
Repairs and Maintenance-Machinery & Equipment	4,529,985	4,522,826
Repairs and Maintenance-Transportation Equipment	1,681,614	1,712,495
Repairs and Maintenance-Furniture & Fixtures	500	5,000
Total	**6,222,039**	**6,331,165**

Taxes, Insurance Premiums and Other Fees

Particulars	2017	2016 *(As Restated)*
Taxes, Duties and Licenses[1/]	458,741,993	3,107,529,383
Fidelity Bond Premiums	402,083	470,586
Insurance Expenses	48,750,687	53,216,053
Total	**507,894,763**	**3,161,216,022**

[1/]In 2016, this includes the assessed input tax for CY 2013 amounting to P2.63 billion.

Other Maintenance and Operating Expenses

Particulars	2017	2016 *(As Restated)*
Advertising, Promotional and Marketing Expenses	1,275,350	1,117,250
Printing and Publication Expenses	1,500	96,000
Representation Expenses	4,853,513	5,663,850
Rent/Lease Expenses	8,452,286	25,625,784

Particulars	2017	2016 *(As Restated)*
Membership Dues and Contributions to Organizations	85,918	43,000
Subscription Expenses	216,495	2,790,572
Donations	134,847	127,548
Documentary Stamps Expenses	105,190,050	31,985,616
Other Maintenance and Operating Expenses	8,844,531,126	9,506,834,700
Total	**8,964,741,085**	**9,574,284,320**

Other Maintenance and Operating Expense includes energy fees pertaining to the operations of plants under IPPA AA.

23. FINANCIAL EXPENSES

This consists of the following:

Particulars	2017	2016 *(As Restated)*
Interest Expenses	17,970,672,322	18,713,946,512
Guarantee Fees	2,193,739,969	-
Bank Charges	354,089	1,440,020
Other Financial Charges	173,996,755	2,356,480,050
Total	**20,338,763,135**	**21,071,866,582**

24. NON-CASH EXPENSES

The Corporation recognizes the following non-cash expenses:

Depreciation

Particulars	2017	2016 *(As Restated)*
Depreciation-Infrastructure Assets	1,105,671,817	2,091,607,104
Depreciation-Machinery and Equipment	12,474,045	15,953,124
Depreciation-Transportation Equipment	1,320,124	1,560,344
Depreciation-Furniture, Fixtures and Books	309,386	948,607
Depreciation-Service Concession Assets	1,959,106,855	1,959,106,854
Depreciation-Other Property, Plant & Equipment	–	903,910,486
Total	**3,078,882,227**	**4,973,086,519**

Impairment Loss

Particulars	2017	2016
Impairment Loss-Loans and Receivables	1,189,593,258	983,850,838
Impairment Loss-Property, Plant & Equipment	974,646,170	-
Total	**2,164,239,428**	**983,850,838**

25. FINANCIAL ASSISTANCE/SUBSIDY/CONTRIBUTION

Particulars	2017	2016 *(As Restated)*
Subsidy from National Government	-	1,827,776,453
Financial Assistance to Local Government Units	(146,799,185)	(171,920,539)
Financial Assistance/Subsidy/Contribution-Others	(254,276,415)	(259,049,510)
Total	**(401,075,600)**	**1,396,806,404**

26. NON-OPERATING INCOME, GAIN OR LOSSES

Non-Operating Income/Gain

Particulars	2017		2016 *(As Restated)*	
Gain on Foreign Exchange (FOREX):				
Realized	648,103,665		150,408,935	
Unrealized	324,034,142	972,137,807	8,541,000,301	8,691,409,236
Income from Rate Regulated Business		81,319,074		-
Gain on Sale/Redemption/Transfer of Investments		-		76,173,678
Other Gains		201,078,227		19,171,182
Total		**1,254,535,108**		**8,786,754,096**

Non-Operating Loss

Particulars	2017		2016 *(As Restated)*	
Loss on Foreign Exchange (FOREX):				
Realized	1,021,742,911		1,526,597,326	
Unrealized	1,858,743,926	2,880,486,837	22,938,420,080	24,465,017,406
Loss from Rate Regulated Business		13,617,258		-
Other Gains		28,602,185		-
Total		**2,922,706,280**		**24,465,017,406**

The following are the exchange rates used to restate outstanding balances at financial reporting date:

	2017	2016	(Loss)
Philippine Peso (P) : US Dollar ($)	**49.9230**	49.8130	(0.1100)
Philippine Peso (P) : Japanese Yen (¥)	**0.4423**	0.4251	(0.0172)

27. SERVICE CONCESSION ARRANGEMENTS

This account represents the total computed capacity fees of remaining Build-Operate-Transfer (BOT) projects for the duration of the cooperation period of

Kalayaan 2 Units 3 and 4 and Mindanao Coal Units 1 and 2, net of accumulated amortization, as follows:

Particulars	2017	2016
Service concession assets recognized	62,174,936,275	62,174,936,275
Accumulated depreciation to date	(24,464,345,273)	(22,505,238,419)
Net carrying amount	**37,710,591,002**	**39,669,697,856**

Relative to the foregoing, the Corporation has corresponding service concession liability due to the IPP proponent representing capital cost recovery fees of the BOT power plants during the cooperation period indicated in the BOT contracts, as follows:

Particulars	2017	2016
Service Concession Arrangement Payable	**236,204,332,858**	**268,986,754,146**

28. SUPPLEMENTARY INFORMATION REQUIRED IN TAXES, DUTIES AND LICENSE FEES UNDER REVENUE REGULATION NO. 15-2010

In compliance with the requirements set forth by the Bureau of Internal Revenue (BIR) through Revenue Regulations (RR) No. 15-2010, below are the information on the taxes, duties, and license fees paid during the taxable year 2017.

A. Vatable Revenues and Output Tax:

Particulars	Net Sales/ Receipts	Output VAT
Vatable sales	59,267,122,230	7,112,054,668
Sales to government	11,979,129	1,437,495
Zero-rated sales	34,589,218,842	-
Exempt sales	-	-
Total	**93,868,320,201**	**7,113,492,163**

The Corporation is engaged in the sale of services the collection of which are classified into the following:

1. ***Vatable sales*** **–** these are sales of electricity using non-renewable energy.

   The enactment of Republic Act (RA) 9337 on July 1, 2005 placed the electric power industry in the VAT System. Section 6 of this RA, amending Section 108 of the National Internal Revenue Code (NIRC), includes sales of electricity by generation companies, transmission, and distribution companies in the definition of the phrase “sale or exchange of services” to be subjected to VAT.

2. ***Sales to government*** – these are sales of electricity to government entities who subject their payment to PSALM Corporation to 5% withholding final VAT.

3. ***Zero-rated sales*** – the sale of electricity using renewable energy is VATable at 0%. Section 108(B)(7) of the NIRC, as amended by Section 6 of RA 9337, has identified such sale as subject to zero percent (0%) rate, to wit:

> *"Sale of power or fuel generated through renewable sources of energy such as, but not limited to, biomass, solar, wind, hydropower, geothermal, ocean energy, and other emerging energy sources using technologies such as fuel cells and hydrogen fuels."*

B. Purchases and Input Taxes:

Particulars	Input VAT
Balance at January 1, 2017	22,825,439,792
Add: Input tax on depreciation deferred from previous period	123,248,808
Total balance at January 1, 2017	**22,948,688,600**
Add current year's domestic purchases/payments for:	
Purchase of capital goods not exceeding P1 million	-
Purchase of capital goods exceeding P1 million	188,399,921
Domestic goods	225,319,362
Imported goods	-
Services	4,106,598,480
Services rendered by non-residents	11,936,507
Zero-rated/Non-VAT	-
Subtotal	**4,532,254,270**
Total Input	**27,480,942,870**
Less: Deferred depreciation	(261,983,506)
Total allowable input tax for TY 2017	**27,218,959,364**

For the Taxable Year 2017, PSALM Corporation has not remitted any excess Output Tax. As at December 31, 2017, the VAT Return shows a negative balance of P20,105,467,200.55, that is, excess Input Tax over the years.

C. Customs duties and taxes paid to reimburse STEAG in 2017 for the importation of coal amounting to P304,941,96.

D. The Corporation has no excise tax to report for the year.

E. Documentary Stamp Tax:

Particulars	Amount
LBP Malate, Manila – Payment of DST for the P8.0 Bn. STL	39,452,055
LBP Malate, Manila – Payment of DST for the P7.0 Bn. STL	34,424,658
Outward remittance to Team Energy and Team Sual	31,304,503

Particulars	Amount
Payment through GSIS on Purchased Insurance Policy	8,834
Total	**105,190,050**

F. Taxes and Licenses:

Particulars	Amount
Real estate tax	233,184,712
Final tax on interest earnings	85,628,664
Court of tax appeals fees	16,861,186
Transfer tax	375,327
Revalidation fee for discharge permit	35,406
Community Tax Certificate	10,500
Registration fees	500
Total	**336,096,295**

G. Withholding Taxes:

Particulars	Amount
VAT and other percentage taxes	2,056,981,612
Final withholding taxes[1/]	1,760,559,663
Expanded withholding taxes	1,602,212,364
Withholding taxes on compensation and benefits	16,934,245
Total	**5,436,687,884**

[1/] Of which amount, P1,737,317,604.58 was withheld for interest payment.

H. Taxable Year Covered and Amount/s of Deficiency Tax Assessments, protested or not:

	Taxable Year	Tax Type	Basic Tax (as paid)	Interest (as requested for abatement)	TOTAL
1. Interest Requested for Abatement					
a	2009	Final Withholding Tax	1,122,424,476	387,584,619	**387,584,619**
b	2010	Value Added Tax	5,769,624,123	2,534,110,123	
	2010	Final Withholding Tax	1,303,816,673	502,298,221	**3,036,408,344**
c	2011	Final Withholding Tax	816,537,600	357,039,455	
	2011	Expanded Withholding Tax	23,477,563	7,700,342	
	2011	Withholding Percentage Tax	2,388,125	1,355,670	
	2011	Value Added Tax	5,862,246,004	1,519,874,560	
	2011	Value Added Tax	1,414,869	1,395,488	
	2011	Value Added Tax	113,964,004	116,165,121	**2,003,530,636**
d	2013	Value Added Tax	6,282,297,077	640,277,949	
	2013	Value Added Tax	42,221,811	26,836,877	
	2013	Withholding Tax on Compensation	106,194	83,080	
	2013	Expanded Withholding Tax	117,645,937	75,486,791	**742,684,697**

Taxable Year	Tax Type	Basic Tax (as paid)	Interest (as requested for abatement)	TOTAL
Total				**6,170,208,296**
2. Reconsideration requested for Final Withholding Basic Tax Deficiency & Interest				
2010				144,895,561
Total				**144,895,561**
Grand Total				**6,315,103,857**

I. Tax proceedings involving PSALM Corporation

Considering the nature of pending tax cases and difficulty in predicting successes in favor of PSALM Corporation, losses are recorded only when they are probable to be incurred and the amount of loss can be reasonably estimated.

On August 8, 2017 the Supreme Court En Banc laid down its decision penned down by Justice Antonio T. Carpio under G.R. 198146 in the case entitled "PSALM as Petitioner versus the Commissioner of the Internal Revenue as Respondent" ordering among others that:

> *"(T)he sale of the power plants… is not subject to VAT since the sale was made pursuant to PSALM' s mandate to privatize NPC assets, and was not undertaken in the course of trade or business. In selling the power plants, PSALM was merely exercising a governmental function for which it was created under the EPIRA law (Last paragraph, page 24, G.R. 198146)."*

This decision will have great financial impact in favor of PSALM Corporation in cases involving BIR assessments of the Value-added Tax reported by PSALM Corporation in the previous years.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Objectives and Policies

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

Credit Risk, which is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation manages its credit risk mainly through the application of transaction limits and close risk monitoring.

The Corporation conducts regular internal control reviews to monitor the granting of credit and manage credit exposures.

Foreign Currency Risk, which results from the significant movements in foreign exchange rates that adversely affect the Corporation's foreign currency-denominated transactions. The Corporation's risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity.

Interest Rate Risk, which 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 Corporation's exposure to changes in interest rates relates primarily to the Corporation's long-term borrowings and investments.

Liquidity Risk, which pertains to the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

PSALM Corporation's liability management program includes: (i) refinancing to ensure that the Corporation will meet all its outstanding debts and contractual obligations; (ii) hedging to mitigate foreign currency and interest risks; (iii) tariff rate application to update the cost of electricity generation to its current level and to implement the Universal Charge pursuant to the EPIRA; and (iv) monetization to guard against liquidity risks and match privatization cash flows with maturing debts.

30. ORGANIZATIONAL DEVELOPMENT AND KEY UNDERTAKINGS

30.1 Financial Management

a. Financial Performance

For the year ended December 31, 2017, the Corporation generated income from operations amounting to P19.26 billion. However, due to PSALM Corporation's assumption of NPC loans, debt service wiped out this income from operations with the payment of financial expenses amounting to P20.33 billion. This, together with operating expenses and forex effects incurred during the year, resulted to a net loss of P3.54 billion. Compared to last year's performance, however, the Corporation's financial performance had greatly improved from a net loss of P12.23 billion in 2016. This is an improvement by 71% compared to a year ago.

b. Managing Cash Flow

Cash balance in 2017 decreased by P6.75 billion, which coincides with the cash deficit of P21.75 billion for the year. From P16.50 billion in 2016, the cash balance was reduced to P9.75 billion as of December 31, 2017.

Cash deficit increased by 36% (P12.09 billion) from 2016's deficit of P33.84 billion.

Though the Corporation generated P57.18 billion and P640 million from its operating and investing activities, respectively, these proved to be insufficient to cover for the P83.61 billion financing activities.

Financing activities included bullet payments for the Fixed Rate Retail Bond in April 2017 amounting to P18.68 billion and payment of National Government (NG) advances amounting to the P10.00 billion.

Some of the more notable transactions affecting cash flow include, but are not limited to, the sale of the Decommissioned 850-MW Sucat Thermal Power Plant to Riverbend Consolidated Mining Corporation which brought P305 million into the Corporation's coffer, upsurge in collection of power receivables by P2.98 billion mainly ascribed to the higher sales of Agus and Pulangui HEPP during the year, reduction in the collection of IPPA generation payments for Unified Leyte by P1.27 billion due to the termination of contracts with FDC Utilities, Inc. (FDCUI), Good Friend Hydro Resources Corporation (GFHRC) and Phinma Energy Corporation (Phinma), and availment of a short term loan from the Landbank of the Philippines amounting to P15 billion.

The Corporation's investing activities and foreign exchange effect totaled P640 million, which included the P12.80 billion inflows from the Fund with the Bureau of Treasury (BTr) that was used as part of the bullet payment in April 2017, the reclassification to other non-current assets in the Statement of Financial Position of the P8.00 billion Investment in Retail Treasury Bond and Fixed Rate Treasury Note purchased in 2013, and the capital expenditures amounting to P116 million.

A condensed version of the Statement of Cash Flow is presented below:

Particulars	2017	2016
Cash flow from operations		
Proceeds from privatization[1/]	71,692,802,166	71,974,481,708
Operations	(14,505,982,732)	(19,400,798,731)
Cash Flow from operating activities	**57,186,819,434**	**52,573,682,977**
Cash flow from financing		
Debt service[2/]	(46,440,299,736)	(59,596,620,237)
BOT lease obligation	(27,172,130,523)	(26,374,462,732)
Payment of advances made by NG	(10,000,000,600)	-
Cash Flow from financing activities	**(83,612,430,859)**	**(85,971,082,969)**
Cash Flow from Investing activities and FOREX effect	**640,086,766**	**(446,333,190)**
Surplus (deficit)	**(25,785,524,659)**	**(33,843,733,182)**
Other Sources:		

Particulars	2017	2016
Other receipts	19,035,060,309	13,360,582,000
Cash, beginning balance	16,503,295,230	36,986,446,412
Total other sources	**35,538,355,539**	**50,347,028,412**
Cash balance and Cash Equivalent, end	**9,752,830,880**	**16,503,295,230**

1/ Includes proceeds from concession of transmission asset, collections from IPPAs and sale of generation assets

2/ Includes payment of principal debt, interest and all loan related expenses

c. Handling Financial Obligations (FO)

From the total financial obligations of P506.34 billion at the end of 2016, PSALM Corporation was able to make payments of long-term debts amounting to P28.69 billion and payments to IPP BOT proponents of P27.17 billion. Taking into consideration adjustments/restatements arising from forex impact of P0.75 billion, the total financial obligations stood at P466.23 billion as of December 31, 2017.

PSALM Corporation's outstanding financial obligations (FO), composed of long-term debts and IPP lease obligation, trimmed down by P40.11 billion or 8% percent from the P506.34 billion level in 2016 to P466.23 billion in 2017 as shown below:

Particulars	*(in billion pesos)*		
	2017	2016	Inc./(Dec.)
Long-term debts	263.30	275.36	**(12.06)**
IPP lease obligation	202.93	230.98	**(28.05)**
Outstanding FO	**466.23**	**506.34**	**(40.11)**

i. Long-term debts

The decrease can be attributed to the P18.68 billion bullet payments for the DBP/FMIC/HSBC Fixed Retail Bond on April 2017. However, this was slightly countered by the availment of a short-term loan from the Land Bank of the Philippines amounting to P15.00 billion in May 2017.

ii. IPP lease obligation

Lease obligation decreased by P28.05 billion or 12% from the P230.98 billion level in 2016 to P202.93 billion in 2017. The decline was on account of the P27.17 billion debt service of lease maturities in 2017.

d. Approval of Deferred Accounting Adjustment (DAA) for GRAM and ICERA

On March 26, 2012, ERC approved PSALM Corporation's petition for the recovery/refund of the P44.7 billion Deferred Accounting Adjustments

(DAA) representing recovery of incremental fuel and IPP costs under the 10th to 17th GRAM and incremental costs on foreign currency exchange rate fluctuations under the 15th to 16th ICERA for the Luzon, Visayas and Mindanao Grids, effective March 26, 2012 to April 25, 2012 billing period until the end of the corresponding recovery periods or until such time that the full amount shall have been recovered/refunded, whichever comes earlier. Recovery/refund rate and period are shown in the following table:

Generation Rate Adjustment Mechanism (GRAM)		
Grid	***Rate (₱/kWh)***	***Recovery Period (Months)***
Luzon	0.3267	120
Visayas	0.4847	126
Mindanao	0.0536	54

Incremental Currency Exchange Rate Adjustment (ICERA)		
Grid	***Rate (₱/kWh)***	***Recovery Period (Months)***
Luzon	0.3637	96
Visayas	0.1213	60
Mindanao	(0.0094)	36

In an ERC Order dated June 20, 2017 under ERC Case Nos. 2008-042 RC, 2008-053 RC, 2008-063 RC, 2009-032 RC, 2009-056 RC, 2010-003 RC, 2010-068 RC, 2010-074 RC, 2010-067 RC and 2010-073 RC, the ERC granted with modification PSALM Corporation's proposed recovery scheme for the recovery of the approved 10^{th}-17^{th} GRAM and 15^{th}-16^{th} ICERA DAAs in the Decision dated March 26, 2012.The ERC authorized PSALM Corporation to implement the approved DAA allocated per customer for a period of sixty (60) months, totaling to P18,426.04 million.

However, in its Order dated October 19, 2017, the ERC resolved to defer the -implementation of the 10^{th}-17^{th} GRAM and 15^{th}-16^{th} ICERA DAAs to January 2018 billing period, pending resolution of issues raised by Private Electric Power Operators Association (PEPOA) and the result of evaluation on PSALM Corporation's Compliance dated September 8, 2017.

e. Debt Service Coverage Ratio

Debt service coverage ratio (DSCR) for 2017 was computed at 0.68:1, higher than last year's 0.61:1. The higher ratio was largely due to the lower debt service caused by last year's bullet payments, from P37.49 billion in 2016 to P18.68 billion in 2017.

f. Weighted Average Maturity

The Weighted Average Maturity (WAM) of the Corporation as of yearend 2017 stands at 4.11. This means that, on the average, the bulk of PSALM Corporation's debts will mature before 2022 ends, or within four (4) years and slightly more than one (1) month. Notwithstanding the calculated WAM, PSALM Corporation has debts maturing in subsequent years, including a loan payable after its corporate life in 2028, which is secured by a principal only swap (POS) hedging transaction.

g. Peso Component of the FO

Of the P466.23 billion outstanding obligations as of December 31, 2017, 22% is denominated in Philippine Peso.

h. Collection Efficiency

Collection efficiency for current sales is at 93.09% in 2017.

30.2 PSALM Corporation's Privatization Program

a. Generation Assets

As of December 31, 2017, a total of thirty-one (31) generating plants with a total of 4,601.43 MW of PSALM-owned capacities have been successfully bid out and transferred to private owners.

Generating Plant	Rated Capacity (In MW)	Location	Winning Bidder	Bid Date (mm/dd/yy)	Winning Bid Price (In USD)	Turnover Date (mm/dd/yy)
Power Barge 104	32	Davao City, Davao Del Sur	SPC Power Corporation	04/15/16	$4.66 million	06/30/16
Power Barge 101	32	Bo. Obrero,	Trans-Asia Oil and Energy Development Corporation	10/30/13	$9.31 million	07/08/15
Power Barge 102	32	Iloilo City				
Power Barge 103	32	Subic, Zambales				
Angat HEPP	218	Norzagaray, Bulacan	Korea Water Resources Corporation (K-Water)	04/28/10	$438.97 million	10/31/14
Naga Power Plant	153.1	Colon, Naga, Cebu	SPC Power Corporation	03/31/14	$30.71 million	09/25/14
Bacon-Manito Geothermal Power Plants	150	Bacon, Sorsogon and Manito, Albay	Bac-Man Geothermal, Inc.	05/05/10	$28.25 million	09/03/10
Power Barge 117	100	Agusan del Norte	Therma Mobile Inc.	07/31/09	$16 million	03/01/10

Generating Plant	Rated Capacity (In MW)	Location	Winning Bidder	Bid Date (mm/dd/yy)	Winning Bid Price (In USD)	Turnover Date (mm/dd/yy)
Power Barge 118	100	Compostela Valley	Therma Marine Inc.	07/31/09	$14 million	02/06/10
Naga Land-Based Gas Turbine Power Plant	55	Colon, Naga City, Cebu	SPC Power Corporation	10/16/09	$1.01 million	01/29/10
Limay Combined Cycle Power Plant	620	Limay, Bataan	Panasia Energy Holdings, Inc.	08/26/09	$13.50 million	01/18/10
Batangas (Calaca) Coal-Fired Thermal	600	Calaca, Batangas	Sem Calaca Power Corp.	07/08/09	$361.71 million	12/03/09
Palinpinon-Tongonan Geothermal Power Plants	305	Valencia, Negros Oriental and Kananga, Leyte	Green Core Geothermal, Inc.	09/02/09	$220 million	10/23/09
Amlan HEPP	0.8	Amlan, Negros Oriental	Amlan Hydroelectric Power Corp. (AHPC)	12/10/08	$0.23 million	06/24/09
Tiwi-Makban Geothermal Power Plants	747.53	Tiwi, Albay and Laguna/ Batangas	AP Renewables, Inc.	07/30/08	$446.89 million	05/25/09
Panay 1 & 3-Bohol Diesel Power Plants	168.5	Dingle, Iloilo and Tagbilaran, Bohol	SPC Island Power Corporation	11/12/08	$5.86 million	03/25/09
Ambuklao-Binga Hydroelectric Power Complex	175	Bokod and Itogon, Benguet	SN Aboitiz Power Hydro Inc.	11/28/07	$325 million	07/10/08
Masinloc Coal-Fired Thermal Power Plant	600	Masinloc, Zambales	Masinloc Power Partners Co, Ltd.	07/26/07	$930 million	04/17/08
Magat HEPP	360	Ramon, Isabela	SN Aboitiz Power-Magat, Inc.	12/14/06	$530 million	04/25/07
Pantabangan-Masiway HEPPs	112	Pantabangan, Nueva Ecija	First Gen Hydro Power Corp.	09/06/06	$129 million	11/17/06
Cawayan HEPP	0.4	Guinlajon, Sorsogon	Sorsogon II Electric Cooperative,	09/30/04	$0.41 million	06/30/05

Generating Plant	Rated Capacity (In MW)	Location	Winning Bidder	Bid Date (mm/dd/yy)	Winning Bid Price (In USD)	Turnover Date (mm/dd/yy)
			Inc.			
Loboc HEPP	1.2	Loboc, Bohol	Sta. Clara Power Corporation	11/10/04	$1.42 million	06/30/05
Agusan HEPP	1.6	Manolo Fortich, Bukidnon	FG Bukidnon Power Corp.	06/04/04	$1.53 million	03/29/05
Barit HEPP	1.8	Buhi, Camarines Sur	People's Energy Services, Inc.	06/25/04	$0.48 million	01/24/05
Talomo HEPP	3.5	Mintal and CatalunanPequeño, Davao City	HEDCOR, Inc.	03/25/04	$1.37 million	01/19/05

b. IPP and IPPA Contracts

As of December 31, 2017, the existing IPP contracts of PSALM Corporation are the following:

Plant Name	Contract Type	End of Agreement
NPC-Owned		
Caliraya HEPP	BROT-PPA	Feb-26
Botocan HEPP	BROT-PPA	Feb-26
Kalayaan HEPP 1 & 2	BROT-PPA	Feb-26
IPP-Owned		
Ampohaw	BOO-PPA	Jan-18
Unified Leyte GPP A & B	BOO-PPA	A: Jul-22 B: Jul-21
Casecnan HEPP	BOO-PPA	Apr-22
Mt. Apo GPP 1 & 2	BOO-PPA	1: Mar-22 2: Jun-24
BakunHEPP (NMHC)	BOO-PPA	Jan-26
Kalayaan HEPP 3 & 4	BROT-PPA	Feb-26
Mindanao Coal 1 & 2	BOT	Mar-34

And through PSALM Corporation’s continuous privatization efforts, it has successfully bid out and transferred a total of 3,607.52 MW of contracted capacities of seven (7) IPPs to IPPAs as of December 31, 2016, as shown in the following table:

Plant Name	Location	Rated Capacity (in MW)	Winning Bidder
Sual Coal-Fired Power Plant	Pangasinan	1000	San Miguel Energy Corp.
Pagbilao Coal-Fired Power Plant	Quezon Province	700	Therma Luzon Inc.

Plant Name	Location	Rated Capacity (in MW)	Winning Bidder
San Roque Multipurpose Hydro	Pangasinan	345	Strategic Power Devt. Corp.
Bakun-Benguet Hydro Plants	Benguet	70	Vivant Sta. Clara Northern Generation Corporation*
Ilijan Combined Cycle Power Plant	Batangas	1200	San Miguel Corporation
Unified Leyte Geothermal Power Plant (Strips of Energy)	Leyte	40	Aboitiz Energy Solutions, Inc.
		40	FDC Utilities, Inc.
		40	Phinma Energy Corporation**
		40	Unified Leyte Geothermal Energy Inc.
		20	Good Friend Hydro Resources Corporation
		17	Vivant Energy Corporation
		3	Waterfront Mactan Casino Hotel Inc.
Mindanao I and II(Mt. Apo 1 and 2) Geothermal Power Plants	Kidapawan City	92.52	FDC Misamis Power Corporation

** Formerly Amlan Hydro Power, Inc.*
*** Formerly Trans-Asia Oil and Energy Development Corp.*

But during the year, issues arose between PSALM Corporation and some of the appointed Administrators of Unified Leyte—namely, FDC Utilities, Inc.(FDCUI), Good Friend Hydro Resources Corporation (GFHRC) and Phinma Energy Corporation (Phinma). These administrators were not able to comply with their contractual obligations under the IPP Administration Agreement. Thus, after exhausting all diplomatic steps but to little avail, PSALM Corporation declared FDCUI, GFHRC, and Phinma in Default and terminated the contracts. PSALM Corporation also availed of the relief provided under the IPPAA Agreement by drawing the Performance Bond of the said Administrators.

On December 22, 2017, PSALM Corporation also terminated its contract with FDC Misamis Power Corporation.

c. Privatization of Decommissioned Plants

As of December 31, 2017, the table below lists the four (4) decommissioned plants successfully bid out by PSALM Corporation:

Plant Name	Location	Winning Bidder	Bid Date (mm/dd/yy)	Turnover Date
Sucat Thermal Power Plant	Sucat, Muntinlupa City	Riverbend Consolidated Mining Corporation	05/31/17	08/02/17
Aplaya-General Santos Diesel	Misamis Oriental & General Santos	TEC Industries Inc.	05/25/09	10/02/09
Cebu Diesel II	Talavera, Toledo City, Cebu	Taifu Metal Exchange Corporation	01/22/09	05/25/09
Manila Thermal	Manila	Gagasan Steel Inc.	04/25/08	02/20/09

On May 31, 2017, PSALM Corporation conducted the 3rd round of bidding for the ***Sucat Thermal Power Plant (STPP)*** and declared Riverbend Consolidated Mining Corporation (RCMC) as the highest bidder.

The sale included the structures, plant equipment, auxiliaries and accessories of the decommissioned 850 MW STPP. As the highest bidder, RCMC would have to undertake and perform the dismantling and clean-up on the purchased assets, the toxic substances and hazardous wastes and materials, and the STPP Site to return STPP site to ground zero.

Aside from RCMC, other bidders who prequalified were VPD Trading and G. G. Uy Bonapor Metal Contractor Company.

Apart from the abovementioned decommissioned plants, the sale and disposal of the ***Bataan Thermal Power Plant*** **(BTPP)** is still subject to resolution of court cases involving the asset, which stemmed from the non-compliance with the conditions of the Asset Purchase Agreement of Rubenori Inc., PSALM Corporation's counterparty to the negotiated sale of BTPP. This forced PSALM Corporation to issue the notice of termination, forcing the Bataan provincial government to step in to help settle the claims of about 6,000 workers laid off by BTPP.

30.3 Universal Charge (UC) Administration

Pursuant to Section 51 of the EPIRA, PSALM Corporation, among its powers, shall collect, administer, and apply NPC's portion of the UC. Moreover, it shall calculate the amount of the Stranded Debts and Stranded Contract Costs of NPC, which amount shall form part of the UC to be determined, fixed, and approved by the ERC.

By definition, the *Stranded Contract Costs of NPC* refer to "the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Such contracts shall have been approved by the ERB as of December 31, 2000".

On the other hand, *Stranded Debts of NPC* refer to any unpaid financial obligations of NPC which have not been liquidated by the proceeds from the sales and privatization of NPC assets provided, however, that such obligations include any of such obligations refinanced by PSALM Corporation. Provided, further, that such refinancing of such unpaid obligations shall not result in increasing the Universal Charge burden.

The other components of UC include the UC for Missionary Electrification (UC-ME) and the UC for Environment and Watershed Rehabilitation and Management (UC-EWRM).

In actual practice, the UC is collected every month by the NGCP and the distribution utilities (collectively referred to as "Collecting Entities" or CEs) based on the approval of the Energy Regulatory Commission (ERC). The collections are then remitted to PSALM Corporation every 15th of the following month.

As of December 31, 2017, remittances by CEs to PSALM Corporation already amounted to P137.61 billion, while interest earnings from deposits and placements of UC funds amounted to P0.15 billion. On the other hand, UC fund disbursements as of the end of December 2017 amounted to P136.32 billion; leaving a balance of P1.44 billion.

For the period January to December 2017 alone, PSALM Corporation received P27.32 billion in UC remittances, and disbursed P26.55 billion to UC beneficiaries.

- **<u>Availment of the CYs 2011-2012 UC-SCC and CY 2013 UC-SCC</u>**

  On July 31, 2013, PSALM Corporation filed a Petition for the True-up Adjustments for NPC's SCC Portion of the UC for CYs 2011 and 2012 docketed under ERC Case No. 2013-160 RC seeking for the approval of the calculated aggregate UC-SCC for the years 2011-2012 amounting to

P17,685 million equivalent to a rate of P0.1274/kWh covering a two (2) year recovery period.

On July 30, 2014, PSALM Corporation filed a Petition for the Availment of the NPC's SCC Portion of the UC for CY 2013 docked under ERC Case No. 2014-111 RC. In said Petition, PSALM Corporation is seeking for the approval of the calculated UC-SCC for CY 2013 amounting to P4,078 million equivalent to a rate of P0.0531/kWh covering a one (1) year recovery period.

In a Decision dated July 6, 2017, the ERC approved with modification PSALM Corporation's petitions for the availment of the CYs 2011-2013 UC SCC under Case Nos. 2013-160 RC and 2014-111 RC effective July 2017 billing period, as follows:

SCC Amount (PM)	Rate (P/kWh)	Recovery Period
12,877.85	0.1938	10 months

Accordingly, all Distribution Utilities (DUs) and the National Grid Corporation of the Philippines (NGCP) are directed by the ERC to collect the above UC-SCC charge starting July 2017 billing period.

- **True-Up Adjustments of the NPC's Stranded Debts Portion of the UC for CYs 2011 and 2012**

On September 30, 2013, PSALM Corporation filed a petition for True-Up Adjustments of the NPC's Stranded Debts (SD) Portion of the UC for CYs 2011 and 2012 docketed under ERC Case No. 2013-195 RC. In the said Petition, PSALM Corporation seeks the ERC's approval to collect P41,139 million over a 12.5-year recovery period, which translates to a UC-SD charge of P0.0382/kWh.

In a Decision dated June 27, 2017 under Case No. 2013-195 RC, the ERC approved with modification PSALM Corporation's CYs 2011-2012 UC-SD True-Up Adjustments effective next billing period or August 2017 billing, as follows:

SD True-Up (P)		Total Amount	SD Rate (P/kWh)
2011	2012		
22,514,648,707	**1,684,203,528**	**24,198,852,235**	**0.0265**

Accordingly, all DUs and the NGCP are directed by the ERC to collect the amount of P0.0265/kWh from the consumers starting on the next billing period and remit the same to PSALM Corporation, on or before the 15th day of succeeding month, until the amount of SD True-up for CY 2011 and 2012 has been fully recovered.

On August 7, 2017, PSALM Corporation filed a Motion for Reconsideration on the approved CYs 2011-2012 Universal Charge – Stranded Debts (UC-SD) for the Commission to reinstate the exclusion of the fuel and purchase power cost (PPC) and inclusion of CYs 2011-2012 Automatic Costs Recovery Mechanism (ACRM) True-up Adjustments covering the ineligible plants amounting to a total of P21.40 billion equivalent to P0.0234/kWh over a nine (9) year recovery period.

30.4 PSALM Corporation's Corporate Social Responsibility

PSALM Corporation strives to be socially-relevant in its commitment to the sustainable development of the economic pillars - energy, education and health - and the responsible management of the environment for overall welfare of the people.

Recognizing that corporate social responsibility is an integral part of business growth, PSALM Corporation aligns this thrust with the government and the private sector to implement economic and social reforms, as well as to strengthen cooperation and coordination.

PSALM Corporation is keen on involving its stakeholders, management, and communities to be proactively involved in these efforts.

In 2017, PSALM Corporation undertook the following significant projects and causes with the support of PSALM Corporation's Gender and Development Focal Point System (GAD FPS) and employees as volunteers:

1. Donation of 30 mattresses to Taytay Emergency Hospital;
2. Support for the National Autism Consciousness Week through information campaign;
3. Blood-letting;
4. Support for the celebration of Women's Month;
5. Medical-dental mission at Barangay Malaya, Pililia, Rizal;
6. Bags-to School (donation of educational materials to indigenous students of Bangkal Resettlement Elementary;
7. Donation of bottled water, hygiene supplies and blankets to affected residents of Marawi; and
8. Donation of computers to selected public schools in the provinces of Bulacan, Bataan and Cavite.

PSALM Corporation is also committed to promoting the importance of gender equality and the protection of women and children as integral parts of business growth and national development. Thus, to top off the year, an event on children's rights was held as part of the GAD event last December 22, 2017.

Manifesting continuing commitment to gender and development initiatives, PSALM Corporation's GAD FPS invited a resource speaker from the Council for the Welfare of Children to give a talk on Children's Rights. A film showing, followed by children's games was also part of the GAD event.

For 2017, PSALM's GAD initiatives are focused on children for good reasons. In the Philippines, some of our children work long hours in hazardous conditions, some involved in armed conflict. At a tender stage in their lives, some children endure inhuman conditions in detention centers. In their own homes, they get abused by individuals supposed to be responsible for their care.

30.5 PSALM Corporation gives back to Communities Hosting Power Plants

Section 66 of the Electric Power Industry Reform Act of 2001 (EPIRA), in conjunction with the Local Government Code (Chapter II, Section 289 to 294), define the obligations of generation companies and energy resource developers to communities hosting energy generating facilities. Pursuant to these laws, host communities should receive an equitable share in proceeds derived from energy resources production.

The amount of share of Local Government Units (LGUs) to be remitted by corporations or entities utilizing the national wealth of the locality shall be one percent (1%) of their gross revenues to be utilized for development initiatives directly benefitting communities and residents in the municipality and province.

Beginning 2010, PSALM Corporation took over from the National Power Corporation (NPC) the responsibility of computing and remitting the Share in National Wealth of LGUs as an offshoot of the asset-debt transfer pursuant to the EPIRA.

PSALM Corporation has disbursed a total of P1,623,142,553.60 from 2010 to September 30, 2017 to host communities of its power plants. PSALM Corporation's share is directly remitted to the municipal treasurers of these host communities. Pursuant to the Local Government Code, 80% of the national wealth tax should be applied by the concerned LGU to lower the cost of electricity of end consumers.

Aside from the foregoing, PSALM Corporation also remits funds to the Department of Energy (DOE) which is intended for the development of communities hosting power plants. Referred to as Energy Regulatory No. 1-94 (ER 1-94), PSALM Corporation's remittances to DOE has reached a total of P3.40 billion, made as follows: P143.99 million in 2009; P265.75 million in 2010; P259.14 million in 2011; P275.66 million in 2012; P269.76 million in 2013; P276.95 million in 2014; P258.27 million in 2015; P259.05 million in 2016; and P67.79 million in the first quarter of 2017.

30.6 PSALM Corporation passes first surveillance audit for Quality Management System (QMS)

Following its successful upgrade to the latest edition of the international standards for QMS in 2016, PSALM Corporation passed the First Surveillance Audit conducted by TÜV Rheinland Philippines on November 29, 2017 in PSALM Corporation's temporary office at Diliman, Quezon City. Through the joint effort of PSALM Corporation's management and employees, it managed to satisfy the requirements set forth by the latest edition of ISO's flagship quality management systems standard—the ISO 9001:2015—and maintain its accreditation despite the hurdles faced by the corporation, including its pending transfer to a new office in Quezon City.

30.7 PSALM Corporation adopts the Revised Chart of Accounts

Pursuant to the Commission on Audit's (COA) Circular No. 2015-010 dated December 1, 2015, PSALM Corporation has taken the necessary steps to convert its existing Chart of Accounts to the prescribed Revised Chart of Accounts. This has been a massive undertaking by the Corporation considering its unique mandate and transactions—the treatment of some of which still require further discussion and clarification with COA. Nevertheless, PSALM Corporation aims to fully comply with the requirements of the Commission, including the consistent application of the Philippine Public Sector Accounting Standards (PPSAS), to uphold transparency and further improve the quality of information it provides to stakeholders.

The PPSAS were issued by COA per COA Resolution No. 2014-003 dated January 24, 2014.This standard sets out the requirements that would address the various transactions and other events of all public sector entities other than Government business enterprises (GBEs) to enhance the quality and uniformity of their financial reporting.

31. COMMITMENTS AND CONTINGENCIES

31.1 Case filed by NPC Drivers and Mechanics Association (DAMA)

On December 27, 2017, PSALM Corporation received from the Office of the Government Corporate Counsel (OGCC) the Notice of Judgment issued by the Supreme Court with an attached Resolution promulgated on November 21, 2017 relative to the case filed by NPC DAMA under G.R. No. 156208. The dispositive portion of the Resolution states that:

> "**WHEREFORE**, the Court resolves to:

1. **GRANT** PSALM's prayer to lift and quash the Demand for Immediate Payment and the Notices of Garnishment issued against it and the NPC;

2. **DENY** the petitioners' request to immediately execute the judgment award; and

3. **DIRECT** the petitioners to file claim against the government before the Commission on Audit, pursuant to its rules, which shall be resolved in accordance with the guidelines herein set forth.

SO ORDERED."

Such Resolution clarifies that while PSALM Corporation is directly liable for the payment of the petitioner's entitlement, the petitioners are directed to follow the proper procedure to enforce a judgment against the government; that is, the petitioners have to file a separate action before the COA for its satisfaction. After which, it is for the COA to ascertain the exact amount of its liability in accordance with its audit rules and procedures.

NPC furnished PSALM Corporation with its computation of the estimated DAMA claims amounting to P30.97 billion. It considered entitlements to former NPC employees who were "Not-Rehired", "Early Leavers", "Executives", and "Re-Hired". But considering that the Supreme Court ruled that only petitioners who were neither rehired by the NPC or absorbed by PSALM Corporation or TransCo pursuant to the 2003 reorganization shall be entitled to full back wages, PSALM Corporation recognized a provision only for the amount of P8.40 billion, which is the estimated claims computed by NPC of its former employees who were not rehired. The P8.40 billion is already inclusive of interest up to December 31, 2017 amounting to P3.70 billion. NPC's computation beyond the coverage of the Supreme Court's Resolution was not considered by PSALM's Board.

31.2 Availment of the CYs 2007-2010 UC-SCC

On January 28, 2013, the Energy Regulatory Commission (ERC) approved PSALM Corporation's Petition for the Recovery of National Power Corporation's Stranded Contract Costs (SCC) Portion of the Universal Charge (UC), with Prayer for Provisional Authority docketed under ERC Case No. 2011-091 RC. In the said decision, the ERC authorized PSALM Corporation to recover P53.851 billion covering 2007-2010 UC-SCC effective March 2013 billing period with a rate equivalent to P0.1938/kWh.

On March 6, 2013, PSALM Corporation filed before the ERC a Motion for Reconsideration (MR) on the subject Decision since it excluded costs in procuring power from the spot market to supply Default Wholesale Supplier

(DWS) and regular Transition Supply Contract (TSC) customers amounting to P8,547 million but included the corresponding revenues billed by PSALM Corporation to the DWS and TSC customers. Consistent with the accounting principle of matching revenues and costs, if regular DWS and TSC revenues were considered by the ERC in the SCC calculations, necessarily, the corresponding costs should also be considered, which should have increased the SCC.

To date, the ERC has yet to resolve PSALM Corporation's MR. While pending ERC's resolution, PSALM Corporation already fully recovered the CYs 2007-2010 UC-SCC on July 2017 remittance period.

31.3 Availment of the CY 2014 UC-SCC

On July 24, 2015, PSALM Corporation filed a Petition for the Availment of the NPC's SCC Portion of the UC for CY 2014 docketed under ERC Case No. 2015-139 RC and submitted a Compliance for the True-up Adjustments of CYs 2007-2010 UC-SCC. In said Petition, PSALM Corporation is seeking for the approval of the calculated UC-SCC for CY 2014 amounting to P7,354 million equivalent to a rate of P0.0907/kWh covering a one (1) year recovery period.

As of December 31, 2017, PSALM Corporation is waiting for the ERC to issue a Notice for Public Hearing.

31.4 Availment of the CY 2015 UC-SCC

On May 31, 2016, PSALM Corporation submitted to the ERC a Report under Oath on the calculated NPC SCC Portion of the UC for CY 2015. PSALM Corporation's calculation for CY 2015 NPC SCC resulted to a negative P431.06 million, hence, PSALM Corporation did not avail for recovery under the SCC.

31.5 Availment of the CY 2016 UC-SCC

On July 6, 2017, PSALM Corporation filed a Petition for the Availment of the NPC's SCC Portion of the UC for CY 2016 docketed under ERC Case No. 2017-066 RC. In said Petition, PSALM Corporation is seeking for the approval of the calculated UC-SCC for CY 2016 amounting to P3,686.19 million equivalent to a rate of P0.0429/kWh covering a one (1) year recovery period.

31.6 True-Up Adjustments of the NPC's SD Portion of the UC for CY 2014

On July 30, 2015, PSALM Corporation filed the Petition for the True-Up Adjustment of NPC's SD Portion of the UC for CY 2014 before the ERC docketed under ERC Case No. 2015-144 RC. PSALM Corporation prays for the ERC's approval to collect CY 2014 UC-SD amounting to P1,352 million over a 10.5-year period, which translates to a UC charge of P0.0013/kWh sales to all electricity end-users.

As of December 31, 2017, the case is still open, subject to the filing of Manifestation by PSALM Corporation and intervenor.

31.7 True-Up Adjustments of the NPC's SD Portion of the UC for CY 2015

On June 30, 2016, PSALM Corporation filed before the ERC the Petition for the True-Up Adjustment of NPC's SD Portion of the UC for CY 2015 docketed under ERC Case No. 2016-150 RC. PSALM Corporation prays for the ERC's approval to collect CY 2015 UC-SD amounting to P27,670 million over a 9.5-year period, which translates to a UC charge of P0.0283/kWh sales to all electricity end-users.

As of December 31, 2016, PSALM Corporation is waiting for the issuance of ERC's Notice of Public Hearing.

31.8 True-Up Adjustments of the NPC's SD Portion of the UC for CY 2016

On July 31, 2017, PSALM Corporation filed before the ERC the Petition for the True-Up Adjustment of NPC SD Portion of the UC for CY 2016 docketed under ERC Case No. 2017-069 RC. The calculated CY 2016 UC-SD True-Up Adjustments amounted to P34,642.18 million equivalent to P0.0407/kWh over an 8.5-year recovery period.

To date, PSALM Corporation is waiting for the issuance of ERC's Notice of Public Hearing.

31.9 PSALM Corporation's claim against Lehman Brothers Special Financing Inc. (LBSF)

On August 1, 2013, Mediator Jack Esher issued his settlement recommendation amounting to USD9 million payable by PSALM Corporation to LBSF, of which the former rejected the mediator's proposal and retained the zero or walk-away settlement offer. Consequently, LBSF decided to commence a proceeding against NPC and PSALM Corporation in the English Courts of Justice in the United Kingdom.

On March 27, 2015, PSALM Corporation was served summons by LBSF's Process Agent Salvador Llanilo Bernardo & Associates Law Office in relation to the claim which LBSF filed on October 6, 2014 before the London Court. To this, PSALM Corporation, through Pinsent Masons, filed a Defense and Counterclaim against LBSF on July 17, 2015.

On April 27, 2015, the PSALM Board approved the authority for PSALM Corporation to participate in the London proceedings and to engage a Foreign Counsel in PSALM Corporation's Defense against LBSF's claim amounting to USD18.0 million in the UK Court.

The trial proceedings were held at the High Court of Justice, Queen's Bench Division, Commercial Court, Royal Courts of Justice, London, United Kingdom from December 4 to 13, 2017.

As of the preparation of the financial statements, a decision has yet to be made by the UK Court.

31.10 Pending case on the termination of the Ilijan Administration Agreement (IPPAA)

On April 16, 2010, PSALM Corporation held the bidding for the Ilijan IPPA where San Miguel Corporation (SMC) garnered the highest bid with its offer of USD870,000,473 for the Ilijan contracted capacity, edging out three other groups namely: First Gen Luzon Power Corporation, Therma Power Visayas Inc., and Trans Asia Oil and Energy Development Corporation. An Assignment Agreement dated June 10, 2010 with Assumption of Obligations between SMC and South Premiere Power Corporation (SPPC) was later approved and consented by PSALM Corporation on June 16, 2010.

On June 26, 2010, after all Administrator Conditions Precedent had been met, the management and control of the contracted energy output of the Ilijan Plant was turned over by PSALM Corporation to SPPC.

As the Administrator, SPPC is entitled to trade, sell or otherwise deal with the electricity generated under the IPP contract for the Ilijan Power Plant. In consideration thereof, SPPC is bound to pay PSALM Corporation Monthly Payments and Generation Payments. These payments are considered privatization proceeds by PSALM Corporation, and are intended to pay fixed costs due to IPPs under the BOT scheme and to liquidate its financial obligations and stranded debts.

In the course of PSALM Corporation's dealings with SPPC, differences in interpretation of certain provisions in the Administration Agreement relating to the computation of generation payments covering the billing period June 26, 2010 up to December 25, 2012 (hereinafter referred to as Period A), which coincides with the term of the Transition Supply Contract (TSC) with MERALCO, arose, resulting to disputed items which formed part of IPPA Receivable due from SPPC. However, even after the expiration of the MERALCO TSC on December 26, 2012, payments made by SPPC covering generation payment bills for the billing period December 26, 2012 onwards (Period B) deviated from the provisions of Schedule J of the Administration Agreement. Accordingly, in compliance with the provisions of the IPPAA, PSALM Corporation sent the following demand letters to SPPC to collect for the unpaid outstanding generation payments covering Period B:

1. First demand letter dated September 10, 2013;
2. Second demand letter dated October 20, 2014; and
3. Final demand letter dated August 6, 2015.

After fourteen (14) days since the final demand letter to SPPC was served, a nine-day grace period was further given to SPPC; however, despite the additional nine-day grace period which expired on September 2, 2015, SPPC failed to settle its unpaid generation payment bills covering Period B, prompting PSALM Corporation to declare SPPC in Administrator Default and entitling PSALM Corporation to terminate the IPP AA as per Clauses 1.1 (f) "Definitions", and 19.1 "Administrator Default Termination" of the said Agreement.

On September 4, 2015, PSALM Corporation was compelled to avail of the relief provided under the IPP AA for SPPC's failure to pay the outstanding Generation Payments for the period December 26, 2012 to April 25, 2015. With the termination, and in accordance with the Ilijan IPP AA, PSALM Corporation has also drawn on September 4, 2015 the USD60 million Performance Bond of SPPC. PSALM Corporation's action on Ilijan IPP AA was also supported by COA in its Audit Observation Memorandum No. 2015-01-2014 dated March 23, 2015.

However, on September 8, 2015, PSALM Corporation received SPPC's Complaint with Ex-parte Application for 72-Hour Temporary Restraining Order (TRO), and Application for 20-Day TRO and Writ of Preliminary Mandatory and Prohibitory Injunction. That same day, Hon. Executive Judge Monique A. Quisumbing-Ignacio, RTC, Branch 209, Mandaluyong City issued an order granting SPPC's ex-parte application for a 72-hour TRO.

On September 10, 2015, PSALM Corporation filed its Opposition to the Issuance of a TRO with Very Urgent Motion to Lift 72-Hour TRO. But on September 11, 2015, the RTC, Branch 208 of Mandaluyong City, issued an Order extending for another seventeen (17) days the TRO only to preserve the status quo and to afford the Court the opportunity to hear the merits of the controversy conditioned upon payment by plaintiff of a bond in the amount of One million Pesos (P1 million).

On September 28, 2015, the Court issued an Order granting Preliminary Injunction enjoining PSALM Corporation from proceeding with the termination of the Ilijan IPP AA while the main case is pending.

A Motion for Reconsideration to the September 28, 2015 Order granting Preliminary Injunction was filed by PSALM Corporation on October 14, 2015, followed by a Motion to Dismiss SPPC's Complaint on October 15, 2015. On

October 22, 2015, PSALM Corporation received an Order dated October 19, 2015 granting MERALCO's Motion to Intervene.

However, on July 18, 2016, PSALM Corporation received the Order issued by the RTC Branch 208 of Mandaluyong City, denying the three (3) pending motions: (1) PSALM Corporation's Motion for Reconsideration of the RTC Order Granting the Writ of Preliminary Injunction, (2) PSALM Corporation's Motion for Reconsideration of the RTC Order granting MERALCO's Intervention, and (3) PSALM Corporation's Motion to Dismiss the Complaint filed by SPPC. PSALM Corporation filed its Answer Ad Cautelam on July 25, 2016.

On September 16, 2016, PSALM Corporation filed a Petition for Certiorari (with urgent prayer for the issuance of a Temporary Restraining Order and/or Preliminary Mandatory Injunction), which as of December 31, 2017, is still awaiting resolution.

As of December 31, 2017, the outstanding amount due from SPPC for the generation payments under Periods A and B amounted toP4,622,001,306 and P9,059,501,191,respectively, exclusive of VAT and other charges.

31.11 Updates on the nullification of the sale of Naga Power Plant to SPC Power Corporation

In its September 28, 2015 Decision, the Supreme Court has stopped the sale of the 153.1-megawatt (MW) Naga Power Plant to SPC Power Corporation, ruling that the company does not have the right to top an offer by a rival firm.

The high court's Third Division said, "The right of first refusal (right to top) granted to Salcon Power Corp. under the 2009 Naga land-based gas turbine land lease agreement (LBGT-LLA) is hereby declared null and void. Consequently, the asset purchase agreement and land lease agreement executed by PSALM Corporation and SPC are annulled and set aside."

The Naga Power Plant contract is a 25-year lease over the land containing the Naga complex. SPC has a land lease agreement with the government for the Naga facility until 2020, which contains a provision for the right to refusal.

PSALM Corporation conducted the third round of bidding for the Naga Power Plant on March 2014, in which Therma Power Visayas Inc. of the Aboitiz Group emerged as the highest bidder with an offer of P1.09 billion. SPC offered the second highest bid of P859 million. However, SPC exercised its right to top the bid, offering PSALM Corporation 5 percent more at P1.143 billion.

However, in its October 5, 2016 Resolution, the Supreme Court clarified that the nullification was limited only to SPC's right to top and the awarding of the

Naga Power Plant Complex Land Lease Agreement (NPPC-LLA) and the Naga Power Plant Complex Asset Purchase Agreement (NPPC-APA) to SPC. Accordingly, the Supreme Court directed: (a) for the reinstatement of the April 30, 2014 Notice of Award in favor of TPVI; and (b) PSALM Corporation to execute the NPPC-APA and NPPC-LLA in favor of Therma Power Visayas Inc. with dispatch.

Both PSALM Corporation and SPC filed a Motion for Reconsideration. However, the Supreme Court in its November 28, 2016 Resolution denied the said Motions with Finality. The Court likewise declared that no further pleadings, motions, letters or other communications shall be entertained in the case and that let entry of judgment be issued.

In a subsequent Resolution dated October 5, 2017, the Supreme Court reinstated the award of the contract to TPVI and directed PSALM Corporation to execute the NPPC-APA with TPVI.

SPC agreed to turn-over the NPPC, with the inventories and supplies in the levels that SPC received them, under certain conditions. To date, PSALM Corporation is still waiting for SPC's submission of pertinent documents and information to evaluate the latter's claims, and finally execute the Supreme Court decision.

31.12 Case involving the sale of excess capacity of the Sual Coal-Fired Power Plant

On May 20, 1994, NPC and CEPA Pangasinan Electric Limited (CEPA) entered an Energy Conversion Agreement (ECA), wherein the latter was obliged to build a 1,000 MW coal fired thermal power plant in Sual, Pangasinan. However, CEPA constructed a 1,200 MW power plant, giving rise to an excess capacity of 200 MW. CEPA, thereafter assigned its rights and obligations in the ECA to Mirant Philippines Corporation, and to Team Sual Corporation (TSC) thereafter. On the other hand, PSALM Corporation assumed all the rights and obligations of NPC under then existing IPP contracts, which in this case is the Sual Coal-Fired Power Plant, pursuant to the EPIRA.

On June 18, 2009, PSALM Corporation, TSC and Team Philippines Energy Corporation (TPEC), the trading arm of TSC, entered into a Memorandum of Agreement (MOA) - wherein TSC, by itself or through TPEC - has the right to market, offer, sell and supply the excess capacity to any customer, provided that it procures the fuel requirement for generation and/or dispatch of electricity from the available excess capacity.

Later, on August 28, 2009, PSALM Corporation held a public bidding for the Sual Coal-Fired Power Plant, where San Miguel Energy Corporation (SMEC) submitted the highest bid amount of USD1.072 billion.

Under the terms of the IPPA Agreement, SMEC has the right to administer the operations of the Sual Coal-Fired Power Plant for 1,000 MW, and take over the functions of PSALM Corporation thereon. At the end of a term, SMEC will be entitled to the ownership of the Sual Power Plant, but subject to its fulfilment of the Transaction Documents. Furthermore, SMEC assumed the rights and obligations of PSALM Corporation, including the right to trade and sell the contracted energy produced by Sual thru the facilities of WESM and thru bilateral contracts with third parties for SMEC account at its own risk and cost.

SMEC willingly entered into the IPPA Agreement despite being aware of the existence of the MOA in respect of the excess capacity of the Sual Power Plant executed on June 18, 2009.

In 2015, however, SMEC began to question the legality of the MOA on excess capacity of the Sual Power Plant.

On March 2, 2016, SMEC remitted P9.28 million to PSALM Corporation pertaining to the sale of the excess capacity, explaining on a later date that such amount was remitted because the MOA is null and void for being in violation of law since TSC is obligated to dedicate the entire power station output to PSALM Corporation. PSALM Corporation, however, returned the entire amount, advising SMEC to faithfully comply with and adhere to its obligations under the IPPAA.

PSALM Corporation then filed a Motion for Set Preliminary Hearing on the Special and Affirmative Defenses on September 23, 2016. In this motion, PSALM Corporation requested that a hearing on its defenses be set so that the complaint may be dismissed without the rigors of trial. SMEC, on its part, filed an Omnibus Motion: (1) to Admit Supplemental Complaint; and (2) to allow Future Consignations Without Tender. In its Motion, SMEC informed the court that on three (3) separate dates, it tendered to PSALM Corporation amounts constituting the proceeds of the excess capacity of Sual Power Station but it was refused. Thus, it requested the court to allow it to consign all future proceeds of the excess capacity without formally tendering payment and serving notices of consignation to PSALM Corporation. PSALM Corporation filed a Comment/Opposition to this motion on November 7, 2016.

On October 17, 2017, PSALM Corporation filed its Comment/Opposition to San Miguel Energy Corporation's Motion to Admit Second Supplemental Complaint dated July 5, 2017. The foregoing motions are still pending resolution with the court.

31.13 Case involving the IPPA of Bakun AC Hydro Power Plant

PSALM Corporation is currently dealing with a case involving Vivant Sta. Clara Northern Renewables Generation Corporation, otherwise known as

"Northern Renewables" (NR), who is the IPPA for the Bakun AC Hydro Power Plant.

On May 16, 2017, NR filed a petition with the RTC, Cebu City for corporate rehabilitation pursuant to the Financial Rehabilitation Rules of Procedure. On May 26, 2017, the RTC Branch 11, Cebu City issued a Commencement/Stay Order (Civil Case No. R-CEB-17-03542-SP), declaring NR under rehabilitation.

On June 29, 2017, the initial hearing was conducted, during which the parties presented their respective arguments. The Court gave the Rehabilitation Receiver a period of thirty (30) days to submit a Revised Rehabilitation Plan. On July 26, 2017, NR submitted a Revised Rehabilitation Plan, with a motion to allow presentation in open court in the next hearing. PSALM Corporation manifested its opposition to the Revised Rehabilitation Plan and maintained its position that the IPPA AA with Northern Renewables should be terminated to prevent further financial losses to PSALM Corporation on August 29, 2017 hearing.

31.14 Case involving the IPPA of Mt. Apo 1 and 2

On December 8, 2017, PSALM Corporation received a copy of a Petition for Interim Measures of Protection under the Special Rules of Court on Alternative Dispute Resolution FDC Misamis Power Corporation (FMPC), who is the Administrator of Mt. Apo 1 and 2. On the same day, PSALM Corporation was served with a formal notice that FMPC is rescinding its IPPA AA for Mt. Apo 1 and 2.

Pursuant to Clause 3.a.3 (Compliance with Laws) in relation to Clause 1(a) Administrator Default (k) of the IPPA AA, PSALM Corporation declared FMPC in default due to its baseless and unilateral rescission of the IPPA AA. Subsequently, PSALM Corporation demanded for the full settlement of FMPC's unpaid obligations to PSALM Corporation. However, FMPC failed to do so. Thus, on December 21, 2017, PSALM Corporation exercised its rights under the IPPA AA, which include PSALM Corporation's right to manage and control the output of Mt. Apo.

31.15 Settlement with the Metropolitan Waterworks and Sewerage System (MWSS)

PSALM Corporation is currently considering settlement with MWSS claims arising from the implementation of the Angat Water Supply Optimization Project (AWSOP), Umiray-Angat Transbasin Project (UATP), and the operation of the Angat Auxiliary Unit Nos. 4 and 5 (AN-4 and AN-5).

From this settlement, PSALM Corporation could potentially have the obligation to pay MWSS a certain sum, which would be determined based on the agreed terms and conditions of the settlement.

Pending resolution, any claims that would eventually arise therefrom will be recognized in the books when it is deemed probable and reasonably estimable.

31.16 Other Legal Proceedings Involving PSALM Corporation

In addition to the tax proceedings and formal assessments, PSALM Corporation is involved in various legal and administrative proceedings, including litigation and proceedings related to electricity charges and challenges to certain provisions of the EPIRA. Because the outcome of these proceedings is difficult to predict, PSALM Corporation will record the provision for a loss when it is both probable that a loss will be incurred and the loss can be reasonably estimated. Nevertheless, a summary of notable cases that are pending resolution is provided in the table below:

Case Title	Nature
Civil Case No. 07-CV-2382 Province of Benguet vs. NPC and PSALM	Complaint for collection of Franchise Taxes from 2001-2007 covering the operations of the Binga Hydro-Electric Power Plant
Civil Case No. 04-CV-2072, RTC-Br. 10, La Trinidad, Benguet	Complaint of Recovery of Possession, Forfeiture of Improvements, etc. of private land within the Binga Hydro-Electric Power Plant
Civil Case No. 01-11356, RTC-Br. 49, Bacolod City (Felisa Agricultural Corporation vs. NPC)	Complaint for Recovery of Possession and Payment for Just Compensation with Damages involving property owned by plaintiff which was traversed by the transmission towers and transmission lines of respondent NPC located in Barangay Felisa, Bacolod City.
G.R. No. 187359, Supreme Court – 1st Division (NAPOCOR Employees Consolidated Union (NECU) and NAPOCOR Workers Union (NEWU) vs. NPC and PSALM) Note: Consolidated with G.R. No. 187420	This is a Petition for Injunction praying for issuance of Temporary Restraining Order (TRO) against both NPC and PSALM Corporation restraining/enjoining them from implementing and/or continuance of implementation/enforcement of the Operations and Maintenance Agreement (OMA) – at the very least so far as it compromised/transferred the control and ownership of gross revenues from those generated sales of its remaining generation assets by NPC in favor of PSALM Corporation. Per petitioners, the OMA would prevent petitioner from recovering from NPC the judgment obligation for unpaid Cost of Living Allowance (COLA) in the amount of P6.5 billion which was awarded by the Regional Trial Court (Br. 84) of Quezon City in Civil Case No. Q-07-61728
ERC Case No. 2011-064MC, Team (Philippines) Energy Corporation vs. NPC, et al.	The Complaint concerns, and seeks respondents' payment to TPEC of, NPC's obligations to TPEC arising from the Agreement, which was signed by respondent Tampinco for and on behalf of NPC, which relates to the sale of excess capacity of the Sual Plant and Pagbilao Plant in 2008 and 2009, pursuant to agreements and transactions entered into by TPEC and NPC and NPC's use of excess capacity from the Pagbilao Plant.

Case Title	Nature
ERC Case No. 2008-083MC, Petition for Dispute Resolution – MERALCO vs. PEMC, TransCo, NPC and PSALM (Line Rentals)	Petition for Dispute Resolution filed by MERALCO against PEMC, TransCo, NPC and PSALM Corporation involving the high WESM bills to MERALCO covering June 26, 2008 to July 26, 2008 due to significant congestion arising from the twin incidents of outages of TransCo's facilities. This situation will persist until such time that the congestion in the transmission facilities in the Luzon Grid is resolved.
G.R. No. 215415 (E.B. Case No. 1065 and CTA Case No. 8552), PSALM vs. CIR	This is a Petition for Review under Rule 45 of the 1997 Rules of Procedure, filed by PSALM Corporation seeking the REVERSAL of: 1) The CTA First Division's 2 May 2013 Resolution, dismissing PSALM's appeal in CTA Case No. 8552; 2) The CTA First Division's 14 August 2013 Resolution denying PSALM's Motion for Reconsideration to the 2 May 2013 Resolution; and 3) The CTA En Banc's 12 November 2014 Decision affirming the 2 May 2013 and 14 August 2013 Resolutions of the First Division.
G.R. No. 226556 (CTA En Banc 1282 and CTA Case No. 8475), PSALM vs. CIR	This is a Petition for Review seeking the PARTIAL REVIEW of CTA Third Division's 02 December 2014 Decision, as well as its 25 February 2015 Resolutions
CTA Case No. 8587, PSALM vs. CIR	This is a Petition for Review before the First Division of the CTA seeking to CANCEL the CIR's 15 November 2012 Final Decision (FDDA) on Disputed Assessment on PSALM's protest to the Formal Letter of Demand and Final Assessment Notice (FLD and FAN).
CTA Case No. 9235, PSALM vs. CIR	This is a Petition for Review before the CTA seeking to CANCEL the CIR's Final Decision on Disputed Assessment (FDDA) dated 10 December 2015 on PSALM's protest to the Formal Letter of Demand and Final Assessment Notice (FLD and FAN), dated 5 February 2013. The petition only questions the assessment for the deficiency EWT and Final VAT and compromise penalties

32. EVENTS AFTER THE REPORTING DATE

PSALM Corporation's financial year ends on December 31, 2017. However, the following subsequent events warrant additional disclosure:

(i) On **February 14, 2018**, NGCP filed a Notice of Arbitration with the Singapore International Arbitration Centre against PSALM Corporation and TRANSCO for alleged violations of the Concession Agreement. No further information can be provided on this proceeding in compliance with the confidentiality requirements under Republic Act No. 9285, otherwise known as the Alternative Dispute Resolution Act of 2004; and

(ii) On **March 2, 2018**, a letter was received from the Department of Finance informing the Corporation of its recommendation to the Office of the President for the adjustment of PSALM's dividend rate from fifty percent (50%) to three percent (3%) (but not lower than the total amount of P2.11

billion) on its net earnings for Calendar Years 2004, 2007-2008, and 2013-2015. As of yearend 2017, PSALM Corporation has paid all dividends due for the aforementioned years.

33. RESTATEMENT OF ACCOUNTS

The presentation of figures in CY 2017 financial statements has made it necessary, for comparative purposes, to restate relevant figures in CY 2016.