1. General Information

1.1 The financial statements of the Power Sector Assets and Liabilities Management (PSALM) Corporation were authorized for issue on 14 February 2017 as shown in the Statement of Management Responsibility for Financial Statements signed by Ms. Lourdes S. Alzona, Officer-in-Charge of PSALM Corporation.

1.2 The PSALM Corporation was created on 26 June 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).

1.3 The principal purpose of PSALM 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 was also tasked to assume all outstanding financial obligations of electric cooperatives with the 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 31 December 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 (₱0.0025/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 TransCo in any given month shall be remitted to PSALM 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 TransCo.

1.4 PSALM Corporation shall exist for a period of twenty-five (25) years from the effectivity of the 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.

1.5 The Corporation's registered office is located in the 7th Floor Bankmer Building, 6756 Ayala Avenue, Makati City, Metro Manila, Philippines.

But beginning 01 March 2017, it will resume business at its temporary office located at the 3rd Floor TransCo Building, Power Center, Quezon Avenue, corner BIR Road, Diliman, Quezon City, Metro Manila, Philippines, while waiting for the completion of its office at Vertis North, Quezon Avenue, Diliman, Quezon City, Metro Manila, Philippines.

2. Statement of Compliance and Basis of Preparation of Financial Statements

The financial statements have been prepared in accordance with and comply with the Philippine Public Sector Accounting Standards (PPSAS) issued by the Commission on Audit per COA Resolution No. 2014-003 dated 24 January 2014. However, in cases in which a transaction or other event or condition is not yet specifically addressed by the PPSAS, PSALM Corporation considers the requirements in the Philippine Financial Reporting Standards (PFRS) that deals with similar or related issues.

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 31 December 2008. The financial statements are presented in Philippine Peso which is the functional and reporting currency of the agency. The Statement of Cash Flow 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 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits, and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

In compliance with PPSAS 2 Cash Flow Statements, any amount of significant cash and cash equivalent balances that are not available for use by the economic entity shall be disclosed, together with a commentary by management, signifying words to that effect.

3.3 Receivables and Allowance for Bad Debts

Receivables are initially measured at face value and subsequently at amortized cost. Impairment loss is recognized using an allowance account. In CY 2014, PSALM adopted a revised accounting policy 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) on dormant as well as closed accounts, are provided 100% impairment allowance.

Power receivables 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.

3.4 Receivable from IPPAs

As structured, the contract, in the form of an Administration Agreement, between the Independent Power Producer Administrators (IPPAs) and PSALM 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 may be classified as a finance lease because, in substance, the contract contains the following indicators of a finance lease:

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

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

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

The IPPA structure provides that:

a. full ownership of the generating plant and the right to use the land transfers to the IPPA at the end of the contract period;

b. the contract is for a period of fifteen (15) years, 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

c. 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 IPP asset 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 if it expects to realize the asset within twelve months after the financial reporting date. Otherwise, these are classified as non-current assets.

3.5 Inventories

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

3.6 Assets Held for Sale

Assets held for sale consist of generation plants in service and decommissioned plants that are scheduled for privatization in 2017. These also include those plants that have been previously bid out but whose sale was not consummated by the end of 2016, either because the bidding was declared a failure or because the winning bidder failed to close the sale.

Since assets held for sale are presently not covered by existing PPSAS, PSALM Corporation applied the requirements under PFRS 5, *"Non-current Assets Held for Sale and Discontinued Operations".*

Under PFRS 5, to qualify as a non-current asset held for sale, its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must also be committed to the sale of the asset that is expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell; the carrying amount being the amount reflected in the NPC books at the date of transfer.

3.7 Build-Operate-Transfer (BOT) Plants

During the asset-debt account transfer in 2008, one of the accounts turned over by NPC to PSALM is the BOT lease obligations, stated in nominal amounts, representing obligations to Independent Power Producers (IPP). Arising from the government's efforts to mitigate the growing problem in the supply of electricity in the late 1980s to 1990s, these BOT lease obligations are due to private entities designated then by the government to build additional facilities to ensure a long-term and stable source of electricity that would reach more end-users. 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 BOT (build-operate-transfer) lease obligations.

In the books, total capacity fees for the duration of the cooperation period are capitalized and recognized as asset under BOT Electric Plants under Capital Lease account. A liability corresponding to the unpaid portion of the capital recovery fees is set up under BOT Lease Obligation. 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 IPPA, the asset is derecognized from the books of PSALM. However, the corresponding BOT lease obligations are not derecognized because they are not transferred to the appointed IPPA.

3.8 Property, Plant and Equipment and Depreciation

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.

Measurements, Depreciation, and Impairment

I. NPC-transferred assets

Property, plant, and equipment transferred from NPC include electrification, power and energy structures and referred to as utility plants. The last external revaluation of these plants was of the 1996 asset prices. These structures are recognized in PSALM's books at their carrying amounts as stated in NPC books as of the transfer date of 31 December 2008. While these assets were carried in NPC books, regular annual maintenance, repairs and minor replacements were charged to expense as they were incurred, whereas major maintenance, which was done on periodic three-to five-year intervals, was 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 were capitalized and transferred to plant cost upon completion of work orders.

Depreciation was charged from the date of acquisition of the fixed assets or after the completion of work orders and computed on a straight-line basis. Depreciating the asset based on the sound value over its remaining useful life will result in amortizing the remaining cost of the asset reflective of its true physical state. The average remaining useful life was determined by subtracting the age of the asset from the estimated standard economic life. Depletion, which shows the periodic provision for the depletion of extractable natural resources such as steam, natural gas, etc., was also computed on a straight-line basis.

The same NPC depreciation policies were adopted by PSALM on the transferred assets, including the estimated standard economic life as ascertained by the last independent appraiser of NPC, as follows:

TYPE OF PLANT	ECONOMIC LIFE
1. Thermal Production	35 years
a. Oil-Fired	
b. Coal-Fired	
2. Hydraulic Production	40 years
3. Geothermal Production	30 years
4. Other Production	20 years
a. Combined-Cycle	
b. Diesel Plants and Barges	
c. Gas Turbine	

II. PSALM-Acquired Assets

Property and equipment consisting of computers, office furniture and fixtures, vehicles and communication equipment are stated at cost less accumulated depreciation and any impairment in value. The stated cost comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Generally, tangible assets that are expected to be used for more than one year are considered as capital assets. Expenditures for repairs and maintenance are charged to expense as incurred.

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

Furniture, fixtures and equipment	5-10 years
Transportation equipment	7 years
Computers and accessories	5 years

Residual value equivalent to 10 per cent of the acquisition cost is deducted before dividing the same by the estimated useful life.

The carrying values of property and equipment are reviewed for impairment when changes in circumstances indicate that the carrying value may not be recoverable or may have diminished. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount and impairment losses are recognized in profit or loss.

On 09 January 2009, PSALM 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 23 February 2009, whereupon ERC directed PSALM to revise the Asset Valuation Guidelines based on comments from interested parties.

Derecognition

PSALM Corporation derecognizes items of property, plant and equipment 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.

3.9 Leases

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

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;

b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

c. there is a change in the determination of whether fulfillment is dependent on a specific asset; or

d. there is a substantial change to the asset.

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

3.10 Provisions

Provisions were recognized when PSALM 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.

Contingent liabilities

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

3.11 Changes in Accounting Policies and Estimates

PSALM 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 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:

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

b. 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.

3.12 Budget Information

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

3.13 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 (the law that created PSALM) does not contain a provision that exempts PSALM, as an entity, from taxation.

While PSALM 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 22 March 2012, which supersedes previous BIR Ruling No. 020-02 dated 13 May 2002, the tax treatment of PSALM's transactions is summarized as follows:

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

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

b. PSALM, 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 on its sale of the NPC generation assets and other real properties;

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

d. In 2005, Republic Act No. 9337 or the R-VAT law was enacted. RA 9337 imposed 12 per cent 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 of generated power shall be subject to VAT at 12 per cent or zero percent rate as may be applicable; *(Note 35)*

e. 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.

II. The sale by PSALM 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 will be subject to DST at the rate of ₱15 for every ₱1,000 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 pursuant to the privatization will be subject to DST based on the fair market value or the actual consideration that PSALM will receive, whichever is higher.

The rental income of PSALM 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 but prior to the privatization, PSALM 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. The income received by PSALM 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 on its mandate to sell the NPC generation assets and other real properties to winning bidders, revenues derived by PSALM from its leasing activities are nevertheless subject to income tax. Moreover, gross receipts of PSALM 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.

III. On the Operation of the Generation Facilities

a. 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 is not one of the exempt GOCCs under the said provision of the Tax Code of 1997.The operation by PSALM 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.

b. Value-added Tax

Since the sale of the electricity and sale of service by PSALM 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).

IV. Miscellaneous Activities

Other income/receipts derived by PSALM 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.

V. 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 refers to relevant provisions of the LGCP for owned and/or operated plants, while it refers to Executive Order No. 27 s. 2011 (EO 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 LGUs using a maximum of 80 per cent assessment level for all machineries and equipment pursuant to the Local Government Code of the Philippines (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, 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 Board that RPT covering power generation facilities of IPPs under Build-Operate-Transfer contracts must be settled within the parameters of Executive Order No. 27 s. 2011 (EO 27), i.e., the tax due shall be computed based on an assessment level of fifteen per cent of the fair market value of the property, machinery and equipment depreciated at the rate of 2 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 EO 27, with the IPP remitting in advance the RPT payment to the LGUs and correspondingly reimbursed by PSALM pursuant to the terms and conditions set forth in the Reimbursement Agreement entered into by and between PSALM and the IPP.

On the other hand, the RPT payments remitted to the respective LGUs for owned and/or operated plants were based on the provisions of Section 218 (d) and Section 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 per cent, 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.

3.14 Bonds Payable

Bonds payable are presented net of unamortized discount/premium and bond issue cost. These are revalued at year-end to reflect Philippine peso exchange rate prevailing as of the end of reporting date.

3.15 Revenue Recognition

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.

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.

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

3.16 Foreign Currency Transactions

The accounting records of the Corporation are maintained in Philippine Peso. Transactions denominated in foreign currencies are translated into Philippine Peso at exchange rates prevailing on the transaction dates in accordance with PPSAS 4, "The Effects of Changes in Foreign Exchange Rates", which requires that a foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of transaction.

The Corporation translates its foreign currency-denominated deposits and loans at year-end rates in accordance with PPSAS 4, which requires foreign currency monetary items to be translated at end of reporting date using the closing rate. The resulting gains and losses from the exchange differences are recognized in profit or loss.

Year-end foreign currency exchange rates are as follows:

	2016	**2015**
Philippine Peso (₱) : US Dollar ($)	49.8130	47.1660
Philippine Peso (₱) : Japanese Yen (¥)	0.4251	0.3920

3.17 Subsidiary

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

3.18 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 on 03 October 2003 to implement the assumption and condonation by PSALM 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 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 in terms of making current settlement of electricity bills with the electric cooperatives.

3.19 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.

3.20 Administration of the Universal Charge

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

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

3.21 Rate-Regulated Activities

Rate regulation is the setting by regulatory bodies or governments of prices that can be charged to customers for services or products through regulations, often where an entity has a monopoly or dominant market position that gives it significant market power. In the case of PSALM, this was applied to the treatment of the Universal Charge for Stranded Contract Cost.

Since there is no existing PPSAS to provide the accounting treatment for rate-regulated activities, PSALM Corporation considered the requirements of PFRS 14, *"Regulatory Deferral Accounts".*

As prescribed by PFRS 14, PSALM presents regulatory deferral account balances, and movements in them, separately in the statement of financial position and statement of profit or loss and other comprehensive income, with specific disclosures as required to identify the nature of the rate regulation that has resulted in the recognition of regular deferral account balances.

Although not required, PFRS 14 is permitted to be applied where an entity conducts rate-regulated activities and has recognized amounts in its previous GAAP financial statements that meet the definition of 'regulatory deferral account balances' (sometimes referred to as 'regulatory asset' and 'regulatory liabilities'), as follows:

Regulatory Assets (Current) – Carrying amount as of the balance sheet date of capitalized costs of regulated entities that are expected to be recovered through revenue sources within one year or the normal operating cycle, if longer. Such costs are capitalized if they meet both criteria: a. It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes. b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

Regulatory Assets (Non-Current) – Carrying amount as of the balance sheet date of capitalized costs of regulated entities that are not expected to be recovered through revenue sources within one year or the normal operating cycle if longer.

Regulatory Liabilities (Current) – Carrying amount as of the balance sheet date of capitalized costs of regulated entities that are expected to be incurred within one year or the normal operating cycle, if longer.

Regulatory Liabilities (Non-Current) – Carrying amount as of the balance sheet date of capitalized costs of regulated entities that are not expected to be incurred through within one year or the normal operating cycle if longer.

3.22 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. Changes in Accounting Policies

PSALM adopted the following new accounting policy:

4.1 First-Time Adoption of PPSAS

On 19 December 2016, PSALM began the adoption of the following PPSASs, which replaced the existing standard:

- PPSAS 1 – Presentation of Financial Statements
- PPSAS 2 – Cash Flow Statements
- PPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors
- PPSAS 4 – The Effects of Changes in Foreign Exchange Rates
- PPSAS 12 – Inventories
- PPSAS 13 – Leases
- PPSAS 14 – Events After the Reporting Date
- PPSAS 16 – Investment Property
- PPSAS 17 – Property, Plant and Equipment
- PPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets
- PPSAS 21 – Impairment of Non-Cash Generating Assets
- PPSAS 24 – Presentation of Budget Information in Financial Statements
- PPSAS 26 – Impairment of Cash Generating Assets
- PPSAS 28 – Financial Instruments: Presentation
- PPSAS 29 – Financial Instruments: Recognition and Measurements
- PPSAS 30 – Financial Instruments: Disclosures

The new standard includes the requirement for the recognition, measurement, presentation and disclosure of accounts for Government-Owned and/or Controlled Corporations not considered as Government Business Enterprises (GBEs), in accordance with Philippine Public Sector Accounting Standards (PPSAS) issued by the Commission on Audit per COA Resolution No. 2014-003 dated January 24, 2014.

5. Cash and Cash Equivalents

PARTICULARS	2016	2015
Cash-Disbursing Officers	**-**	359,800
Petty Cash Fund	**954**	148,620
Cash-Collecting Officer	**141,732**	88,359
Payroll Fund	**-**	563
Cash in Bank-Local Currency, Time Deposits	**12,558,476,149**	31,554,645,866
Cash in Bank-Local Currency, Current Account	**959,881,985**	3,081,226,185
Cash in Bank-Foreign Currency, Time Deposits	**2,762,460,858**	1,839,226,773
Cash in Bank-Foreign Currency, Savings Acct.	**210,805,738**	499,835,005
Cash-Bangko Sentral ng Pilipinas	**11,527,814**	10,915,241
Cash and cash equivalents	**16,503,295,230**	36,986,446,412

Cash-Bangko Sentral ng Pilipinas pertains to the proceeds from PSALM's bond exchange in 2009 which was deposited with the bank in compliance with the BSP Monetary Board Resolution No. 1720 dated 01 December 2009 and Section 113 of Republic Act No. 7653, otherwise known as The New Central Bank Act, dated 14 June 1993, which states:

> *"The Bangko Sentral shall be the official depository of the Government, its political subdivisions and instrumentalities as well as of government-owned or controlled corporations and, as a general policy, their cash balances should be deposited with the Bangko Sentral, with only minimum working balances to be held by government-owned banks and such other banks incorporated in the Philippines as the Monetary Board may designate, subject to such rules and regulations as the Board may prescribe: Provided, That such banks may hold deposits of the political subdivisions and instrumentalities of the Government beyond their minimum working balances whenever such subdivisions or instrumentalities have outstanding loans with said banks."*

6. Power Receivables

PARTICULARS	2016	2015
Utilities	**63,768,720,054**	64,645,305,828
Cooperatives	**15,967,424,891**	14,567,739,877
Industries	**6,863,190,510**	6,848,947,008
Government	**852,633,897**	841,922,456
Others	**14,337,268**	0
Total	**87,466,306,620**	86,903,915,169
Less: Allowance for bad debts	**39,964,291,325**	38,455,920,106
Power Receivables, net of allowance	**47,502,015,295**	48,447,995,063
Add: Recovery/(Refunds)	**18,030,875,823**	19,057,677,943
Output tax receivable	**5,908,597,485**	5,782,668,749
Power receivables, net	**71,441,488,603**	73,288,341,755

CURRENT PORTION:

Power Receivables	**41,367,224,087**	39,804,198,908
Less: Allowance for bad debts*	**(12,238,684,936)**	(10,799,582,681)
Subtotal	**29,128,539,151**	29,004,616,227
Add: Recovery/(Refunds)	**18,030,875,823**	19,057,677,943
Output tax receivable	**5,569,791,222**	5,272,764,159
	52,729,206,196	53,335,058,329

NON-CURRENT PORTION:

Disputed Accounts	**43,482,430,891**	43,480,346,536
Add: Restructured Accounts	**2,616,651,642**	3,619,369,724
Less: Allowance for bad debts*	**(27,725,606,389)**	(27,656,337,424)
Subtotal	**18,373,476,144**	19,443,378,836
Add: Output Tax Receivable	**196,146,080**	187,459,989
Restructured VAT	**142,660,183**	322,444,601
	18,712,282,407	19,953,283,426

**No allowance for bad debts provided for Recovery/(Refunds) and output tax receivable.*

Power receivables 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, 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.

As of 31 December 2016, its balance–without considering allowance for bad debts–increased by ₱562 million or 1% despite the Corporation's earnest efforts to bolster collections during the year. This mainly resulted from the interest accruing from unpaid balance accounts using non-prime lending rates, uncollected power sales, and VAT. The two major contributors to the ballooning power receivables of 2016 are LASURECO and MAGELCO.

The remaining number of PSALM power customers as of year-end 2016 have decreased from sixty-four (64) to fifty-nine (59) due to the expiration of power contracts in the Visayas grid. This adversely affected the revenue generation capability of PSALM from power sales as it plunged to ₱12.39 billion, or 37.86% lower, as compared with the ₱19.94 billion revenues for the same period the previous year. Aside from the non-renewal of power supply contracts, which effectively resulted to a 95% reduction in the allocation of contracted energy in Visayas, the decrease was also brought by the: (i) reduction in Mindanao Generation due to expiration of the contracts of Western Mindanao Power Corporation and Southern Philippine Power Corporation, and privatization of PB 104; (ii) bombing of NGCP transmission towers in Mindanao, adversely affecting delivery of power coming from Agus 1 and 2 Hydroelectric PPs; and (iii) the massive effect of El Niño in the first semester of 2016.

Likewise, the number of transferred customers from NPC decreased. Nevertheless, the aggregate balance due from them continue to grow owing to the continuous charging of interest on past due receivables. During the year, PSALM Corporation collected ₱0.75 billion from transferred accounts, of which ₱0.49 billion pertains to collections from customers with restructured accounts. Furthermore, six (6) customers have fully paid their restructured accounts in 2016, namely Central Azucarera de Tarlac (CAT), ISELCO I, QUEZELCO II, DANECO, LEYECO III, ESAMELCO.

In light of the foregoing, the Corporation's collection efficiency, expressed as a percentage of collections vis-à-vis amount billed to power customers, is 96.34% for current power sales in 2016.

MERALCO receivable under dispute

A portion of the non-current consists of power receivables from MERALCO that are under dispute amounting to ₱41.7 billion (including interest). In a ruling dated 13 December 2013, the Supreme Court (SC) expressed its agreement with an earlier decision of the Court of Appeals denying the petition of the Office of the Solicitor General (OSG) for review of the 2003 settlement agreement between MERALCO and NPC. By the said settlement agreement, MERALCO's electricity dues to NPC from 2002 to 2004 was reduced to ₱14.3 billion. The SC cited that, "the Pasig Regional Trial Court did not commit a grave abuse of discretion when it waived the Office of the Solicitor General's participation". "The waiver appears to have been caused by the deliberate refusal of the counsel to participate in the proceedings."

Now, MERALCO and NPC are awaiting ERC's decision as to their joint application for the approval of the settlement provision to allow the pass-through to MERALCO customers the settlement amount payable to NPC.

7. Receivable from IPPAs

Pursuant to Section 51 of the EPIRA, PSALM Corporation shall take title to and possession of the NPC IPP contracts, and appoint, by means of a public bidding, qualified independent entities who shall act as the IPP Administrators (IPPAs) to administer, conserve, and manage the contracted energy output of NPC/PSALM IPP contracts.

As of 31 December 2016, PSALM has successfully bid out and transferred a total of seven (7) IPPs to thirteen (13) IPPAs, as shown in the following table:

IPPA		POWER PLANT	COOPERATION PERIOD
San Miguel Energy Corporation	(SMEC)	Sual	01 Oct 2009 – 01 Oct 2024
Therma Luzon, Inc.	(TLI)	Pagbilao	01 Oct 2009 – 01 Aug 2025
Strategic Power Dev. Corp.	(SPDC)	San Roque	26 Jan 2010 – 26 Apr 2028
Vivant Sta. Clara Northern Generation Corp.*	(VSCNGC)	Bakun	26 Jan 2010 – 26 Jan 2026
South Premiere Power Corp.	(SPPC)	Ilijan	26 Jun 2010 – 26 Jun 2022

IPPA		POWER PLANT	COOPERATION PERIOD
FDC Misamis Power Corp.	(FMPC)	Mt. Apo I	26 Dec 2014 – 15 Feb 2022
FDC Misamis Power Corp.	(FMPC)	Mt. Apo II	26 Dec 2014 – 17 Jun 2024
FDC Utilities, Inc.	(FDCUI)	Unified Leyte	26 Dec 2014 – 25 Jul 2021
Unified Leyte Geothermal Energy, Inc.	(ULGEI)	Unified Leyte	
Phinma Energy Corporation**	(PEC)	Unified Leyte	
Aboitiz Energy Solutions, Inc.	(AESI)	Unified Leyte	
Waterfront Mactan Casino Hotel Inc.	(WMCHI)	Unified Leyte	
Good Friends Hydro Resources Corp.	(GFHRC)	Unified Leyte	
Vivant Energy Corporation	(VEC)	Unified Leyte	

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

7.1 Receivable from IPPAs – Monthly Payments

From the privatization of these BOT IPP plants, PSALM receives Monthly Payments scheduled in accordance with the agreed Monthly Amortization Schedule. This represents the amount paid for the administration of the plant. As of end 2016, receivable from IPPAs for the Monthly Payments stood at ₱295.72 billion broken down as follows:

IPPA	POWER PLANT	CURRENT	NON-CURRENT
San Miguel Energy Corp.	Sual	8,974,882,755	88,947,798,407
Therma Luzon, Inc.	Pagbilao	7,019,553,385	66,823,259,625
Strategic Power Dev. Corp.	San Roque	4,713,954,595	53,047,878,650
South Premiere Power Corp.	Ilijan	7,884,541,176	38,654,911,184
Vivant Sta. Clara Northern Generation Corp.	Bakun	2,286,286,342	17,363,638,940
Total		**30,879,218,253**	**264,837,486,806**

*Formerly Amlan Hydro Power, Inc.

Of the total current amount, Vivant Sta. Clara Northern Generation Corp. has an overdue accounts amounting to $8,643,064 and ₱283,566,371.

7.2 Receivable from IPPAs – Generation Payments

In addition, PSALM also receives Generation Payments that cover the actual monthly generation of a particular power plant. To date, these receivables total to ₱25.6 billion, as shown below:

IPPA	REGULAR	OVERDUE	TOTAL
South Premiere Power Corp.	3,448,002,720	18,298,084,018	**21,746,086,738**
Good Friends Hydro Resources Corp.	286,033,471	591,153,646	**877,187,117**
Thermal Luzon Inc.	531,594,124	-	**531,594,124**

FDC Misamis Power Corporation	443,349,767	-	**443,349,767**
Unified Leyte Geothermal Energy, Inc.	322,639,456	-	**322,639,456**
Aboitiz Energy Solutions, Inc.	322,396,770	-	**322,396,770**
FDC Utilities, Inc.	322,366,367	-	**322,366,367**
Phinma Energy Corporation*	322,323,085	-	**322,323,085**
Strategic Power Development Corp.	261,812,151	-	**261,812,151**
San Miguel Energy Corporation	260,138,405	-	**260,138,405**
Vivant Energy Corporation	137,334,787	-	**137,334,787**
Vivant Sta. Clara Northern Generation Corporation**	25,366,004	-	**25,366,004**
Waterfront Mactan Casino Hotel, Inc.	24,175,950	-	**24,175,950**
Total	**6,707,533,057**	**18,889,237,664**	**25,596,770,721**

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

Of which amount, the bulk is due from SPPC with the following details:

26 Jun. 2010 - 25 Dec. 2012 (Period A) [1/]	₱	4,622,001,306
26 Dec. 2012 - 31 Dec. 2016 (Period B) [2/]		11,887,222,341
Value added tax		5,016,509,688
Subtotal		21,525,733,335
Add: Other charges		220,353,403
Total	**₱**	**21,746,086,738**

[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. This includes generation payments with VAT for the two billing period from 26 October 2016 to 26 December 2016 that will be due in 2017, totaling ₱3,227,649,317. *(Note 38.10)*

8. Universal Charge - SCC Receivable

Universal Charge-SCC Receivable represents the approved amount of Stranded Contract Cost (SCC) that will be recovered through the Universal Charge (UC). Its approval in 2013 brought about the creation of two (2) new accounts: (i) the Universal Charge-SCC Receivables, representing the approved amount of SCC to be recovered through UC, and (ii) the Deferred Income from UC-SCC.

During the year, this account decreased by 64% due to collections totaling ₱13.95 billion, as shown in the table below:

PARTICULARS	2016	2015
Total UC-SCC Receivable	**53,851,000,000**	53,851,000,000
Less collections in: 2013	**7,743,886,000**	7,743,886,000

2014	**11,700,828,000**	11,700,828,000
2015	**12,651,779,000**	12,651,779,000
2016	**13,948,654,000**	-
UC - SCC receivable	**7,805,853,000**	21,754,507,000

9. Due from GOCCs and Government Agencies

PARTICULARS	2016	2015
Due from National Government Agencies		
Bureau of Internal Revenue (BIR)	**48,547,166,098**	50,672,288,200
Dept. of Finance/Bureau of Treasury*	**4,045,371,852**	7,983,401,755
Dept. of Budget and Management	**1,115,347,953**	2,291,635,843
Department of Energy	**997,023**	1,798,521
Subtotal	**53,708,882,926**	60,949,124,319
Due from GOCCs		
Metropolitan Waterworks and Sewerage System (MWSS)	**5,198,293,631**	5,198,293,631
National Transmission Corporation	**4,805,959,053**	4,805,959,053
NPC-for reconciliation	**19,422,476**	1,058,855
Subtotal	**10,023,675,160**	10,005,311,539
Due from GOCCs and gov't agencies	**63,732,558,086**	70,954,435,858

**Pertains to the San Roque Multi-Purpose Project/Advances for BNPP*

Bureau of Internal Revenue (BIR)

This account pertains mostly to deferred taxes and duties corresponding to taxes paid under protest in the amount of ₱10.87 billion, and input taxes of ₱36.18 billion.

San Roque Multi-Purpose Project

As of 31 December 2016, advances for the San Roque Multi-Purposes Project (SRMP) decreased to ₱4.05 billion, posting a reduction of ₱4.04 billion from the 2015 level of ₱7.98 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 $400 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:

a. DOF shall (i) secure the financing of the $400 million for disbursement to the Consortium through NPC, (ii) ensure the timely transfer of the $400 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;

b. 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 $400 million non-power cost, (iii) give authority to DBM and BTr to remit funds directly to NPC's account; (iv) coordinate with NPC and the Consortium in the implementation of project matters under their jurisdiction;

c. 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

d. NPC shall, among others, disburse to the Consortium the $400 million non-power component funding in accordance with the schedule.

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

a. NPC to borrow for the $400 million non-power component of the project, with repayments to NPC made over the same debt service period as the said loan;

b. DOF shall secure the full government guarantee for the NPC financing of the $400 million non-power component of SRMP; and

c. Longer spread of the agency's budget allocation for the contribution to the $400 million non-power component (from years 1999–2000 to 1999–2014).

Metropolitan Waterworks and Sewerage System (MWSS)

The amount 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 09 February 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. *(Note 38.13)*

10. Other Receivables

PARTICULARS	2016	2015
Bond swap receivable	**1,024,446,715**	765,985,126
Interest receivable	**71,361,378**	157,891,364
Due from officers and employees	**39,381,614**	4,308,547
Other receivables	**4,768,783,897**	4,801,148,808
Other receivables	**5,903,973,604**	5,729,333,845

Interest receivable represents interest income accruing on short-term placements/time deposits with authorized government depository banks.

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.

11. Assets Held for Sale

This account represents assets identified in the Corporation's Work Plan to be disposed. Based on this criterion, said assets are taken out from the property, plant and equipment account (PPE). However, given the extensive time it takes to privatize certain assets, particularly power plants, and considering that these assets are subjected to wear and tear as it continues to operate while awaiting privatization, until turnover of plants could reasonably be ascertained, assets marked for disposal and/or sale are classified under PPE. Under PPE, depreciation of these assets is appropriately recognized. As no successful bidding was conducted for these assets in 2016, no reclassification was made from PPE to this account.

12. Other Current Assets

PARTICULARS	2016	2015
Assets in trust with NPC	**8,573,317,770**	6,584,731,475
Inventory and prepaid expenses	**2,100,113,771**	2,915,521,383
Restricted fund	**3,024,656,555**	2,839,717,749
Universal Charge	**1,869,709,841**	1,536,126,551

Advances to contractors	**93,749,167**	111,016,829
Guaranty deposits	**22,438,176**	22,315,620
Other advances	**455,712,369**	455,876,684
Other current assets	**16,139,697,649**	14,465,306,291

Assets in trust with NPC represents the current assets held by NPC as part of its working capital as "operator" under the Operations and Management Agreement with PSALM.

Inventory and prepaid expenses consist of the following:

	2016	2015
Inventory		
Fuel/bunker stock	**2,003,869,415**	2,764,580,861
Office supplies	**2,735,168**	2,731,902
Prepaid expenses		
Real property tax*	**83,942,139**	133,388,630
Insurance	**3,299,992**	8,552,933
Security deposit	**4,054,180**	4,054,180
Rent	**2,212,877**	2,212,877
Inventory and prepaid expenses	**2,100,113,771**	2,915,521,383

**Real property taxes paid in advance for CY 2016 as imposed by various local government units.*

Restricted fund pertains to the forfeited performance bond of South Premiere Power Corporation (SPPC).

Guaranty deposits include the marginal and guaranty deposits for Letters of Credit and for the Nomura bonds issuance.

Universal Charge (UC) refers to the charge imposed on all electricity end-users for various purposes. As of end of 2016, the following UC components are being billed by collecting entities from electricity end-users pursuant to the approvals made by the ERC on various dates: (i) UC for Missionary Electrification (UC-ME) for: (a) Small Power Utilities Group (SPUG), February 2003; and (b) Renewable Energy Developers' Cash Incentive, January 2014; (ii) UC for Environmental Charge (UC-EC), April 2003; and (iii) UC for Stranded Contract Cost (UC-SCC), March 2013.

Thus far, the recoverable UC for Stranded Debt (UC-SD) is set to zero (0) since PSALM's petition for the recovery of NPC's stranded debts for CY 2011 which was filed on 28 June 2011 under ERC Case No. 2011-092 RC was disapproved by the ERC pursuant to the ERC decision. The SD for CY 2011 can be fully covered and paid from the proceeds of NPC's operation. This, however, is without prejudice to the filing of its annual true-up adjustments for the recovery of succeeding SD.

As at year-end, the UC consists of the following:

	2016	2015
Special Trust Fund (STF)	**736,879,384**	466,496,711
Receivables*	**1,132,830,457**	1,069,629,840
Universal Charge	**1,869,709,841**	1,536,126,551

**Exclusive of receivables for UC-SCC amounting to ₱1,346,961,336 and ₱1,203,079,942 for 2016 and 2015, respectively.*

Special Trust Fund pertains to remittances made by the collecting entities covering the UC for Missionary Electrification (UC-ME), Environmental Charge (UC-EC), Stranded Contract Cost (UC-SCC), and Renewable Energy Developer's Cash Incentive (REDCI). The bulk of the STF balance corresponds to UC-EC, the release of which has been held in abeyance pending approval by the ERC of the petition filed by NPC.

Receivables, on the other hand, pertain to collections made by collecting entities, other than UC-SCC, that are due for remittance the following month to PSALM as UC administrator.

Transactions affecting the UC are as follows (cumulative since March 2003):

	2016	2015
Remittances by collecting entities (CEs)		
For missionary electrification	**62,390,301,523**	51,082,105,826
Stranded contract cost	**46,072,138,127**	32,128,883,325
Watershed rehabilitation	**1,832,966,921**	1,649,928,869
Others	**182,944**	195,878
Total remittances	**110,295,589,515**	84,861,113,898
Add: Interest earnings	**217,077,089**	211,926,202
Subtotal	**110,512,666,604**	85,073,040,100
Less: Disbursement to UC recipients	**109,775,787,220**	84,606,543,389
STF balance	**736,879,384**	466,496,711
Receivables from CEs	**1,132,673,831**	1,069,500,817
Interest receivable	**156,626**	129,023
Universal charge	**1,869,709,841**	1,536,126,551

In 2016, PSALM collected PhP25.43 billion from CEs, while total interest earnings of said UC funds amounted to PhP5.15 million. On the other hand, PSALM disbursed a total of PhP25.17 billion to intended UC recipients during the same period, of which PhP11.19 billion is disbursed to NPC to fund its Missionary Electrification.

For further details, please refer to the following table which summarizes the transactions affecting UC in 2016:

	STF-UCME	STF-UCEC	STF-UCREDCI	STF-UCSCC	MTA	Total
Balance, 31 December 2015	**31,024,343**	**251,891,144**	**76,286,119**	**38,311,925**	**68,983,180**	**466,496,711**
Add: Remittances from CEs	11,184,367,175	183,038,052	123,815,588	13,943,254,802	-	**25,434,475,617**
Adjustment re identified KAELCO remittance	12,934	-	-	-	(12,934)	**-**
Interest earned from:						
Regular deposit	5,929	29	1,312	47	239,196.24	**246,513**
Placements	136,692	2,755,517	419,728	153,505	1,438,931.79	**4,904,374**
Total available cash	**11,215,547,073**	**437,684,742**	**200,522,747**	**13,981,720,279**	**70,648,374**	**25,906,123,215**
Less: Disbursement to UC recipients	11,191,361,682	-	29,228,149	13,948,654,000	-	**25,169,243,831**
Balance, 31 December 2016	**24,185,391**	**437,684,742**	**171,294,598**	**33,066,279**	**70,648,374**	**736,879,384**

13. Property, Plant and Equipment

This consists of PSALM-acquired and NPC-transferred property, plant and equipment, as follows:

PSALM-acquired	**Furniture, Fixtures/ Equipment**	**Transportation Equipment**	**Total**
Cost			
01 January 2016	213,368,968	25,823,718	**239,192,686**
Addition/Adjustments	8,642,237	-	**8,642,237**
Less: Disposals	4,332,584	5,465,318	**9,797,902**
Balance, 31 December 2016	217,678,621	20,358,400	**238,037,021**
Accumulated Depreciation			
01 January 2016	156,066,318	17,584,537	**173,650,855**
Provision/Adjustment	10,463,085	1,560,345	**12,023,430**
Less: Disposals	1,197,747	4,918,786	**6,116,533**
Balance, 31 December 2016	165,331,656	14,226,096	**179,557,752**
Carrying amount, 31 Dec. 2016	52,346,965	6,132,304	**58,479,269**
Cost	213,368,968	25,823,718	**239,192,686**
Accumulated Depreciation	156,066,318	17,584,537	**173,650,855**
Carrying amount, 31 Dec. 2015	57,302,650	8,239,181	**65,541,831**

NPC-transferred assets:	Utility Plants	Non-Utility Plants	Electric Plants Leased to Others	Privatized IPPA	Excluded Assets from Privatized Plants	Other Utility Plants	Total
Cost							
01 January 2016	78,506,472,808	28,884,798,770	13,842,183,328	3,018,253,281	5,223,167,289	2,007,340,982	131,482,216,458
Addition/ Adjustments	(6,864,067,772)	(777,109,000)	5,239,491,336	(1,297,253,150)	705,858,410	(102,231,612)	(3,095,311,788)
Balance, 31 Dec 2016	**71,642,405,036**	**28,107,689,770**	**19,081,674,664**	**1,721,000,131**	**5,929,025,699**	**1,905,109,370**	**128,386,904,670**
Accumulated Depreciation							
01 January 2016	59,316,157,990	24,997,858,053	13,650,631,834	704,908,714	4,225,398,287	425,953,162	103,320,908,040
Provision/ Adjustment	(2,857,017,461)	(14,945,202)	3,692,486,386	(638,092,775)	724,538,681	(45,314,998)	861,654,631
Balance, 31 Dec 2016	**56,459,140,529**	**24,982,912,851**	**17,343,118,220**	**66,815,939**	**4,949,936,968**	**380,638,164**	**104,182,562,671**
Carrying amount, 31 Dec. 2016	**15,183,264,507**	**3,124,776,919**	**1,738,556,444**	**1,654,184,192**	**979,088,731**	**1,524,471,206**	**24,204,341,999**
Cost	78,506,472,808	28,884,798,770	13,842,183,328	3,018,253,281	5,223,167,289	2,007,340,982	131,482,216,458
Accumulated Depreciation	59,316,157,990	24,997,858,053	13,650,631,834	704,908,714	4,225,398,287	425,953,162	103,320,908,040
Carrying amount, 31 Dec. 2015	19,190,314,818	3,886,940,717	191,551,494	2,313,344,567	997,769,002	1,581,387,820	28,161,308,418

In addition to the foregoing, PSALM included an amount representing Construction Work-In-Progress (CWIP) amounting to ₱1,498,350,562 for the on-going uprating project of Agus 6 Unit 1 and 2 and generator/turbine overhauling of Malaya Thermal Power Plant Unit 1 amounting to ₱133,256,604. 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, net of accumulated depreciation, is as follows:

PARTICULARS	2016	2015
Carrying amounts:		
PSALM-acquired	**58,479,269**	65,541,831
NPC-transferred asset	**24,204,341,999**	28,161,308,418
CWIP	**1,631,607,166**	1,311,974,635
Others (Land)	**-**	3,699,918
Property, plant and equipment, net	**25,894,428,434**	29,542,524,802

14. BOT Electric Plants under Capital Lease

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	Total Capacity Fee	Accumulated Amortization	Net
Kalayaan 2 Unit 3	17,387,881,744	5,687,286,319	11,700,595,425
Kalayaan 2 Unit 4	17,387,881,743	5,687,286,320	11,700,595,423
Mindanao Coal Fired 1	13,738,656,531	5,626,691,225	8,111,965,306
Mindanao Coal Fired 2	13,660,516,257	5,503,974,555	8,156,541,702
31 December 2016	62,174,936,275	22,505,238,419	39,669,697,856
31 December 2015	62,174,936,275	20,546,131,564	41,628,804,711

15. 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:

POWER PLANT	SQ. METER	VALUE
Masinloc CFTPP	1,381,551.00	**69,077,550.00**
Batangas CFTPP	1,504,032.00	**67,681,440.00**
Panay DPP	167,967.00	**20,156,040.00**
Bohol DPP	31,596.00	**31,596,000.01**
Mak-Ban GPP	1,761,040.00	**880,520,000.00**
Tiwi GPP	3,683,866.00	**184,193,300.00**
Naga CFTPP	209,000.00	**62,700,000.00**
Palinpinon GPP	28,911.00	**101,188.50**
Bataan CCPP	315,657.00	**315,657,000.00**
Pantabangan HEPP	87,084.00	**1,741,680.01**
Naga LBGTPP	5,504.00	**1,651,215.00**
Loboc HEPP	3,662.00	**549,300.00**
Talomo HEPP	4,800.33	**4,800,330.00**
Agusan HEPP	10,581.00	**105,810.00**
Cauayan HEPP	2,866.00	**286,600.00**
Barit HEPP	22,200.00	**888,000.00**
Totals	9,220,317.33	**1,641,705,453.52**

16. Investment in TransCo

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.

17. Fund Management with the Bureau of Treasury

This refers to the Fund Management Agreement between PSALM and the Bureau of Treasury dated 06 April 2010. The proceeds of which shall cover the maturing 5-year (Series A) PSAL0515D017 fixed retail bond issued on 22 April 2010.

As of 31 December 2016, this account's balance has increased by ₱ 729,579,375 or 9.11 %, attributed to the collection of San Roque Multi-Purpose Project Advances and interest income of the fund for CY 2016 amounting to ₱596,170,000 and ₱133,409,375, respectively.

18. Other Non-Current Assets

Other non-current assets consist of serviceable assets not used in operation and those waiting for disposal. It is composed of the following:

PARTICULARS	2016	2015
Assets for disposal	**1,174,673**	862,282
Others	**17,370,535**	882,757,334
Other non-current assets	**18,545,208**	883,619,616

19. Accounts Payable and Accrued Expenses

PARTICULARS	2016	2015
Accounts payable:		
Check vouchers payable	**680,032,396**	1,496,836,855
Accounts payable - others	**5,600,576,403**	5,591,255,440
Fuel, oil and other oil products	**233,199,352**	739,469,904
Materials, supplies and equipment	**752,833**	782,450
Current portion – fixed O & M payable:		
Sual	**1,837,417,157**	1,727,114,732
Pagbilao	**1,803,086,709**	1,720,842,402
Ilijan	**1,265,828,633**	1,229,029,234
San Roque	**446,893,523**	445,916,887
Bakun	**52,900,162**	53,536,046
Performance/bidders bonds	**817,919,733**	822,204,847
Interest payable	**1,786,071,750**	2,129,228,614
Due to officers & employees	**69,909,849**	55,597,899
Guaranty deposits payable	**490,816,422**	519,401,609
Trust liability	**3,268,643,147**	3,040,951,942
Other payables	**3,492,404,883**	2,697,189,378
Accounts payable and accrued expenses	**21,846,452,952**	22,269,358,239

Trust liability includes ₱3.03 billion restricted fund from the forfeiture of South Premiere Power Corporation (SPPC) performance bond. *(Note 38.10)*

Other payables include ₱3.31 billion certified obligations for the suppliers and contractors and ₱181 million payable for the Renewable Energy Developers' Cash Incentive.

20. BOT Lease Obligation

This account pertains to the outstanding balances of the liability set up for capital cost recovery fees of the BOT power plants during the cooperation period indicated in the BOT contracts.

PARTICULARS	2016	2015
Total lease obligation	**230,978,368,385**	245,402,356,959
Less: Non-current portion	**204,167,141,272**	215,236,793,171
BOT lease obligation - current	**26,811,227,113**	30,165,563,788

The following are the details:

IPP	Power Plant	Non-current	Current
Team Energy Corp.	Pagbilao	68,256,263,250	**10,983,766,500**
Team Sual Corp.	Sual	64,546,431,109	**11,115,762,980**
KEPCO Ilijan Corp.	Ilijan Natural Gas	27,660,824,157	**956,634,356**
San Roque Power Corp.	San Roque	14,561,834,290	**1,501,114,755**
Steag State Power Inc.	Mindanao Coal Fired	13,761,937,884	**1,146,827,858**
Luzon Hydro Corp.	Bakun	8,848,034,125	**533,574,829**
CBK Power Co. Ltd.	Kalayaan	6,531,816,457	**573,545,835**
Total BOT lease obligation		204,167,141,272	**26,811,227,113**

21. Long-term Liabilities

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

PARTICULARS	2016	2015
Bonds payable	**181,368,673,311**	209,741,431,820
Loans payable	**70,807,322,371**	71,627,041,635
Other long-term liabilities	**24,793,381,565**	24,968,381,565
Subtotal	**276,969,377,247**	306,336,855,020
Add: Bond premium	**7,114,023**	8,752,753
Less: Bond discount	**866,849,099**	934,087,627
Less: Bond issue cost*	**743,940,014**	-
Net	**275,365,702,157**	305,411,520,146
Less: Current portion	**28,528,690,179**	38,666,066,581

PARTICULARS	2016	2015
Long-term liabilities	**246,837,011,978**	266,745,453,565

Previously presented as part of non-current assets

Further details of the account follow:

CREDITOR/PROJECT	MATURITIES	INTEREST RATES	CURR	ORIG'L CURRENCY	PESO
BONDS PAYABLE					
DBP/Morgan Stanley and UBS AG					
General Funding Requirements	2024	FIXED at 7.39%		557,940,000	27,792,665,220
General Funding Requirements	2019	FIXED at 7.25%	USD	20,986,000	1,045,375,618
General Funding Requirements	2024	FIXED at 7.39%	USD	579,014,000	28,842,424,382
Bureau of Treasury					
General Funding Requirements	2017	FIXED at 7.750%	PhP	18,678,000,000	18,678,000,000
Bank of New York/JP Morgan Chase Manhattan					
General Funding Requirements	2028	FIXED at 9.625%	USD	300,000,000	14,943,900,000
General Funding Requirements	2020	FIXED at 3.22%	JPY	24,750,000,000	10,521,225,000
General Funding Requirements	2022	FIXED at 3.55%	JPY	37,000,000,000	15,728,700,000
HSBC/DEUTSCHE/MORGAN					
General Funding Requirements	2019	FIXED at 7.25%	USD	958,500,000	47,745,760,500
ROP Relent USD$500M Onshore Dollar Bonds					
General Funding Requirements	2013 to 2023	FIXED at 3.35%	USD	275,000,000	13,698,575,000
US Bank					
General Funding Requirements	2008 to 2018	FIXED at 5.40%	USD	47,619,047	2,372,047,591
SUBTOTAL					**181,368,673,311**
LOANS PAYABLE					
LBP Syndicated Loan					
General Funding Requirements	2011 to 2021	PDST-F + .5%	PhP	70,725,000,000	70,725,000,000
Int'l Bank for Reconstruction and Deve					
Bataan Thermal 2	1982 to 2022	Service Charge at 0.75%	USD	1,652,628	82,322,371
SUBTOTAL					**70,807,322,371**
OTHER LONG-TERM LIABILITIES					
Bureau of Treasury					
General Funding Requirements	2022	FIXED at 6.058%	PhP	24,675,000,000	24,675,000,000
Department of Energy					
DOE-Quarterly Assigned Petroleum Agreement					118,381,565
SUBTOTAL					**24,793,381,565**
TOTAL DEBTS					**276,969,377,247**
Add: Bond premium					7,114,023
Less: Bond discount					866,849,099
Bond issue cost					743,940,014
LONG-TERM LIABILITIES, NET					**275,365,702,157**

22. Deferred Income from UC-SCC

PARTICULARS		2016
Total UC-SCC Receivable		**53,851,000,000**
Less earned portion in:	2013	**11,218,958,333**
	2014	**13,462,750,000**
	2015	**13,462,750,000**
	2016	**13,462,750,000**
Unearned portion as of 31 December 2016		**2,243,791,667**

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 28 June 2011 by PSALM Corporation, the said petition sought to recover the stranded contract costs of NPC from 2007 to 2010 through the UC. *(Note 28)*

23. Due to TransCo

This account 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.

Movement to this account are accounted as follows:

PARTICULARS	2016	2015
Concession fee		
Principal	**113,565,137,625**	113,565,137,625
Interest	**59,875,273,211**	56,323,291,089
Less: Dividend from TransCo	**67,324,044,945**	64,282,541,187
Funding for TransCo	**205,374,076**	205,374,076
Due to TransCo	**105,910,991,815**	105,400,513,451

24. Due to GOCCs and national government agencies

PARTICULARS	2016	2015
Due to GOCCs		
Due to NPC	**1,688,311,937**	1,451,551,150

PARTICULARS	2016	2015
Due to Philhealth	**9,525**	2,304,816
Due to Pag-ibig	**2,300**	1,067,332
Due to GSIS	**4,591**	27,447
Subtotal	**1,688,328,353**	1,454,950,745
Due to National Government Agencies		
Due to the Bureau of Treasury	**43,009,841,851**	30,639,522,821
Due to BIR	**5,871,192,036**	12,909,198,068
Subtotal	**48,881,033,887**	43,548,720,889
Assumed Rural Electrification Program (REP) Loans	**1,805,161,525**	1,805,161,525
Due to GOCCs and gov't agencies	**52,374,523,765**	46,808,833,159

Due to NPC pertains to UC collections for remittance to NPC beneficiaries for: (i) UC for Missionary Electrification (UC-ME) and (ii) UC for Environmental Charge (UC-EC).

Due to the Bureau of Treasury 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.

Assumed Rural Electrification Program (REP) Loans corresponds to the 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 that was assumed by PSALM 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 as provided in Section 60 of the EPIRA. Section 2 Rule 31 of the Implementing Rules and Regulations (IRR) of the EPIRA state that the assumption covers all outstanding REP-related financial obligations of the ECs as of 26 June 2001.

To carry out the aforementioned objective and that of Executive Order (EO) No. 119, Restructuring Program for Electric Cooperatives, PSALM and NEA entered into a Memorandum of Agreement (MOA) on 03 October 2003 to lay down the operational legal framework upon which the financial obligations of ECs to NEA shall be lawfully assumed by PSALM. Article IV of the MOA provides that repayment by PSALM 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 02 September 2006, EO 460 was issued amending EO 119 giving retroactive effect to the assumption by PSALM of the rural electrification loan obligations of the ECs to NEA and other government agencies.

PSALM has paid a total of ₱16.27 billion out of the ₱18.07 billion assumed rural electrification loans of ECs from NEA, other government agencies and Local Government Units (LGUs), leaving a total outstanding balance of ₱1.80 billion as of 31 December 2016.

PARTICULARS	2016	2015
Current portion	**1,805,161,525**	1,805,161,525

25. Other Liabilities

PARTICULARS	2016	2015
Liability for the fixed operation and maintenance		
Pagbilao	**11,988,594,036**	12,862,030,488
Sual	**10,794,548,752**	11,780,687,600
Ilijan	**5,281,389,972**	6,268,550,883
San Roque	**4,165,651,726**	4,568,779,312
Bakun	**372,075,092**	396,666,420
Deferred credits	**1,251,757,662**	1,313,745,119
Other long-term liabilities	**33,854,017,240**	37,190,459,822

Liability for the fixed operation and maintenance (O&M) pertains to the obligation of PSALM Corporation to the independent power producers for the fixed operating and maintenance expenses of the plants under IPP Administration Agreements.

Deferred credits refer mostly to the unearned portion of the rent income from lease of land pertaining to sold plants.

26. Adjustments-Capital from Asset-Debt Transfer

PARTICULARS	2016	2015
Investment in TransCo	**(337,874,919)**	(3,227,826,438)
Cleaning of accounts- power receivables	**(475,610,525)**	(257,589,113)
Cleaning of accounts- others	**-**	(935,928,610)
Others	**3,067,099**	1,730,143,261
Investment property	**1,085,718,568**	-
Adjustments-CADT	**275,300,223**	(2,691,200,900)

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. The details of the adjustment are as follows:

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

27. Dividend Income

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

Dividend income for 2016 covers only three quarters (from the 4th quarter of 2015 to the 2nd quarter of 2016) of TransCo's profits, unlike in the past year when it covered four quarters (from the 4th quarter of 2014 to the 3rd quarter of 2015).

PSALM received dividend income in the amount of P3,041,503,758 and 5,178,426,178 in CY 2016 and 2015 respectively.

28. Universal Charge - SCC

On 28 January 2013, the Energy Regulatory Commission (ERC) has arrived at a decision docketed as ERC Case No. 2011-091 RC for the recovery of the National Power Corporation (NPC) Stranded Contract Costs (SCC) of the Universal Charge (UC) filed on 28 June 2011 by PSALM for the year ending 31 December 2010, including stranded cost for the period CYs 2007, 2008, and 2009. In view of that, PSALM was granted authority to recover the following UC-SCC for Luzon, Visayas and Mindanao Grids starting March 2013 billing covering period of 26 February 2013 to 25 March 2013.

ERC made a calculation on the SCC which amounted to ₱53.85 billion using the four (4) years of electricity sales based on the Department of Energy (DOE) Sales under the Philippine Development Plant (PDP), to wit:

In billion PhP	**CY 2007-2010**
Gross annual contract cost	178.236
Less: Revenue from sale of contracted capacity	119.403

Privatization of eligible IPPs	4.982
Stranded Contract Cost	53.851
Stranded Contract Cost (₱/kWh)*	0.1938

**Based on four (4) years sales: 277,875 GWh*

Accordingly, PSALM Corporation collected ₱13,948,654,000 and ₱12,651,779,000 in 2016 and 2015, respectively.

29. Power Generation

PARTICULARS	2016	2015
Net utility revenue	**25,218,044,677**	30,855,074,923
Variable costs:		
Fuel oil	**1,888,142,372**	4,637,144,267
IPP other power supply	**3,554,306,087**	3,718,488,370
Energy purchased from PEMC	**2,756,589,811**	3,053,835,401
OMSC	**26,140,203**	7,604,155
Total variable costs	**8,225,178,473**	11,417,072,193
Fixed costs:		
IPP fixed O&M fees	**12,372,923,600**	13,469,652,549
Depreciation	**2,091,607,104**	2,353,558,409
Amortization of IPP plant/leased asset	**1,959,106,854**	1,959,106,854
Opex		
Plant	**818,088,254**	1,304,128,628
HO allocated	**539,088,347**	887,644,606
OMSC	**225,149,719**	219,363,167
Total fixed costs	**18,005,963,878**	20,193,454,213
Total operating expenses	**26,231,142,351**	31,610,526,406
Net operating income (loss)	**(1,013,097,674)**	(755,451,483)
Add: Other income (loss)	**(538,803,890)**	(263,024,586)
Power generation loss	**(1,551,901,564)**	(1,018,476,069)

Operating results of Power Generation, this fell short of last year's performance as power generation loss of PHP1.02 billion rose to PHP1.55 billion. The difference was largely attributable to: (1) series of shutdowns that struck PSALM's major revenue-generating plants; and (2) lower spot price in the WESM (from PHP3.8351/kWh to PHP 3.3104/kWh) due to the increase in supply as a result of the entry of additional capacities in the market.

In terms of operating expenses, the company benefited from the lower price of diesel and reduced consumption brought by the expiration of the BOO contract with WMPC

Zamboanga and SPPC Gen San, and the turnover of Power Barges 101-104 to their new owners. As a result, fuel cost was reduced by PHP2.75 billion. PSALM also effectively reduced its other operating expenses by PHP189.56 million from the turnover of the power barges alone.

In general, the series of shutdowns that affected PSALM's major revenue-generating plants fully negated the savings reaped from the turnover of the losing Power Barges 101-104 and the expiration of BOO contract of the expensive oil-based plants. The net operating income from owned and operated plants dropped by 13.8%, from PHP4.80 billion in 2015 to PHP4.14 billion in 2016. This income was fully eliminated, however, by the net operating loss from IPP plants, which diminished by 7.3 percent from PHP5.56 billion in 2015 to PHP5.15 billion in 2016.

All in all, the company reported a loss from power generation of PHP1.55 billion, 52.4% higher than the loss reported from the plants' operations of PHP1.02 billion in 2015.

30. Income from IPPAs

PARTICULARS	2016	2015
Revenues		
Generation payments	**35,634,624,179**	39,222,634,534
Amortization of deferred finance income	**2,600,573,721**	2,600,573,721
Net utility revenue	**1,623,394**	-
Fixed related adjustments	**(2,116,672,712)**	(2,398,092,196)
Interest on late payments	**13,855,258**	9,345,604
Total revenues	**36,134,003,840**	39,434,461,663
Expenses		
Natural gas	**17,791,136,420**	18,972,626,038
Energy fees	**9,418,953,106**	9,326,799,531
Diesel	**21,510**	1,422,155,906
RPT	**432,241,253**	587,335,674
Financial assistance	**217,134,178**	209,092,482
Share in National Wealth	**15,846,690**	11,136,998
PS and MOOE	**15,939,333**	12,923,174
Total expenses	**27,891,272,490**	30,542,069,803
IPPA, net	**8,242,731,350**	8,892,391,860

For IPPA, operating results fell slightly by seven percent (7%) or PHP650 million on account of the administration of Ilijan.

Notwithstanding the 11% growth in its generated output[1], the corresponding generation payments billed for the Ilijan Plant dropped due to the lower market price of electricity[2].

[1] Based on the 8,364 GWh generated output in 2016 as opposed to 7,558 GWh generated in 2015.
[2] Difference in spot market prices, from PHP3.41/kWh in 2015 to PHP2.46/kWh in 2016.

Under the Ilijan IPPA Agreement, generation payment billings are anchored to market price. As such, the lower market prices for the year considerably reduced the generation payments by PHP3.73 billion. Such reduction in revenues was somehow cushioned, however, by the decrease in aggregate expenses of PHP2.80 billion attributed to the lower cost of natural gas (from USD7.5813/gigajoule (GJ) in 2015 to USD5.8863/GJ in 2016).

Also notable is the shift to the new applicable energy fee rate of USD0.0060/kWh for the San Roque Plant, which effectively brought down energy fees of the said plant by 55%. The new energy fee rate is applicable beginning the billing period of 25 May to 25 June of 2015 up to 2022, and is lower than the previous applicable fee rate of USD0.027/kWh. Energy fees of San Roque is computed by multiplying the excess of the monthly contracted energy by the energy fee rate.

To date, PSALM has successfully assigned the contracted capacities of Bakun, San Roque, Sual, Ilijan, Pagbilao, Mt. Apo, and strips of energy of Unified Leyte Power Plants to their respective IPPAs.

31. Sale/Disposal of Assets

On 30 June 2016, PSALM Corporation conducted the ceremonial turnover of the Power Barge (PB) 104 to its new owner, SPC Power Corporation (SPC). The awarding of the symbolical key to SPC signaled that the operational and management responsibilities and duties for PB 104 have been transferred to the new owner.

It can be recalled that after two (2) failed biddings in 2012, PSALM Corporation attempted to bid out the said state-owned power barge as a separate package on 30 October 2013. However, PSALM once again declared the bidding for the Davao-based PB 104 a failure after none of the bidders met the Reserve Price for the asset package.

On 03 November 2015, the Office of the Government Corporate Counsel (OGCC) opined that PSALM can pursue a negotiated sale of PB 104 on an “as is, where is” basis on the grounds that it has conducted three (3) rounds of failed public biddings and based on applicable laws.

On 15 April 2016, three (3) negotiating parties submitted their offers. After careful evaluation by the PSALM Bids and Awards Committee, it was announced that SPC met the reserve price and was declared as the negotiating party with the highest offer of PHP218,889,999.00.

The sale of Power Barge 104 was able to generate an income of ₱6 million.

PB 104 was commissioned in 1981 and started operation in 1985. With a capacity of 32 MW, PB 104 is a barge-mounted bunker-fired power station consisting of four (4) identical Hitachi-Sulzer diesel generator units rated at eight (8) MW each. It is moored at the Holcim Compound, Ilang, Davao City.

With the successful turnover of PB 104, PSALM's remaining unsold generation plants are the Agus and Pulangui HEPPs.

Apart from the foregoing, PSALM recognized almost ₱3 million from the forfeited performance bond of Taifu Metal Exchange Corporation for the Cebu Diesel II.

32. Other Income (Loss)

Subsidy from National Government

This corresponds to the government grant in settlement of the basic VAT deficiency for taxable year 2012 as assessed by the BIR.

Gain (Loss) on Foreign Exchange

As the Corporation translates its foreign currency transaction/monetary items in accordance with PPSAS 4 The Effects of Changes in Foreign Exchange Rates, the resulting gains and losses from the exchange differences recognized in profit or loss, as follows:

PARTICULARS	2016	2015
Realized forex gain (loss) on foreign currency-related transactions	**(1,376,188,391)**	(549,832,209)
Unrealized forex gain (loss) on translation	**(14,397,419,779)**	(15,492,606,656)
Total gain (loss) on forex	**(15,773,608,170)**	(16,042,438,865)

This account pertains to foreign exchange adjustments realized on repayment of loans and unrealized on restatement of outstanding balances of foreign currency-denominated loans, trade and other payables, short-term placements and cash in banks. Following are the exchange rates used to restate outstanding balances at financial reporting date:

	2016	*2015*	*Gain (Loss)*
Philippine Peso (₱) : Us Dollar ($)	***49.8130***	*47.1660*	*(2.6470)*
Philippine Peso (₱) : Japanese Yen (¥)	***0.4251***	*0.3920*	*(0.0331)*

Interest Income

Interest income pertains mainly to the interest earned, net of taxes, on the placements and regular deposits.

Miscellaneous Income

Miscellaneous income came primarily from the amortization of deferred credits on advance lease payments for the various sold plants. It also includes various income from sale of bid documents, participation fees, recovery of insurance claims, protest fees and others.

33. Cleaning of NPC Accounts retained at NPC/Transferred to PSALM and TransCo

Under the supervision of the Department of Finance, the Joint PSALM-NPC-TransCo Task Force (JPNTTF) was created to primarily validate and reconcile the remaining accounts in the temporary accounts registry of NPC, PSALM, and TransCo, and to eventually prepare the appropriate adjustments. The annual output would be recommendations addressing COA audit observations and a report reflecting the progress made on the cleaning of the books.

34. Supplementary Information Required in Taxes, Duties and License Fees under Revenue Regulation No. 15-2010

Presented below are the detailed information on taxes, duties and license fees paid or accrued by the Company during the taxable year ended December 31, 2016.

a. VATable revenues and output tax during the year are as follows:

	Net Sales/Receipts	Output VAT
VATable Sales	61,012,047,442.70	7,321,445,693.12
Sales to Government	14,821,432.21	1,778,571.86
Zero-rated Sales	30,369,721,913.14	0.00
Exempt Sales	0.00	0.00
	91,396,590,788.05	**7,323,224,264.98**

The Corporation is engaged in sales of goods which are zero-rated and exempt from VAT in accordance with Revenue Memorandum Circular (RMC) 71-2012 dated 15 November 2012 which superseded RMC 62-2012 and RMC 61-2005, clarified the implementation of VAT provisions of RA No. 9337 applicable to the power industry.

b. Details of VAT input taxes during the year are as follows:

Balance at 01 January 2016	25,679,880,032.62
Add: Input Tax on depreciation deferred from previous period	64,935,349.11
Total balance at 01 January 2016	25,744,815,381.73
Add: Current year's domestic purchases/payments for:	
Purchase of capital goods not exceeding P1 million	0.00
Purchase of capital goods exceeding P1 million	78,845,785.43
Domestic goods	278,790,099.54
Imported goods	0.00
Services	4,166,608,510.14
Services rendered by non-residents	2,853,088.59
Zero-rated/Non-VAT	0.00
Subtotal	4,527,097,483.70

Total Input	30,271,912,865.43
Less: Deferred depreciation	123,248,808.19
Claims for tax credit/refund and other adjustments	0.00
Balance at 31 December 2016	**30,148,664,057.24**

c. The schedule of documentary stamp tax as follows:

Bill of Exchange	**31,985,615.70**

d. The schedule of taxes and licenses follows:

Real estate tax	606,759,139.01
Final withholding tax - Interest	150,987,297.07
Court of Tax Appeals fees	16,948,679.59
Transfer tax	4,085,272.55
Registration fees	111,854.54
Penalties	25,000.00
Others	50,071.59
	778,967,314.35

e. The amount of withholding taxes as follows:

VAT and other percentage taxes	1,965,026,557.34
Final withholding taxes	1,688,170,279.85
Expanded withholding taxes	1,631,739,147.69
Withholding taxes on compensation and benefits	18,809,865.28
	5,303,745,850.16

f. The amount of deficiency tax assessment as follows:

Period covered	Particulars	Amount
TY 2010	Interest requested for Abatement (VAT and Final Withholding Tax Deficiency)	3,036,408,344.45
TY 2010	Final Withholding Tax Deficiency inclusive of Interest	144,895,560.79
TY 2011	Interest requested for Abatement (VAT Deficiency)	1,519,874,559.73
TY 2011	VAT Deficiency inclusive of Interest	229,177,214.68
TY 2012	Interest requested for Abatement (VAT Deficiency)	1,494,717,854.04
TY 2013	Income Tax, VAT, Withholding Tax on Compensation, Expanded Withholding Tax and Final Withholding VAT Deficiency inclusive of Interests and Compromise Penalty	9,627,467,154.87
		16,052,540,688.56

g. Tax proceedings involving PSALM outside BIR as follows:

PSALM is involved in various tax proceedings, in the normal course of business, with the Court of Tax Appeal (CTA) and formal assessment notices from the Large Taxpayer's Office of the BIR, among others are taxes paid in protest, value added taxes, income taxes and withholding taxes. Because of the nature of these proceedings and assessments are difficult to predict, hence, PSALM will record the provision for a loss when it is both probable that a loss has been incurred and the amount of loss can be reasonably estimated.

35. 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:

a. ***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.

b. ***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.

c. ***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.

d. ***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'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.

36. Organizational Development and Key Undertakings

36.1 Financial Management

i. Financial Performance

For the year ended 31 December 2016, the Corporation generated income from operations amounting to PHP23.20 billion. However, due to PSALM's assumption of NPC loans, debt service almost wiped out this income from operations with the payment of financial expenses amounting to PHP21.07 billion. This resulted to an operating income of PHP740 million in 2016, which is higher than the previous year's operating income of PHP216 million.

Considering that 77% of these loans are foreign currency denominated, PSALM was exposed to foreign exchange risk when the peso depreciated to PHP49.813:USD1 during the year; causing PSALM to incur loss on foreign exchange amounting to PHP15.77 billion. These forex loss and financial expenses, net of subsidy from NG, effectively pulled down the PHP740 million operating income of PSALM, resulting to a net loss of PHP12.23 billion for the year.

Compared to last year's performance, however, the company's financial performance had slightly improved from a net loss of PHP14.46 billion in 2015 to a net loss of PHP12.23 billion in 2016. This is an improvement by 15% compared to a year ago.

ii. Managing Cash Flow

Cash balance in 2016 reflected a ₱20.48 billion decrease, which corresponds to a ₱33.84 billion deficit for the year. From ₱36.99 billion in 2015, the cash balance decreased to ₱16.50 billion at the end of 2016. This signified a 10% (or ₱3.04 billion) increase in deficit from 2015's deficit of ₱30.81 billion.

The decrease redounded from a range of various transactions undertaken by the company that affected cash flow, including the bullet payments of principal debt amounting to ₱7.96 billion for the $160 million Salomon Brother Inc. Yankee Bond, ₱23.20 billion for the $478 million Citigroup-Deutsche Bank, and ₱6.32 billion for the Hong Kong Shanghai Tranche B.

Some of the more notable transactions affecting cash flow include, but are not limited to, the sale of Power Barge 104 which brought ₱219 million into the company's coffer, remittances from DENR and NIA re Advances for SRMPP totaling ₱3.96 billion (₱0.60 billion was placed under Investment in BTr along with its interest of ₱168 million), and the final payment for the Agus VI Hydroelectric Power Plant Uprating Project of ₱88 million.

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

	(In Million Pesos) **2016**	2015
Cash flow from operations		
Proceeds from privatization*	**71,974.5**	73,096.7
Operations	**(19,400.8)**	(21,689.2)
Cash inflow from operating activities**	**52,573.7**	51,407.5
Cash flow from financing		
Debt service - principal & interest***	**(59,596.6)**	(48,800.4)
BOT lease obligation	**(26,374.5)**	(26,356.9)
Cash outflow from financing activities	**(85,971.1)**	(75,157.3)
Capex and foreign exchange effect	**(446.3)**	(738.3)
Surplus (deficit) before prepayment	**(33,843.7)**	(24,488.1)
Prepayment of principal debt	**-**	(6,320.1)
Surplus (deficit) after prepayment	**(33,843.7)**	(30,808.2)
Add other sources:		
Other receipts	**13,360.6**	11,322.0
Cash, beginning balance	**36,986.4**	56,472.6
Total other sources	**50,347.0**	67,794.6
Cash balance, end	**16,503.3**	36,986.4

** includes proceeds from concession of transmission asset, collections from IPPAs and sale of generation assets*
*** net of NG advances for Casecnan amounting to ₱366 million for 2015*
**** includes all loan related expenses*

Other sources for 2016 were the Advances from the National Government of ₱10 billion which were used as part of the bullet payments made, advances for SRMPP of ₱3.36 billion, and the remaining cash balance as of 31 December 2015 of ₱36.99 billion.

iii. Handling Financial Obligations (FO)

PSALM's outstanding financial obligations (FO), composed of long-term debts and IPP lease obligation, trimmed down by ₱44.47 billion or 8% percent from the ₱550.81 billion level in 2015 to ₱506.34 billion in 2016 as shown below:

	In Billion Pesos Outstanding FO 2016	Outstanding FO 2015	Increase (Decrease)
Long-term debts	**275.36**	305.41	(30.05)
IPP lease obligation	**230.98**	245.40	(14.42)
Total	**506.34**	550.81	(44.47)

During the year, PSALM was able to make payments of long-term debts amounting to ₱39.73 billion and payments to IPP BOT proponents of ₱26.37 billion. Taking into consideration adjustments/restatements arising from forex impact of ₱21.64 billion, the total financial obligations stood at ₱506.34 billion as of 31 December 2016.

Long-term debts

The decrease can be attributed to the ₱37.49 billion bullet payments to Citigroup-Deutsche Bank, Salomon Brother Inc., and HSBC/Deutsche Bank for the last quarter of 2016. However, the long-term debts is increased by the 6% depreciation of the peso to US$ exchange rates at year-end (₱47.166/US$ in December 2015 vs. ₱49.813/US$ in December 2016).

IPP lease obligation

Lease obligation decreased by ₱14.42 billion or 6 percent from the ₱245.4 billion level in 2015 to ₱230.98 billion in 2016. The decline was on account of the debt service of lease maturities in 2015 (₱26.37 billion), which was offset by the effect of the depreciation of the peso to US$ exchange rates at year-end of 2016 (₱12.43 billion).

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

On 26 March 2012, ERC approved PSALM'S petition for the recovery/refund of the ₱44.7 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

PSALM was able to bill and collect ₱1.40 billion for the year, leaving a balance of ₱20 billion as of 31 December 2016, inclusive of DAA receivables from Luzon customers which is the subject of an order from the Energy Regulatory Commission dated 10 August 2012 deferring its collection, pending its resolution of alleged share/claim of successor generation companies and/or IPP administrators in the DAA approved for PSALM covering 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.

v. Debt Service Coverage Ratio

Debt service coverage ratio (DSCR) for 2016 was computed at 0.61:1, lower than the 0.63:1 attained in 2015. With a DSCR below one (1), this indicates that the Corporation's cash from its operations is not sufficient to cover obligations maturing within the next twelve months.

The DSCR for the year was largely affected by bullet payments of loans made in 2016. Though PSALM was able to prepay ₱6.32 billion in 2015, bullet payments in 2016 totaled ₱37.49 billion.

vi. Weighted Average Maturity

The Weighted Average Maturity (WAM) of the Corporation as of yearend 2016 stands at 4.82. This means that, on the average, the bulk of PSALM's debts will mature before 2021 ends, or within four (4) years and slightly less than ten (10) months. 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.

vii. Peso Component of the FO

Of the ₱506.34 billion outstanding obligations as of 31 December 2016, 23% is denominated in Philippine Peso.

viii. Collection Efficiency

Collection efficiency for current sales is at 96.34% in 2016.

36.2 Asset Management

i. Implementation of PSALM's Privatization Program

- **<u>Generation Assets</u>**

As of 31 December 2016, 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 POWER BARGE 102 POWER BARGE 103	32 32 32	Bo. Obrero, Iloilo City Subic, Zambales	Trans-Asia Oil and Energy Development Corporation	10/30/13	$9.31 Million	07/08/15
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
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, Inc.	09/30/04	$0.41 Million	06/30/05
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 Catalunan Pequeño, Davao City	HEDCOR, Inc.	03/25/04	$1.37 Million	01/19/05

- **IPP and IPPA Contracts**

As of 31 December 2016, the existing IPP contracts of PSALM 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
Bakun HEPP (NMHC)	BOO-PPA	Jan-26
Kalayaan HEPP 3 & 4	BROT-PPA	Feb-26
Mindanao Coal 1 & 2	BOT	Mar-34

And through PSALM'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 31 December 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.
San Roque Multipurpose Hydro	Pangasinan	345	Strategic Power Devt. Corp.
Bakun-Benguet Hydro Plants	Benguet	70	Amlan Power Holdings Corp.
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	Trans-Asia Oil and Energy Development Corporation
		40	Unified Leyte Geothermal Energy Inc.
		20	Good Friend Hydro Resources Corporation

Plant Name	Location	Rated Capacity (in MW)	Winning Bidder
		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

- **Privatization of Decommissioned Plants**

As of 31 December 2016, the table below lists the four (4) decommissioned plants successfully bid out by PSALM:

PLANT NAME	LOCATION	WINNING BIDDER	BID DATE (mm/dd/yy)	TURNOVER DATE
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

It should be noted that apart from the abovementioned decommissioned plants, PSALM conducted the bidding of ***Sucat Thermal Power Plant (STPP)*** on 31 March 2014, and declared Genetron International Marketing (GIM) as the highest bidder. However, on 05 May 2014, the Performance Bond issued by GIM was found to have materially deviated from PSALM's standard form; thus, terminating the Asset Purchase Agreement (APA). On 23 June 2014, the PSALM Board approved the termination of the APA.

During its meeting on 15 September 2015, the PSALM Board approved the 2nd round of bidding for STPP. The Invitation to Bid (ITB) was published in newspapers of nationwide circulation on 11-13 November 2015, with the bidding deadline earlier set on 17 February 2016.

On 08 April 2016, the bidding for the structures, plant equipment, auxiliaries and accessories of the decommissioned 850 MW STPP was declared a failure because none of the qualified bidders met the reserve price set by the PSALM Board.

Four bidders initially submitted their offers for the STPP, but one bidder was disqualified after it was found non-compliant with the legal requirements of the bidding process. Meanwhile, the three qualified bidders were Riverbend Consolidated Mining Corp., VPD Trading and Sta. Clara International Corp.

The 3rd round of bidding for STPP was originally scheduled in September 2016, but due to a new requirement for an environmental clearance from the

Department of Environment and Natural Resources (DENR), PSALM had to push back the target bidding schedule to the first half of 2017.

Located in Sucat, Muntinlupa City, the Sucat plant is an oil-fired power plant that was previously owned by the Manila Electric Co., and later acquired by the National Power Corporation in November 1978. It consists of Unit 1, which has a rated capacity of 150 MW; Units 2 and 3, each with 200 MW; and Unit 4, which is rated at 300 MW.

Formerly known as the Gardner Snyder Thermal Plant, the Sucat plant officially commenced commercial operations on 01 August 1968 after the completion of Unit 1. Units 2-4 followed operations after their construction in 1970, 1971, and 1972, respectively.

In January 2000, Units 1 and 4 were decommissioned and placed under preservation. Units 2 and 3 followed later in January 2002.

On the other hand, the sale and disposal of the ***Bataan Thermal Power Plant*** **(BTPP)** is 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's counterparty to the negotiated sale of BTPP. This forced PSALM 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.

- **Operation and Maintenance Service Contract (OMSC) of Malaya Thermal Power Plant**

The one-year OMSC for the 650 MW Malaya Thermal Power Plant was once again awarded to Korean firm STX Marine Service Co., Ltd. (STX). The OMSC will run from 25 June 2016 to 25 June 2017.

Malaya TPP is located in Pililla, Rizal Province, and is being managed by PSALM through an OMSC. It consists of a 300 MW unit with a once-through type boiler and a 350 MW unit fitted with a conventional boiler. It was rehabilitated in 1995 by the Korea Electric Power Corporation under a 15-year rehabilitate-operate-manage-maintain agreement.

The Malaya TPP was designated as a must-run unit (MRU) by the Department of Energy (DOE) to address supply deficiency when operating power plants in the grid suddenly become unavailable.

In a recent move to privatize the said plant, at least four companies have signified their interest to join the bidding for MTPP, which is scheduled on 08 March 2017.

- **Privatization of Remaining Assets**

As per PSALM Corporation's 2017-2019 Corporate Performance Scorecard, presented below are the indicative schedules of disposal of its remaining assets:

a. Owned Generating Plants

Plant Name	Bid Schedule	Turnover Schedule
• Malaya	1st Semester 2017	1st Semester 2017
• Agus 1 and 2 • Agus 4 and 5 • Agus 6 and 7 • Pulangui	1st Semester 2018	1st Semester 2018

b. IPP Plants

Plant Name	Bid Schedule	Turnover Schedule
• Unified Leyte Bulk and Security Strips of Energy	2017	
• Mindanao Coal • CBK • Casecnan	2018	
• Benguet	IPP contract will expire in January 2018	

c. Decommissioned Plants

Plant Name	Bid Schedule	Turnover Schedule
• Sucat	1st Semester 2017	1st Semester 2017
• Bataan Thermal • Bataan GT	Sale/disposal is subject to resolution of court cases involving the asset.	

ii. Management of Privatization Proceeds

PSALM started receiving privatization proceeds from the sale of NPC generating plants in January 2005. As of 31 December 2016, actual privatization proceeds collected in United States Dollar and Philippine Peso amounted to $4.11 billion and ₱309.14 billion, respectively.

On 20 June 2007, the joint Boards of PSALM and NPC, under Board Resolution No. 07-29, approved the utilization of the privatization proceeds to liquidate principal and interest obligations of NPC as they fall due. This was amended on 04 October 2007 by Board Resolution No. 07-61, which granted authority to PSALM Management to utilize the privatization proceeds to:

- Prepay NPC's principal obligations;

- Settle NPC's principal and interest obligations as they become due only after NPC shows deficit in its cash flow after utilization of its own internally generated cash;
- Manage NPC's liabilities with the objectives of reducing interest cost and liquidity risk in 2009-2012 and hedging foreign exchange risks at terms and conditions advantageous to the government; and
- Pay other financial obligations of NPC.

From 22 August 2007 to 31 December 2016, a total of $4.68 billion dollar proceeds and ₱276.30 billion peso proceeds were utilized to cover mostly the financial obligations of NPC such as the maturing obligations, IPP obligations and the prepayment of the more expensive Yen-denominated and Euro-denominated obligations of NPC, as well as other privatization-related expenditures.

As of 31 December 2016, the balance of dollar proceeds is $0.05 billion, while the balance of the peso proceeds amounts to ₱9.11 billion.

36.3 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 31 December 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. 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 every 15th of the following month.

As of 31 December 2016, remittances by CEs to PSALM already amounted to ₱110.29 billion, while interest earnings from deposits and placements of UC funds amounted to ₱0.15 billion. On the other hand, UC fund disbursements as of the end of December 2016 amounted to ₱109.78 billion; leaving a balance of ₱0.67 billion.

For the period January to December 2016 alone, PSALM received ₱25.43 billion in UC remittances, and disbursed ₱25.17 billion to UC beneficiaries.

In terms of UC rate applications, the following petitions filed by NPC before the ERC for the availment of the environmental share from the Universal Charge are pending resolution by the ERC:

ERC Case	Date Filed	Calendar Year	Amount
No. 2014–021 RC	12 March 2014	2014	₱ 320,008,239.75
No. 2015-050 RC	12 March 2015	2015	426,875,421.95
No. 2016-019 RC	14 March 2016	2016	426,710,057.72
Total			**₱1,173,593,719.42**

36.4 Corporate Social Responsibility

The PSALM Corporate Social Responsibility (CSR) Group has always been committed to the sustainable development of the environment and people's overall welfare. Through the group, the Corporation completed numerous worthwhile projects and causes with the support of the PSALM volunteers and in collaboration with the Gender and Development (GAD) Focal Point System.

Major activities in 2016 include computer transfers to selected school beneficiaries in different provinces of Luzon. PSALM's CSR has transferred 30 computers to public schools in Zambales, Batangas, Bulacan, Ifugao and Pangasinan. In partnership with the Red Cross - Makati Chapter, PSALM conducts an annual blood-letting activity which is eagerly participated by PSALM employees and some occupants of the Bankmer Building. Each blood donor is required to undergo initial health screening to ensure that the blood to be collected is free from harmful pathogens.

On May 2016, PSALM and NPC volunteers in cooperation with the Armed Forces of the Philippines Reserved Command visited the residents of Haligue Kanluran, Ilijan, Batangas City for a one-day medical and dental mission. The volunteers provided the locals with medical and dental check-up and consultation, tooth extraction and other medical services. Medicines and vitamins were provided to 178 registered beneficiaries. This medical and dental mission is a continuous outreach program PSALM provides to its host communities.

Last October 2016, PSALM distributed 20 Uratex mattresses to Taytay Emergency Hospital. The hospital was chosen as a beneficiary through Lt. Col.

Joselito P. Vital, Air Force of the Philippines Reservist, and one of PSALM's active partners in medical missions.

PSALM CSR has also spearheaded the following other causes and advocacies such as:

- International Women's Month Celebration;
- Medical and Dental Mission in Ilijan, Batangas City;
- Tree Planting -total of 1,500 assorted forest tree seedlings provided by the Upper Agno Watershed Area Team were planted at the Upper Agno Watershed Reservation, Brgy. Bobok-Bisal in Bokod, Benguet;
- Plant Safety Seminar and Visitation -On 16-17 June 2016, PSALM CSR volunteers toured the Ambuklao Hydroelectric Power Plant. The operations manager of SN Aboitiz personally assisted the PSALM employees as they toured around the plant facilities.
- Bags-to-School -distribution of school bags and educational materials to indigent children in selected public schools; Kawal Elementary School, having one of the most number of indigent students, received bags containing pad paper, notebooks, pencils, ball pens, erasers, ruler, water colors, sharpener, activity books and toiletries.
- Department of Energy – National Energy Consciousness Month Fun Run and Self Defense Activity for Women and Children; and
- Cookies for my Chemo -selling of cookies for the chemotherapy treatment of young cancer patients.

36.5 PSALM upgrades to the latest edition of the international standards for Quality Management System (QMS)

PSALM Corporation's commitment to raise the standard of its business processes to globally-recognized standards and to deliver quality service to its stakeholders has been continuously pursued in 2016. Through the joint effort of PSALM's management and employees, it passed the Audit conducted by TÜV Rheinland Philippines on 15-16 November 2016, resulting to TÜV's issuance of a Confirmation Letter dated 29 November 2016, signifying that PSALM Corporation has successfully upgraded to the latest edition of ISO's flagship quality management systems standard—the ISO 9001:2015.

36.6 PSALM retail bonds recognized as top traded corporate bond issue for 2015

On 03 March 2016, the Philippine Dealing System Holdings Corp. & Subsidiaries (PDS Group) acclaimed PSALM's ₱18.678 billion Fixed Rate Retail Bonds due in 2017 as the "Top Traded Corporate Bond Issue of the Year" for its exceptional trading performance in 2015.

This marks the fifth time that PSALM Corporation had been presented with the award, following the years 2014, 2013, 2011 and 2010. The award is given to the Corporate Issue that was the most actively traded in terms of trading volume under the “Corporate Securities” category.

The award was based on the trading performance of PSALM’s 7-Year Retail Bonds in the PDEx trading platform from January to December 2015, on which the bonds posted trading volume of ₱4.50 billion, or 11.25% of the total volume of ₱39.97 billion of traded corporate bonds.

Based on PDS trading statistics for CY 2015, PSALM was placed at the top spot for traded corporate bonds ahead of Manila Electric Company, Ayala Land Inc., and JG Summit Inc. among others.

PSALM Corporation, being a government entity compared to other corporations, provides additional incentive as a haven to place investors to place their investments. Additionally, the Credit Rating upgrade last 2013 for the Government includes upgrade for PSALM Corporation as well, which signals investors’ interest to a low-risk investment in PSALM Bonds.

36.7 PSALM conducts first-time adoption of the PPSAS

In upholding its commitment towards providing quality and transparent information to stakeholders, PSALM Corporation embarks on the preliminary phase of adopting the Philippine Public Sector Accounting Standards (PPSAS). During this phase, applicable PPSAS were identified, and a rough timeline for converting to the Revised Chart of Accounts has been defined.

The PPSAS were issued by the Commission on Audit per COA Resolution No. 2014-003 dated 24 January 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.

37. Commitments and Contingencies

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

The NPC Drivers and Mechanics Association (DAMA) were successful in obtaining a judgment obligation against NPC under G.R. No. 156208 (DAMA vs NPC). The judgment included back wages, wage adjustments, and other benefits accruing from 31 January 2003 to the date of their reinstatement or payment of separation pay. In all, these benefits amount to approximately ₱37 billion. Although PSALM was not originally a party to the case, the Supreme Court (SC) declared in the

Resolution dated 2 December 2009 that the properties acquired by PSALM from NPC “may be used to satisfy the Supreme Court judgment.”

On 9 September 2014, the SC issued a Resolution, the dispositive portion of which reads, xxx “(i) Direct Sheriffs of Quezon City to (a) DEFER the implementation of the Decision of the Court of 26 September 2006 and the Resolutions of 17 September 2008, 2 December 2009 and 30 June 2014 pending consideration of the present submissions and until further notice from this Court, and (b) LIFT, under the same terms, Notice of Garnishment of 14 August 2014; xxx”

On 25 November 2014, PSALM through the Office of the Government Corporate Counsel (OGCC) filed its Compliance to the SC Resolution dated 9 September 2014 directing PSALM to submit relevant and respective list of NPC employees as of 31 January 2002.

On 20 March 2015, PSALM filed its Compliance to the Court Resolution dated 20 October 2014 directing the parties to submit separate lists of NPC employees as of June 2001. As of year-end, PSALM is awaiting the SC resolution.

37.2 Availment of the CYs 2007-2010 UC-SCC

On 28 January 2013, the Energy Regulatory Commission (ERC) approved PSALM’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 to recover ₱53.851 billion covering 2007-2010 UC-SCC effective March 2013 billing period with a rate equivalent to ₱0.1938/kWh.

On 06 March 2013, PSALM 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 ₱8,547 million but included the corresponding revenues billed by PSALM 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.

As of 31 December 2016, the ERC has yet to resolve PSALM’s MR. While pending ERC’s resolution, the amount remitted by collecting entities to PSALM have only amounted to ₱46.07 billion, which translates to an under-recovery of ₱7.78 billion.

37.3 Availment of the CYs 2011-2012 UC-SCC

On 31 July 2013, PSALM 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 ₱17,685 Million equivalent to a rate of ₱0.1274/kWh covering a two (2) year recovery period.

The Formal Offer of Evidence (FOE) was submitted by PSALM on 26 August 2015 to formally close the records of the case. This was followed by a Motion for Early Resolution praying for the ERC to resolve PSALM's petition filed by PSALM on 28 June 2016.

As of 31 December 2016, PSALM is waiting for ERC to render its Decision on the case.

37.4 Availment of the CY 2013 UC-SCC

On 30 July 2014, PSALM filed a Petition for the Availment of the NPC's SCC Portion of the UC for CY 2013 and True-up Adjustments for the UC-SCC for CYs 2007-2010 docketed under ERC Case No. 2014-111 RC. In said Petition, PSALM is seeking for the approval of the calculated UC-SCC for CY 2013 amounting to ₱4,078 million equivalent to a rate of ₱0.0531/kWh covering a one (1) year recovery period.

Upon the directive of the ERC, PSALM submitted the FOE on 27 August 2015 to formally close the records of the case. As of 31 December 2015, PSALM is waiting for the ERC Decision on the case.

On 28 June 2016, PSALM filed before the ERC a Motion for Early Resolution praying for the ERC to resolve PSALM's petition. However, as of 31 December 2016, PSALM is waiting for the ERC Decision on the case.

37.5 Availment of the CY 2014 UC-SCC

On 24 July 2015, PSALM 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 is seeking for the approval of the calculated UC-SCC for CY 2014 amounting to ₱7,354 Million equivalent to a rate of ₱0.0907/kWh covering a one (1) year recovery period.

As of 31 December 2016, PSALM is waiting for the hearing schedule of the case.

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

On 30 September 2013, PSALM 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 seeks the ERC's approval to collect ₱41,139 million over a 12.5-year recovery period, which translates to a UC-SD charge of ₱0.0382/kWh.

Series of hearings were conducted starting with the Jurisdictional Hearing and Expository Presentation on 19 March 2014 and the Evidentiary Hearing which was concluded on 20 May 2014. On 25 July 2014, PSALM filed its Formal Offer of Evidence and submitted the case for resolution. As of 31 December 2016, the ERC has yet to issue its decision on the case.

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

On 30 July 2015, PSALM 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 prays for the ERC's approval to collect CY 2014 UC-SD amounting to ₱1,352 Million over a 10.5-year period, which translates to a UC charge of ₱0.0013/kWh sales to all electricity end-users. The detailed VAR for the True-up Adjustments of NPC's SD Portion of the UC for CY 2014, duly audited by the COA as evidenced by the Independent Auditor's Report dated 24 July 2015, was submitted to support PSALM's true-up application.

As of 31 December 2016, the case is still open, subject to the filing of Manifestation by PSALM and intervenor.

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

On 30 June 2016, PSALM 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 prays for the ERC's approval to collect CY 2015 UC-SD amounting to PhP27,670 Million over a 9.5-year period, which translates to a UC charge of PhP0.0283/kWh sales to all electricity end-users.

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

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

On 01 August 2013, Mediator Jack Esher issued his settlement recommendation amounting to US$9 million payable by PSALM 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 in the English Courts of Justice in the United Kingdom.

LBSF's claim form to PSALM Corporation was then served through Salvador Llanilo Bernardo & Associates Law Office on 27 March 2017, along with an Order directing PSALM and NPC to file an acknowledgement of service or to file a defense. To this, PSALM Corporation, through Pinsent Masons, filed a Defense and Counterclaim against LBSF on 17 July 2015.

More recently, representatives from PSALM, DOF, and OGCC attended the Case Management Conference (CMC) conducted in the English Courts in the United Kingdom last 09 November 2016 to determine the real issues in dispute and to discuss how the case would proceed.

As of 31 December 2016, there has been no reply from LBSF regarding PSALM's amended Defence and Counterclaim.

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

On 16 April 2010, PSALM 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 10 June 2010 with Assumption of Obligations between SMC and South Premiere Power Corporation (SPPC) was later approved and consented by PSALM on 16 June 2010.

On 26 June 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 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 Monthly Payments and Generation Payments. These payments are considered privatization proceeds by PSALM, 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'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 26 June 2010 up to 25 December 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 26 December 2012, payments made by SPPC covering generation payment bills for the billing period 26 December 2012 onwards (Period B) deviated from the provisions of Schedule J of the Administration Agreement. Accordingly, in compliance with the provisions of the IPP AA, PSALM sent the following demand letters to SPPC to collect for the unpaid outstanding generation payments covering Period B:

1. First demand letter dated 10 September 2013;
2. Second demand letter dated 20 October 2014; and
3. Final demand letter dated 06 August 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 02 September 2015, SPPC failed to settle its unpaid generation payment bills covering Period B, prompting PSALM to declare SPPC in Administrator Default and entitling PSALM to terminate the IPP AA as per Clauses 1.1 (f) "Definitions", and 19.1 "Administrator Default Termination" of the said Agreement.

On 04 September 2015, PSALM 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 26 December 2012 to 25 April 2015. With the termination, and in accordance with the Ilijan IPP AA, PSALM has also drawn on 04 September 2015 the USD60-million Performance Bond of SPPC. PSALM's action on Ilijan IPP AA was also supported by the Commission on Audit in its COA Audit Observation Memorandum No. 2015-01-2014 dated 23 March 2015.

However, on 08 September 2015, PSALM 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 10 September 2015, PSALM filed its Opposition to the Issuance of a TRO with Very Urgent Motion to Lift 72-Hour TRO. But on 11 September 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 (₱1 Million).

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

A Motion for Reconsideration to the 28 September 2015 Order granting Preliminary Injunction was filed by PSALM on 14 October 2015, followed by a Motion to Dismiss SPPC's Complaint on 15 October 2015. On 22 October 2015, PSALM received an Order dated 19 October 2015 granting Meralco's Motion to Intervene.

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

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

In the meantime, the outstanding amount due from SPPC for the generation payments under Period B as of 31 December 2016 has accumulated to ₱9,005,392,594, exclusive of VAT.

37.11 Nullification of the sale of Naga Power Plant to SPC Power Corporation

On 05 November 2015, 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.

In a decision, 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 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.

It will be recalled that PSALM 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 ₱1.09 billion. SPC offered the second highest bid of ₱859 million. However, SPC exercised its right to top the bid, offering PSALM 5 percent more at ₱1.143 billion.

However, in its 05 October 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 30 April 2014 Notice of Award in favor of TPVI; and (b) PSALM to execute the NPPC-APA and NPPC-LLA in favor of Therma Power Visayas Inc. with dispatch.

Both PSALM and SPC filed a Motion for Reconsideration. However, the Supreme Court in its 28 November 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.

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

On 20 May 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 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 18 June 2009, PSALM, 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 28 August 2009, PSALM held a public bidding for the Sual Coal-Fired Power Plant, where San Miguel Energy Corporation (SMEC) submitted the highest bid amount of USD 1.072 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 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, 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 18 June 2009.

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

On 02 March 2016, SMEC remitted PHP9.28 million to PSALM 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. PSALM, however, returned the entire amount, advising SMEC to faithfully comply with and adhere to its obligations under the IPPAA.

PSALM then filed a Motion for Set Preliminary Hearing on the Special and Affirmative Defenses on 23 September 2016. In this motion, PSALM requested that a hearing on its defenses be set so that the complaint may be dismissed without the rigors of trial. As of 31 December 2016, PSALM's motion is still pending resolution with the court. Next hearing is set on 08 and 22 February 2017.

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

PSALM 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 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.

37.14 Other Legal Proceedings Involving PSALM

In addition to the tax proceedings and formal assessments, PSALM 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 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 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. 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.
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 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.

CASE TITLE	NATURE
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 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

38. Restatement of Accounts

The presentation of figures in CY 2016 financial statements has made it necessary, for comparative purposes, to restate relevant figures in CY 2015.

39. Authorization for Issuance of the Financial Statements

The financial statements of the Corporation for the year ended 31 December 2016 were authorized for issue by the Board of Directors on 14 February 2017.