AboitizPower

APR 12 2019

SECURITIES AND EXCHANGE COMMISSION
Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City, 1307

ATTENTION : **DIR. VICENTE GRACIANO P. FELIZMENIO JR.**
Markets and Securities Regulation Department

via PSE EDGE
PHILIPPINE STOCK EXCHANGE, INC.
PSE Tower, 28th Street cor. 5th Avenue,
Bonifacio Global City, Taguig City

ATTENTION : **MS. JANET A. ENCARNACION**
Head, Disclosure Department

via electronic mail
PHILIPPINE DEALING & EXCHANGE CORP.
Market Regulatory Services Group
37/F, Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas, Makati City

ATTENTION : **ATTY. JOSEPH B. EVANGELISTA**
Head – Issuer Compliance and Disclosures Department

Gentlemen:

Attached is the SEC Form 17-A (Annual Report 2018) of Aboitiz Power Corporation for your files.

Kindly acknowledge receipt hereof.

Thank you.

Very truly yours,

ABOITIZ POWER CORPORATION
By:

MANUEL ALBERTO R. COLAYCO
Corporate Secretary

COVER SHEET

C 1 9 9 8 0 0 1 3 4

S.E.C. Registration Number

ABOITIZ POWER CORPORATION

(Company's Full Name)

32ND STREET, BONIFACIO GLOBAL CITY, TAGUIG CITY, METRO MANILA PHILIPPINES

(Business Address: No. Street City / Town / Province)

MANUEL ALBERTO R. COLAYCO	**02- 886-2338**
Contact Person	Company Telephone Number

Contact Person

	Annual Report	4th Monday of April
1 2 3 1	**1 7 - A**	**0 4 2 2**
Month *Day*	FORM TYPE	*Month* *Day*
Fiscal Year		Annual Meeting

N/A

Secondary License Type, if Applicable

SEC	N/A
Dept. Requiring this Doc	Amended Articles Number/Section

	x	
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = Pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the year ended **2018**

2. SEC Identification Number **C199800134** 3. BIR TIN **200-652-460-000**

4. Exact name of registrant as specified in its charter **Aboitiz Power Corporation**

5. **Philippines**
Province, country or other jurisdiction of incorporation

6. Industry Classification Code

7. **32nd Street, Bonifacio Global City, Taguig City** **1634**
Address of principal office Postal Code

8. **(02) 886-2800**
Issuer's telephone number, including area code

9. **N.A.**
Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Section 4 and 8 of the RSA.

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	**7,358,604,307**
Total Debt (as of December 31, 2018)	**₱216,498,606,000.00**

11. Are any or all of the securities listed on a Stock Exchange?

Yes (✓) No ( )

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange **Common**

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Securities Regulation Code (SRC) and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 25 and 177 of the Revised Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes (✓) No ( )

(b) has been subject to such filing requirements for the past 90 days.

Yes (✓) No ( )

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

    For 2018, aggregate voting stock of registrant held outside of its affiliates and/or officers and employees totaled 1,405,697,000 shares (for details please refer to the attached notes to financial statements and Schedule H of this report) while its market price per share was ₱35.10, as of December 31, 2018.

    Based on this data, total market value of registrant's voting stock not held by its affiliates and/or officers and employees was computed to be ₱49,339,964,700.00.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the registrant has filed all documents and reports required to be filed by Section 17 of the RSA subsequent to the distribution of securities under a plan confirmed by a court or the SEC.

    Yes ( ) No (✓)

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

    (a) Any annual report to security holders;

    (b) Any information statement filed pursuant to SRC Rule 20;

    (c) Any prospectus filed pursuant to SRC Rule 8.1.

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PART 1 – BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Business Development

Aboitiz Power Corporation ("AboitizPower" or the "Company") was incorporated on February 13, 1998 in Cebu City, Philippines as a private holding company with a corporate life valid for 50 years from date of incorporation, or until 2048. In 2013, AboitizPower transferred its principal address from Cebu City to its current principal address located at 32nd St., Bonifacio Global City, Taguig City. The Company retained it business address at Aboitiz Corporate Center, Gov. Manuel A. Cuenco Ave, Kasambagan, Cebu City.

Since its incorporation, AboitizPower has become a publicly-listed holding company that, through its Subsidiaries and Affiliates, is now a leader in the Philippine power industry and has interests in a number of privately-owned generation companies, retail electricity supply services, and distribution utilities throughout the Philippines, from Benguet in the north to Davao in the southern Philippines. As of December 31, 2018, its generation companies have an attributable net sellable capacity of 3,206 MW, which is equivalent to 17% market share of the national grid's installed generating capacity. The Company also owns interests in 9 distribution utilities in Luzon, Visayas, and Mindanao, including the second and third largest distribution utlities in the Philippines, Visayan Electric Company, Inc. (VECO) and Davao Light & Power Company, Inc. (Davao Light). AboitizPower's Subsidiaries engaged in the supply retail electricity sold a total of 5.32 TWh as of December 31, 2018.

As of December 31, 2018, AEV owns 76.88% of the outstanding capital stock of AboitizPower, 3.81% are owned by directors, officers and related parties, while the rest are owned by the public.

Neither AboitizPower nor any of its Subsidiaries has ever been the subject of any bankruptcy, receivership or similar proceedings.

Brief History

The Aboitiz Group's involvement in the power industry began when members of the Aboitiz family acquired 20% ownership interest in VECO in the early 1900s. In the 1930s, ACO acquired Ormoc Electric Light Company and its accompanying ice plant, Jolo Power Company, and Cotabato Light. In July 1946, the Aboitiz Group further strengthened its position in power distribution in Southern Philippines when it acquired Davao Light, which is now the third largest privately-owned electric utility in the Philippines in terms of customers and annual gigawatt hour (GWh) sales.

In December 1978, ACO divested its ownership interests in Ormoc Electric Light Company and Jolo Power Company and focused on the more lucrative franchises held by Cotabato Light, Davao Light, and VECO.

In response to the Philippines' pressing need for adequate power supply, the Aboitiz Group became involved in power generation, becoming a pioneer and industry leader in hydroelectric energy. In 1978, the Aboitiz Group incorporated HEDC, which carried out feasibility studies, conducted hydroelectric power installation and maintenance, and began developing hydroelectric projects, initially in and around Davao City. On June 26, 1990, the Aboitiz Group also incorporated Northern Mini-Hydro Corporation (now Cleanergy, Inc.), which focused on the development of mini- hydroelectric projects in Benguet province in northern Luzon. By 1990, HEDC and Cleanergy had commissioned and were operating 14 plants with combined installed capacity of 36 MW. In 1996, the Aboitiz Group led the consortium that entered into a Build-Operate-Transfer (BOT) agreement with the National Power Corporation (NPC) to develop and operate the 70-MW Bakun AC hydroelectric plant in Ilocos Sur ("Bakun AC Plant").

Growth Years

In 2003, to prepare for growth in the power generation industry, AboitizPower positioned itself as a holding company that owned power generation assets only. AboitizPower divested of its power distribution assets through a property dividend declaration in the form of AboitizPower's ownership interests in the different power distribution companies and transferred direct control over the power distribution business to AEV. Further, in 2005, AboitizPower consolidated its investments in mini-hydroelectric plants in a single company by transferring all of HEDC's and Cleanergy's mini- hydroelectric assets to Hedcor, Inc. (Hedcor).

In December 2006, the Company and its partner, Statkraft Norfund Power Invest AS of Norway, through SN Aboitiz Power-Magat, submitted the highest bid of US$530 million (mn) for the 360-MW Magat hydroelectric plant (Magat Plant) auctioned by the Power Sector Assets and Liabilities Management (PSALM) Corporation. PSALM turned over possession and control of the Magat Plant to SN Aboitiz Power-Magat on April 26, 2007.

In a share swap agreement with AEV on January 20, 2007, AboitizPower issued a total of 2,889,320,292 of its common shares in exchange for AEV's ownership interests in VECO (55%), Davao Light (100%), Cotabato Light (100%), SEZ (64%), and SFELAPCO (44%).

In February 2007, the Company, through its wholly-owned Subsidiary, Therma Power, Inc. (TPI), entered into a Memorandum of Agreement (MOA) with Taiwan Cogeneration International Corporation (TCIC) to collaborate in the building and operation of an independent coal-fired power plant in the Subic Bay Freeport Zone ("Subic Coal Project"). In May 2007, Redondo Peninsula Energy, Inc. (RP Energy) was incorporated as the project company that will undertake the Subic Coal Project. In July 2011, Meralco PowerGen Corporation (MPGC), TCIC, and TPI entered into a Shareholders' Agreement to formalize their participation in RP Energy. MPGC took the controlling interest in RP Energy, while TCIC and TPI maintained the remaining stake equally.

On April 20, 2007, the Company acquired 50% of the outstanding capital stock of East Asia Utilities Corporation (EAUC) from El Paso Philippines Energy Company, Inc. (El Paso Philippines). EAUC operates a 50 MW Bunker C-fired plant within the Mactan Export Processing Zone I (MEPZ I) in Mactan Island, Cebu. On the same date, the Company also acquired 60% of the outstanding common shares of Cebu Private Power Corporation (CPPC), which operates a 70-MW Bunker C-fired plant in Cebu City. On June 14, 2016, in line with its target to increase its attributable net sellable capacity to 4,000 MW by 2020, AboitizPower, through TPI, acquired the remaining 50% interest in EAUC from El Paso Philippines.

On June 8, 2007, as part of the reorganization of the power-related assets of the Aboitiz Group, the Company acquired from AboitizLand, a 100% interest in Mactan Enerzone Corporation (MEZ), and a 60% interest in Balamban Enerzone Corporation (BEZ). The Company also consolidated its ownership interests in SEZ by acquiring the combined 25% interest in SEZ held by AEV, SFELAPCO, Okeelanta Corporation (Okeelanta), and Pampanga Sugar Development Corporation (PASUDECO). These acquisitions were made through a Share Swap Agreement, which involved the issuance of the Company's 170,940,307 common shares issued at the initial public offering (IPO) price of ₱5.80 per share in exchange for the foregoing equity interests in MEZ, BEZ, and SEZ.

AboitizPower as a Publicly-listed Company

Ownership in AboitizPower was opened to the public through an IPO of its common shares in July 2007. Its common shares were officially listed on the PSE on July 16, 2007.

In August 2007, the Company, together with Vivant Energy Corporation (VEC), signed a MOA with Global Business Power Corporation (Global Power) of the Metrobank group for the construction and operation of a 3x82-MW coal-fired power plant in Toledo City, Cebu ("Cebu Coal Project"). TPI and Vivant Integrated Generation Corporation (VIGC) thereafter formed Abovant as the investment vehicle of their 44% equity interest in Cebu Energy Development Corporation (Cebu Energy), the project company of the Cebu Coal Project.

On November 15, 2007, AboitizPower closed the purchase of the 34% equity ownership in STEAG Power, owner and operator of a 232-MW coal-fired power plant located in PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. The Company won the competitive bid to buy the 34% equity in STEAG Power from Evonik Steag GmbH (formerly known as Steag GmbH) in August 2007. The total purchase price for the 34% equity in STEAG Power is US$102 mn, inclusive of interests.

On November 28, 2007, SN Aboitiz Power–Benguet submitted the highest bid (US$325 mn) for the Ambuklao-Binga Hydroelectric Power Complex, then consisting of the 75-MW Ambuklao hydroelectric power plant (HEPP) located in Bokod, Benguet and the 100-MW Binga hydroelectric power plant located in Itogon, Benguet.

In 2007, AboitizPower entered into an agreement to buy the 20% equity of Team Philippines Industrial Power II Corporation (formerly: Mirant (Phils.) Industrial Power II Corp.) (Team Philippines) in SEZ for ₱92 mn. Together with Davao Light's 35% equity in SEZ, this acquisition brought AboitizPower's total equity in SEZ to 100%.

In 2008, AboitizPower bought the 40% equity ownership of Tsuneishi Holdings (Cebu), Inc. (THC) in BEZ for approximately ₱178 mn. The acquisition brought AboitizPower's total equity in BEZ to 100%.

On May 26, 2009, AP Renewables Inc. (APRI) took over the ownership and operations of the 289-MW Tiwi geothermal power facility in Albay and the 458-MW Makiling-Banahaw geothermal power facility in Laguna (collectively referred to as the "Tiwi-MakBan Geothermal Facilities") after winning the competitive bid conducted by PSALM on July 30, 2008. Currently, the Tiwi-MakBan Geothermal Facilities have a sustainable capacity of approximately 693.2 MW.

On August 28, 2009, Therma Luzon, Inc. (TLI) won the competitive bidding for the appointment of the Independent Power Producer Administrator (IPPA) of the 700-MW (2x350 MW) contracted capacity of the Pagbilao Coal-Fired Power Plant ("Pagbilao Plant"). It assumed dispatch control of the Pagbilao Plant on October 1, 2009, becoming the first IPPA in the country, responsible for procuring the fuel requirements of, and for selling the electricity generated by the Pagbilao Plant.

AboitizPower, through its wholly-owned Subsidiary, Therma Marine, Inc. (TMI), assumed ownership over Mobile 1 (Power Barge 118) and Mobile 2 (Power Barge 117), both barge-mounted diesel-powered generation plants, on February 6, 2010 and March 1, 2010, respectively. TMI acquired these power barges from PSALM for US$30 mn through a negotiated bid concluded on July 31, 2009. Each of the power barges have a generating capacity of 100 MW. Mobile 1 and Mobile 2 are moored at Barangay San Roque, Maco, Compostela Valley and Nasipit, Agusan del Norte, respectively.

On May 27, 2011, Therma Mobile, Inc. (TMO) acquired from Duracom Mobile Power Corporation and East Asia Diesel Power Corporation four barge-mounted floating power plants located at Navotas Fishport, Manila, including their respective operating facilities. The barges, having a total installed capacity of 242 MW, underwent rehabilitation in July 2011, and started commercial operations on November 12, 2013 at a capacity of 100 MW.

In 2013, Aboitiz Energy Solutions, Inc. (AESI) won 40 strips of energy corresponding to 40 MW capacity of Unified Leyte Geothermal Power Plant (ULGPP). The notice of award was issued to AESI on January 29, 2014 and allowed AESI to sell 40 MW of geothermal power from ULGPP beginning January 1, 2015.

On March 31, 2014, Therma Power Visayas, Inc. (TPVI) was declared the highest bidder for the privatization of the Naga Power Plant Complex (NPPC) located in Colon, Naga City, Province of Cebu. SPC Power Corporation (SPC), the other bidder, exercised its right-to-top under the Naga Power Plant Land-Based Gas Turbine Land Lease Agreement, and PSALM declared SPC as the winning bidder. After protracted legal proceedings, TPVI accepted the turn-over for the NPPC plant on July 16, 2018.

On May 15, 2014, TPI entered into a Joint Venture Agreement with TPEC Holdings Corporation to form Pagbilao Energy Corporation (PEC). PEC is the project company that owns and operates the 400-MW Pagbilao Unit 3 (Pag3), located in the same site as the existing 700-MW Pagbilao Units 1 and 2 coal-fired thermal power plants in Pagbilao Quezon. PEC began commercial operations in March 2018.

On June 19, 2014, AboitizPower acquired 100% ownership interest in Lima Utilities Corporation, now Lima Enerzone Corporation (LEZ), from Lima Land, a wholly-owned Subsidiary of AboitizLand. LEZ is the Distribution Utility serving the Lima Technology Center (LTC) located in Lipa City, Batangas. LEZ manages a 50-megavolt ampere (MVA) substation with dual power supply system connected through a 69-kilovolt (kV) transmission line of the NPC. The LEZ substation is directly connected to the grid in Batangas City with an alternate connection to the MakBan geothermal line.

On August 28, 2014, TPI signed a Shareholders' Agreement with Vivant Group which owns 20% issued and outstanding shares of Therma Visayas, Inc. (TVI), the project company for the construction of the 2x150 MW circulating fluidized bed (CFB) coal-fired power plant in Barangay Bato, Toledo City, Cebu. The plant is currently in the testing and commissioning phase, but is experiencing technical issues with turbines that will delay commercial operation date (COD) of the first unit to June 2019 and the second unit to April of 2019.

On August 29, 2014, the SEC approved AboitizPower's application for the issuance of fixed-rate corporate retail bonds with an aggregate principal amount of up to ₱10 bn. The 2014 Bonds, which received the highest possible rating of "PRS Aaa" rating from the PhilRatings, were issued simultaneously in two series, the 7-year bonds with a fixed-interest rate of 5.205% per annum, and the 12-year bonds with a fixed-interest rate of 6.10% per annum. The 2014 Bonds are listed with the PDEx.

On August 18, 2015, Aboitiz Renewables entered into a Shareholders' Agreement with Sun Edison Philippines Helios BV (Sunedison Philippines) to jointly explore, develop, construct, and operate utility scale solar photovoltaic power generation projects in the Philippines. Their project vehicle, San Carlos Sun Power, Inc. (Sacasun), has undertaken the acquisition, development, and exploration of the 59-Megawatt peak (MWp) solar photovoltaic power generation project in San Carlos City, Negros Occidental. Following the voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code filed by Sunedison Inc. (SUNE), the parent company of Sunedison Philippines, on December 4, 2017, AboitizPower International acquired SunE Solar B.V.'s (SunE Solar) equity interest in Sunedison Philippines, resulting in the divestment by SUNE and its subsidiaries' participation in the Sacasun Project.

On September 18, 2015, TSI declared full commercial operations of the first of its two 150-MW units of the 300-MW CFB coal-fired power plants in Davao del Sur. TSI's Unit 1 delivered contracted power to more than twenty customers consisting of electric cooperatives and distribution utilities all over Mindanao. TSI's Unit 2 started full commercial operations on February 2, 2016.

On December 27, 2016, upon receipt of the PCC and BOI approvals, TPI completed the acquisition of all the partnership interest of The Blackstone Group, L.P. in GMCP and GNPD. TPI restructured its share ownership in GNPD and GMCP, through the transfer of direct ownership of GNPD and GMCP from the offshore Subsidiaries of TPI to TPI itself, and the eventual dissolution and liquidation of the offshore intermediary Subsidiaries that own the GNPD and GMPC shares. As of December 31, 2018, TPI directly owns 66.07% of the partnership interest in GMCP and 45% of the partnership interest in GNPD.

On March 23, 2017, the Company issued fixed-rate corporate retail bonds in the aggregate amount of up to ₱30 bn (the "2017 Bonds"), registered under the shelf registration program of the SEC, to be issued in tranches.

SEC issued the Order of Registration and Certificate of Permit to Offer Securities for Sale on June 19, 2017 for the Series "A" bonds. The bonds had an aggregate amount of ₱3 bn with a fixed interest rate of 5.3367% per annum and was listed with PDEx.

SEC issued the Certificate of Permit to Sell Securities on October 11, 2018 for the Series "B" and Series "C" bonds in the aggregate amount of ₱10 bn with an oversubscription option ₱5 bn. The Series "B" bonds has an interest rate of 7.5095% per annum, maturing in 2024, while Series "C" bonds has an interest rate of 8.5091% per annum, maturing in 2028. Same as the 2017 Bonds, PhilRatings assigned an issue credit rating of "PRS Aaa" with Stable Outlook for the bonds which were also listed with PDEx on October 25, 2018.

On January 15, 2018, Aseagas announced that it will permantly cease operations of its 8.8-MW biomass plant in Lian, Batangas. Aseagas has earlier suspended its commissioning on November 24, 2017 due to the unavailability of the supply of organic effluent wastewater from its supplier, Absolut Distillers, Inc. Aseagas also prepaid its outstanding loan with the Development Bank of the Philippines amounting to ₱3.7 bn.

AboitizPower plans to enter the rooftop solar business through APX1 and expand the renewable energy portfolio under its Cleanergy brand. AboitizPower's Cleanergy portfolio includes its geothermal, run-of-river hydro, and large hydropower facilities. AboitizPower first ventured into the solar market in 2016 with Sacasun. As of December 31, 2018, AboitizPower has 988 MW of net sellable capacity, through its partners, under its Cleanergy brand. The Company is pushing for a balanced mix strategy – maximizing Cleanergy while taking advantage of the reliability and cost efficiency of thermal power plants.

On August 24, 2018, APRI and Philippine Geothermal Production Company, Inc. (PGPC, formerly Philippine Geothermal Inc.) signed a Geothermal Resources Supply and Services Agreement with the supply of steam and drilling of new production wells in the Tiwi and MakBan Geothermal Complex. The agreement ensures competitive fuel pricing in the long term and is in line with APRI's commitment to deliver reliable and renewable power to its customers.

On September 26, 2018, AboitizPower and Arlington Mariveles Netherlands Holding B.V., an affiliate of AC Energy, Inc. ("AC Energy"), entered into a Share Purchase Agreement for AboitizPower's acquisition of 49% voting interest and 60% economic interest in AA Thermal. The AA Thermal platform initially consists of AC Energy's limited partnership interests in GMCP and in GNPD where AboitizPower, through its Subsidiary TPI, already holds direct partnership interests.

The acquisition was approved by the Philippine Competition Commission (PCC) on February 28, 2019, and completion is pending based on satisfaction of the remaining conditions precedent.

On January 4, 2019, TMO notified Manila Electric Company (MERALCO) that it will physically disconnect from MERALCO's system and will deregister as a Trading Participant in the Wholesale Electricity Spot Market (WESM) effective February 5, 2019. This is due to TMO's commercial inactivity since June 26, 2018, following the absence of an approved power supply agreement for its four barges. After evaluating the circumstances and the options available, TMO decided to preserve its bunker C-fired diesel power plants. Notices were also sent to PEMC, Department of Energy (DOE), Energy Regulatory Commission (ERC) and Independent Electricity Market Operator of the Philippines Inc. (IEMOP), following the applicable legal notice requirements.

Neither AboitizPower nor any of its Subsidiaries has been the subject of any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

(2) Business of Issuer

With investments in power generation, retail electricity supply, and power distribution throughout the Philippines, AboitizPower is considered one of the leading Filipino-owned companies in the power industry. Based on SEC's parameters of what constitutes a significant Subsidiary under Item XX of Annex B of SRC Rule 12, AboitizPower's significant Subsidiaries at present are ARI and TPI. (Please refer to Annex "A" hereof for AboitizPower's corporate structure.)

(a) Description of Registrant

(i) Principal Products

GENERATION OF ELECTRICITY

Since its incorporation in 1998, AboitizPower has accumulated interests in both renewable and non-renewable generation plants. As of December 31, 2018, the power generation business accounted for 82% of earning contributions from AboitizPower's business segments. AboitizPower conducts its power generation activities through the Subsidiaries and Affiliates listed in the table below.

The table below summarizes the Generation Companies' operating results as of December 31, 2018 compared to the same period in 2017 and 2016:

Generation Companies	Energy Sold			Revenue		
		2018	2016	2018	2017	2016
	(in GWh)			(in mn Pesos)		
APRI	2,857	2,747	2,688	12,518	11,645	10,334
Hedcor	172	162	140	694	821	776
LHC	291	272	263	970	774	801
Hedcor Sibulan	213	259	189	1,385	1,591	1,131
Hedcor Tudaya	32	41	30	191	240	180
Hedcor Sabangan	53	55	28	315	325	166
SN Aboitiz Power-Magat	2,379	1,324	923	7,182	8,298	6,308
SN AboitizPower-Benguet	2,085	989	867	6,070	6,996	6,307
TLI	6,808	5,126	5,091	26,603	22,939	19,661
TSI	1,959	1,647	1,640	11,141	10,535	8,869
Cebu Energy	1,978	1,724	1,723	9,724	8,752	7,966
STEAG Power	1,840	1,212	1,605	4,373	4,255	4,706
GMCP*	5,498	5,482	0	23,492	21,644	0
WMPC	438	221	355	1,393	1,439	1,636

Generation Companies	Energy Sold			Revenue		
		2018	2016	2018	2017	2016
	(in GWh)			(in mn Pesos)		
SPPC	161	50	155	161	524	633
CPPC	551	141	146	1,253	1,484	1,292
EAUC	368	63	90	819	844	725
TMI	1,432	182	917	2,016	2,076	4,268
TMO	814	286	336	1,694	3,111	2,911
Davao Light**	0	0	0	Revenue Neutral	Revenue Neutral	Revenue Neutral
Cotabato Light**	0	0	0	Revenue Neutral	Revenue Neutral	Revenue Neutral

** TPI completed the acquisition of GMCP on December 27, 2016.*

***Plants are operated as stand-by plants and are revenue neutral, with costs for operating each plant recovered by Davao Light and Cotabato Light, as the case may be, as approved by the ERC.*

Renewables

Aboitiz Renewables, Inc. (ARI)

Since the start of its operations in 1998, AboitizPower has been committed to developing expertise in renewable energy technologies. The Company believes that due to the growing concerns on the environmental impact of power generation using traditional fossil fuel energy sources, greater emphasis should be placed on providing adequate, reliable and reasonably priced energy through innovative and renewable energy technologies such as hydroelectric and geothermal. As such, a significant component of AboitizPower's future projects is expected to focus on those that will allow the Company to leverage its experience in renewable energy, while maintaining its position as a leader in the Philippine renewable energy industry.

As one of the leading providers of renewable energy in the country, AboitizPower holds all its investments in renewable energy through its wholly-owned Subsidiary, ARI. ARI was incorporated on January 19, 1995. AboitizPower, through and/ or with ARI, owns equity interests in the following Generation Companies, among others:

(a) 100% equity interest in Luzon Hydro Corporation (LHC), which operates the 70-MW Bakun AC Plant in Ilocos Sur in Northern Luzon;
(b) 100% equity interest in Hedcor, which operates 13 mini-hydroelectric plants (each with less than 10 MW in installed capacity) with a total capacity of 37.90 MW located in Benguet Province in Northern Luzon and in Davao City in Southeastern Mindanao;
(c) 100% equity interest in Hedcor Sibulan, Inc. (Hedcor Sibulan), which operates the Sibulan HEPP and Tudaya 1 HEPP in Davao del Sur with a total capacity of 49-MW;
(d) 100% equity interest in Hedcor Tudaya, Inc. (Hedcor Tudaya), which operates the 7-MW Tudaya 2 HEPP in Davao del Sur;
(e) 100% equity interest in Hedcor Sabangan, Inc. (Hedcor Sabangan), which operates the 14-MW Sabangan run-of- river HEPP in Sabangan, Mountain Province;
(f) 100% equity interest in Hedcor Bukidnon, Inc. (Hedcor Bukidnon), which operates the 68.8-MW run-of-river HEPP in Manolo Fortich, Bukidnon;
(g) 83.33% equity interest in Manila-Oslo Renewable Enterprise, Inc. (MORE), which owns SN Aboitiz Power-Magat, the company that operates the 360-MW Magat HEPP and the 8.5-MW Maris Plant in Isabela in Northern Luzon; and SN Aboitiz Power-Benguet, the company that operates the 245-MW Ambuklao-Binga Hydroelectric Power Complex in Northern Luzon;
(h) 100% equity interest in APRI, which owns and operates the 344-MW Tiwi-MakBan geothermal facilities located in Albay, Laguna and Batangas;
(i) 100% beneficial ownership interest in Sacasun, the company that owns and operates the 59-MWp utility-scale solar photovoltaic solar project in San Carlos City, Negros Occidental; and
(j) 100% equity interest in Aseagas, the company that owns the biomass plant in Lian, Batangas, which has ceased operations.

Run-of-River Hydros

Luzon Hydro Corporation (LHC)

Incorporated on September 14, 1994, LHC owns, operates and manages the 70-MW Bakun AC run-of-river hydropower plant located in Amilongan, Alilem, Ilocos Sur.

LHC was previously ARI's joint venture company with Pacific Hydro of Australia, a privately-owned Australian company that specialized in developing and operating power projects utilizing renewable energy sources. On March 31, 2011, ARI, LHC, and Pacific Hydro signed a MOA granting ARI full ownership over LHC. ARI assumed 100% ownership and control of LHC on May 10, 2011.

LHC's Bakun AC Hydro Plant was constructed and operated under the government's build-operate-transfer (BOT) scheme. As such, the 254 GWh of energy produced by the Bakun AC Hydro Plant annually, is delivered and taken up by NPC pursuant to a Power Purchase Agreement ("Bakun PPA") and dispatched to the Luzon Grid through the 230- kV Bauang-Bakun transmission line of NGCP. Under the terms of the Bakun PPA, all of the electricity generated by the Bakun AC Hydro Plant is purchased by NPC for a period of 25 years beginning February 2001. The Bakun PPA also requires LHC to transfer the Bakun AC Hydro Plant to NPC in February 2026, free from liens and without the payment of any compensation by NPC.

The IPPA contract for the Bakun AC Hydro Plant was awarded to Northern Renewables (formerly Amlan Power Holdings Corporation) following a competitive bidding process conducted by PSALM.

The Bakun AC Hydro Plant ISO 55001:2014 certified. It is also currently ISO-certified on Quality, Environmental, Operational Health and Safety, and Information Security.

Hedcor, Inc. (Hedcor)

Hedcor owns, operates, and manages run-of-river hydropower plants in Northern Luzon and Davao City with a combined net sellable capacity of 36.52 MW.

Hedcor was incorporated on October 10, 1986 by ACO as Baguio-Benguet Power Development Corporation. ARI acquired ACO's 100% ownership interest in Hedcor in 1998.

In 2005, ARI consolidated all of its mini-hydroelectric generation assets, including those developed by HEDC and Cleanergy, in Hedcor. The electricity generated from Hedcor's hydropower plants are taken up by NPC, AdventEnergy, and Davao Light pursuant to Power Purchase Agreements (PPAs) with the said off-takers. Irisan 1 is selling under the Feed-in-Tariff (FIT) mechanism through a Renewable Energy Payment Agreement (REPA) with National Transmission Corporation (Transco). The remaining electricity is sold through the Wholesale Electricity Spot Market (WESM).

Northern Luzon's climate is classified as having two pronounced seasons - dry from November to April and wet for the rest of the year. Due to this classification, generation levels of Hedcor's plants, particularly those located in Northern Luzon, are typically lower during the first five months of each year. In 2018, Hedcor's hydropower plants generated a total of 149 GWh of Cleanergy, its brand for clean and renewable energy.

In 2017, Hedcor broke ground on its Bineng Combination Hydro project in La Trinidad, Benguet. It will replace Bineng 1, 2, and 2B, which originally had a combined capacity of 6 MW, with a new facility and is expected to produce 19 MW of hydro power of which 100% is attributable to AboitizPower. The plant is targeted commercial operations in July 2019 and is expected to be FIT-eligible.

Hedcor Sibulan, Inc. (Hedcor Sibulan)

Incorporated on December 2, 2005, Hedcor Sibulan is a wholly-owned Subsidiary of ARI and owns, operates and manages the 49.23-MW hydropower plants collectively known as "Sibulan Plants" in Sibulan, Santa Cruz, Davao del Sur.

The Sibulan plants are composed of three cascading plants: Sibulan Hydro A which produces 16.32 MW; Tudaya Hydro 1 which produces 6.7 MW; and Sibulan Hydro B which produces another 26.25 MW by re-using the water from Sibulan A Hydro and Tudaya 1 Hydro. The ERC renewed the Certificates of Compliance (COC) for Tudaya Hydro 1 on March 10, 2014, and for the Sibulan Hydro A and B plants on May 18, 2015. Since 2007, the energy produced by the Sibulan Plants has been sold to Davao Light through a Power Supply Agreement (PSA).

On September 12, 2012, DOE awarded Tudaya 1 with a Renewable Energy Service Contract (RESC) which allowed Hedcor Sibulan to avail of the incentives under the Republic Act No. 9513 or the Renewable Energy Act of 2008 (RE Law) for 7 years.

In 2017, Hedcor Sibulan and Hedcor Tudaya obtained the very first ISO 55001:2014 certification which certifies for the Asset Management Standard in the Philippines, proving that the companies have an integrated and effective management system for its assets.

Hedcor Tudaya, Inc. (Hedcor Tudaya)

Incorporated on January 17, 2011, Hedcor Tudaya is a wholly-owned Subsidiary of ARI and owns, operates, and manages the 7-MW Tudaya Hydro 2 run-of-river hydropower plant in Astorga, Santa Cruz, Davao del Sur. Commercially operating since March 2014, Tudaya Hydro 2 is currently selling energy under the FIT mechanism through a Renewable Energy Supply Agreement (RESA) with Davao del Sur Electric Cooperative, and through a REPA with Transco.

Together with Hedcor Sibulan, Hedcor Tudaya was awarded the very first ISO certification for Asset Management or the ISO 55001:2014 standard in the Philippines in 2017, certifying that the company has an integrated and effective management system for its assets.

Hedcor Sabangan, Inc. (Hedcor Sabangan)

Incorporated on January 17, 2011, Hedcor Sabangan is a wholly-owned Subsidiary of ARI and owns, operates and manages the 14-MW Sabangan run-of-river HEPP in Sabangan, Mountain Province. The Sabangan Hydro Plant has been commercially operating since June 2015, and is selling under the FIT mechanism through a REPA with Transco. The plant is a pioneer hydropower plant in the Mountain Province region, harnessing the power of the Chico River.

Hedcor Bukidnon, Inc. (Hedcor Bukidnon)

Incorporated on January 17, 2011, Hedcor Bukidnon is a wholly-owned Subsidiary of ARI and owns, operates, and manages the Manolo Fortich hydropower plants with a combined net sellable capacity of 68.8 MW (“Manolo Fortich Plant”) located in Manolo Fortich, Bukidnon.

The Manolo Fortich Plant is composed of two plants: the 43.4-MW Manolo Fortich Hydro 1 and the 25.4-MW Manolo Fortich Hydro 2. Both plants produce at least 354 GWh annually. The construction of the Manolo Fortich project was brought to completion in 2018, with the total project costing estimated at ₱13 bn.

Large Hydros

SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat)

Incorporated on November 29, 2005, SN Aboitiz Power-Magat is the owner and operator of the 360-MW Magat HEPP ("Magat Plant") located at the border of Ramon, Province of Isabela and Alfonso Lista, Ifugao in Northern Luzon, and the 8.5-MW run-of-river Maris Main Canal 1 HEPP ("Maris Plant") located in Brgy. Ambatali in Ramon, Isabela.

The Magat Plant was completed in 1983 and was acquired by SN Aboitiz Power-Magat on December 14, 2006 after winning a bidding process conducted by PSALM. As a hydroelectric facility that can be started up in a short period of time, the Magat Plant is suited to act as a peaking plant with the capability to capture the significant upside potential that can arise during periods of high demand. This flexibility allows for the generation and sale of electricity at the peak demand hours of the day. This hydroelectric asset has minimal marginal costs, which AboitizPower believes gives it a competitive advantage in terms of economic dispatch order versus other fossil fuel-fired power plants that have significant marginal costs. The Magat Plant has a nameplate capacity of 360 MW but is capable of producing up to 380 MW.

The Magat reservoir has the ability to store water equivalent to 17 days of 24 hours of full generating capacity. The Magat Plant's source of upside—water as a source of fuel and the ability to store it—is also its source of limited downside. SN Aboitiz Power-Magat is an accredited provider of much needed Ancillary Services (AS) to the Luzon Grid, selling a significant portion of its available capacity to the WESM System Operator of the Luzon Grid. SN Aboitiz Power-Magat's remaining capacity is sold as electric energy to the spot market through the WESM and to load customers through bilateral contracts.

In 2009, SN Aboitiz Power-Magat began the refurbishment project of Unit 2, which was completed in January 2018. The refurbishment projects involved the replacement of power transformers and related equipment, as well as automation of its control systems. These aimed to overhaul the plant's electro-mechanical equipment and avert operational inefficiencies that usually occur in HEPPs after more than 25 years of operation. Half-life refurbishment is a good industry practice to ensure that the plants remain available throughout their lifespan.

The company's COC was issued in December 2015 which is valid for five years or until November 28, 2020.

The mild La Niña phenomenon experienced during the last quarter of 2017 up to the first quarter of 2018 resulted in higher than normal inflows from January to April. The La Niña episode ended in the first half of 2018, with inflows experienced in the Magat dam higher by 10% compared to the historical normal. In the second half of 2018, third quarter inflows were above normal, but the fourth quarter had below normal inflows due to the impending El Niño. Overall, for 2018, Magat dam experienced water availability that is 10% higher than normal. However, 2018 inflows in Magat dam were 14% lower compared to the high inflow experienced in 2017.

Driven by lower water inflows, the Magat Plant's total sold capacity from spot energy generation and AS decreased by 8% in 2018 at 2.26 Terawatt-hour (TWh) from 2.46 TWh in 2017. This is equivalent to sold capacity factor of 68% in 2018 compared to 75% in 2017. This resulted to spot and AS revenue of ₱6.23 bn in 2018, or 12% lower than the revenue of ₱7.06 bn in 2017. Bilateral Contract Quantity (BCQ) revenue in 2018 associated with SN Aboitiz Power- Magat is ₱550 mn, or 21% lower than in 2017 (₱698 mn).

In partnership with the Department of Energy (DOE), the Safety and Health Association of the Philippines Energy Sector, Inc. (SHAPES) declared SN Aboitiz Power - Magat a Hall of Famer during the DOE's 2018 Corporate Safety and Health Excellence Awards, recognizing its exemplary occupational health and safety performance for three consecutive years from 2016-2018. Magat HEPP of SN Aboitiz Power - Magat recorded nearly 1.18 mn manhours without lost time incident. Several SN Aboitiz Power - Magat safety professionals were also feted for being instrumental in implementing safety and health policies that helped the company attain zero lost time accident.

SN Aboitiz Power-Magat implemented the Integrated Management System, consisting of the ISO 14001 Environmental Management System, the ISO 9001 Quality Management System, the transition from OHSAS 18001 Occupational Health & Safety Management System to ISO 45001, and the ISO 55001 Asset Management System, as verified and audited by DQS Philippines in 2018.

SN Aboitiz Power-Magat is ARI's joint venture with SN Power, a leading Norwegian hydropower company with projects and operations in Asia, Africa, and Latin America. MORE owns 60% of the company while SN Power Philippines Inc. (SN Power Philippines) owns the remaining 40%.

SN Aboitiz Power-Benguet, Inc. (SN Aboitiz Power-Benguet)

Incorporated on March 12, 2007, SN Aboitiz Power-Benguet is the owner and operator of the Ambuklao-Binga Hydroelectric Power Complex, which consists of the 105-MW Ambuklao HEPP ("Ambuklao Plant") and the 140-MW Binga HEPP ("Binga Plant"), located in Brgy. Tinongdan, Itogon, Benguet Province.

On March 2017, SN Aboitiz Power-Benguet received its amended COC from the ERC for all four units of the Binga Plant. The amended COC reflects the increase of Binga's capacity from 130 MW (35 MW for each of the four units) to 130.08 MW (35.02 MW for each unit).

The mild La Niña phenomenon experienced during the last quarter of 2017 up to the first quarter of 2018 resulted to higher than normal inflows from January to June. This ended the first half of 2018, with inflows to the Benguet dams higher by 42% as compared to the historical normal. In the second half of 2018, third quarter inflows were way above normal due to the Habagat-fueled typhoons, while the fourth quarter experienced below normal inflows due to the El Niño manifestations. This resulted to the Benguet dams ending 2018 with 57% higher than the normal water availability and for all of 2018 the Benguet dams nearly doubled the 2017 inflows.

Although inflows were higher in the Ambuklao reservoir in 2018 as compared to 2017, there was an overall lower AS Capacity Approval and Spot Sales for Benguet. Ambuklao Plant's total sold capacity from spot energy generation and Ancillary Services (AS) decreased by 0.74% at 810 GWh in 2018 as compared to 816 GWh in 2017. This is equivalent to sold capacity factor of 88% in 2018, as compared to 89% in 2017.

Similarly, Binga Plant's total sold capacity from spot energy generation and AS in 2018 is at 1.1 TWh as compared to 1.18 GWh in 2017. This is equivalent to sold capacity factor of 90% in 2018 compared to 96% in 2017.

The resulting combined spot and AS revenue of the Ambuklao and Binga Plants for 2018 was ₱4.9 bn, which is 7% lower than the revenue of ₱5.29 bn in 2017. BCQ revenue in 2018 associated with SN Aboitiz Power-Benguet was ₱553 mn, 22% lower than that of 2017 (₱707 mn).

SN Aboitiz Power-Benguet was also declared as a Hall of Famer by DOE during the DOE's 2018 Corporate Safety and Health Excellence Awards for its exemplary occupational health and safety performance for three consecutive years from 2016-2018. The Ambuklao and Binga Hydroelectric Power Plants (HEPP) jointly have more than 3.79 mn man hours of having no lost time incident and several safety professionals were also feted for being instrumental in implementing safety and health policies that helped the company attain zero lost time accident.

Both the Ambuklao and Binga Plants have implemented their Integrated Management System (ISO 14001 Environmental Management System, ISO 9001 Quality Management System, and OHSAS 18001 Occupational Health & Safety Management System) and have retained their management system certificates. SN Aboitiz Power-Benguet Inc. was also successfully certified on ISO 55001 for Asset Management last March 14, 2018.

SN Aboitiz Power-Benguet is also a joint venture between ARI and SN Power. The company is 60% owned by MORE, while the remaining 40% is owned by SN Power Philippines.

SN Aboitiz Power-Generation, Inc. (SN Aboitiz Power-Gen)

Incorporated on March 10, 2011, SN Aboitiz Power-Gen implements the SN Aboitiz Power Group's Greenfield Development Program. This program aims to grow the SN Aboitiz Power Group's renewable energy portfolio by looking at potential hydroelectric power projects in the Philippines, primarily within its current host communities in Northern Luzon.

There is a pipeline of projects in various stages from initial prospecting, pre-feasibility, feasibility, construction, including the recently completed Maris Plant which was transferred to SN Aboitiz Power-Magat. As of the end of 2018, SN Aboitiz Power-Gen's significant project is the proposed 380-MW Alimit Hydropower Complex Project in Ifugao. The project consists of the 120-MW Alimit hydropower plant, the 250-MW Alimit pumped storage facility (on hold due to market constraints), and the 20-MW Olilicon hydropower plant. The technical part of the feasibility study is completed and all agreements with the indigenous peoples (IPs)/indigenous cultural communities (ICCs) related to the Free Prior and Informed Consent (FPIC) are also concluded. SN Aboitiz Power-Gen is now processing the application for the approval of the FPIC process as it continues to work with the government, IP/ICC representatives, and industry partners.

The company was awarded the 2017 Corporate Safety Milestone Award for its proposed Alimit project, which accumulated at least one mn man-hours without lost time incident. It was also recognized for the safe conduct of activities associated with its feasibility study.

SN Aboitiz Power-Gen is a joint venture between ARI and SN Power. It is currently 60% owned by MORE with the remaining 40% owned by SN Power Philippines.

Geothermal

AP Renewables, Inc. (APRI)

Incorporated on March 9, 2007, APRI is a wholly-owned Subsidiary of ARI and one of the leading renewable power companies in the country. It owns and operates the Tiwi-MakBan geothermal facilities located in Tiwi, Albay, Bay and Calauan, Laguna and Sto. Tomas, Batangas ("Tiwi-MakBan Plants") with a total potential capacity of 693.2 MW. The Tiwi-MakBan Plants were acquired by APRI from PSALM in July 2008 and were formally turned over to APRI on May 25, 2009.

The Tiwi-MakBan Plants produce clean energy that is reasonable in cost, efficient in operation and environment- friendly. As a demonstration of APRI's commitment to providing world-class services, adhering to environmental management principles to reduce pollution, complying with regulations, and ensuring a safe and healthy workplace, the company has been issued Integrated Management System (IMS) certifications by TÜV Rheinland Philippines that include the International Organization for Standardization (ISO) 9001:2015 (Quality), ISO 14001:2015 (Environment), and OSHAS (Occupational Health and Safety Series) 18001:2007 (Health and Safety).

On August 24, 2018, APRI and Philippine Geothermal Production Company, Inc. ("PGPC") signed a Geothermal Resources Supply and Services Agreement ("GRSSA") for the supply of steam and drilling of new production wells for the Tiwi-MakBan Plants thereby ensuring the long-term operations of the facilities. Under the GRSSA, PGPC will drill at least 12 new production wells over a six-year period to increase steam availability. The GRSSA also ensures a more equitable and competitive fuel pricing in the long run.

APRI's geothermal facilities have generally operated at par or better than industry standards. The company routinely evaluates and implements various projects while improving coordination with PGPC to improve efficiency levels and counteract the challenges of a declining steam supply.

Solar

Maaraw Holdings San Carlos, Inc. (Maaraw San Carlos)

Maaraw San Carlos was incorporated on April 24, 2015 as the holding company of Sacasun.

AboitizPower, through its wholly owned Subsidiaries ARI and AboitizPower International, effectively owns 100% of the company.

San Carlos Sun Power Inc. (Sacasun)

Sacasun was incorporated on July 25, 2014, initially as a joint venture between ARI and SunEdison Philippines, a Dutch company. On December 4, 2017, AboitizPower International acquired SunE Solar B.V.'s equity interest in SunEdison Philippines, resulting in AboitizPower's 100% effective equity ownership in Sacasun.

Sacasun owns and operates the 59-MWp solar photovoltaic power generation plant located in the San Carlos Ecozone, Barangay Punao, San Carlos City, Negros Occidental ("Sacasun Plant").

As a renewable energy developer, Sacasun participates in the renewable energy market and other initiatives which promote utilization of renewable energy resources. The energy generated from the Sacasun Plant benefits more than 8,000 homes. The company believes in producing clean energy for sustainable development and inclusive growth of its communities within a shared environment.

Aboitiz Power Distributed Energy, Inc. (APX1) and Aboitiz Power Distributed Renewables Inc. (APX2)

Incorporated in November 2016, APX1 is the project company which, together with APX2 (formerly Kookabura Equity Ventures, Inc.) (collectively, APX), will engage in the business of operating light and power systems. APX1 and APX2 are wholly-owned subsidiaries of ARI.

During their first year of operation, APX1 and APX2 focused on building internal capability to serve various market segments, attracting top technical talent for photovoltaic (PV) solar technology, and defining synergies within the Aboitiz Group.

In February 2018, a 100 kW installation atop the roof of the Aboitiz Corporate Office at Banilad, Cebu City was completed by APX to signal the entry of the AboitizPower Group into Behind the Meter (BTM), distributed energy solutions such as rooftop solar. This was shortly followed by the announcement of a 1.5 MW rooftop solar solution for The Outlets at Lipa in Lima Technology Center which was completed and commissioned in December 2018. Through this project, revenue will be secured for the next 20 years starting January 2019.

Several customers in various locations across Luzon and Visayas have also agreed with APX to go solar. By creating sales channels through relationships with the RES and Distribution Utility teams within the AboitizPower Group, APX expects to advance its pipeline nationwide in 2019.

Non-Renewables

Therma Power, Inc. (TPI)

Incorporated on October 26, 2007, TPI is a wholly-owned Subsidiary of AboitizPower and is holding company for AboitizPower's non-renewable energy projects. AboitizPower, through and/or with TPI, has equity interests in the following generation companies, among others:

(a) 100% equity interest in TMI, owner and operator of 100-MW Mobile 1 barge-mounted power plant in Maco, Compostela Valley and 100-MW Mobile 2 barge-mounted power plant in Nasipit, Agusan del Norte;
(b) 100% equity interest in TMO, owner and operator of Mobile 3–6 barge-mounted power plants in Navotas Fishport, Manila, with a total generating capacity of 242 MW;
(c) 100% equity interest in EAUC, owner and operator of a 50-MW Bunker C-fired power plant in MEPZ 1, Mactan, Cebu;
(d) 100% equity interest in TLI, the IPPA of the 700-MW contracted capacity of the Pagbilao Plant located in Quezon Province;
(e) 100% equity interest in TSI, owner and operator of a 300-MW circulating fluidized bed (CFB) coal-fired power plant in Toril, Davao City;
(f) 100% equity interest in TPVI, the project company for the Naga Power Plant Complex (NPPC), located in Naga City, Cebu;
(g) 80% equity interest in TVI, which is currently building a 340-MW coal-fired power plant in Toledo City, Cebu;
(h) 66.07% beneficial ownership interest in GMCP, owner and operator of an approximately 2x316 MW (net) pulverized coal-fired electric power generation facility in Mariveles, Bataan;
(i) 45% beneficial ownership interest as of December 31, 2018 in GNPD, which is currently building a 2x668 MW (net) supercritical coal-fired power plant in Bataan;
(j) 50% equity interest in PEC, owner and operator of the 420-MW coal-fired power plant in Pagbilao, Quezon Province;
(k) 26.4% beneficial ownership interest in Cebu Energy, which operates a 3x82-MW coal-fired power power plant in Toledo City, Cebu; and
(l) 25% equity interest in RP Energy, the project company for the power plant project at the Redondo Peninsula located in the Subic Bay Freeport Zone (SBFZ).

Oil Group

Therma Marine, Inc. (TMI)

Incorporated on November 12, 2008, TMI is a wholly-owned Subsidiary of TPI and owns and operates Power Barges Mobile 1 (previously known as PB 118) and Mobile 2 (previously known as PB 117), with a total generating capacity of 200 MW. Mobile 1 is currently moored at Barangay San Roque, Maco, Compostela Valley, while Mobile 2 is moored at Barangay Sta. Ana, Nasipit, Agusan del Norte.

The 192.2-MW dependable capacities of Mobile 1 and Mobile 2 are currently being fully contracted and sold to various cooperatives, industrial and commercial customers in Mindanao under ERC-approved Energy Supply Agreements (ESAs). The ESAs have been extended with expiry dates ranging from 2019 to 2021.

Therma Mobile, Inc. (TMO)

Incorporated on October 20, 2008, TMO is a wholly-owned Subsidiary of TPI and owns and operates four barge- mounted power plants located at the Navotas Fish Port, Manila, with a total installed generating capacity of 242 MW.

On January 7, 2019, TMO notified MERALCO that it will physically disconnect from MERALCO's system and will deregister as a Trading Participant in the WESM effective February 5, 2019. This was due to TMO's commercial inactivity since June 26, 2018, following the absence of an approved power supply agreements for its four barges. After evaluating the circumstances and the options available, TMO decided to preserve its bunker C-fired diesel power plants. Notices were also sent to PEMC, DOE, ERC and IEMOP, following applicable legal notice requirements.

East Asia Utilities Corporation (EAUC)

Incorporated on February 18, 1993, EAUC is a wholly-owned Subsidiary of TPI and is the owner and operator of a Bunker C-fired power plant in Mactan Economic Processing Zone I (MEPZ I), Lapu-Lapu City, Cebu. It has been operating the plant since 1997 and has been supplying power through the WESM since 2010.

Therma Power Visayas, Inc. (TPVI)

Incorporated on October 8, 2007, TPVI is a wholly-owned Subsidiary of AboitizPower and successfully bid for the NPPC.

Following protracted legal proceedings, on May 18, 2018 PSALM issued a Certificate of Effectivity of the Notice of Award originally issued in April 30, 2014 in favor to TPVI. Therafter, PSALM and TPVI executed the Asset Purchase Agreement and Land Lease Agreement of the NPPC.

On July 16, 2018, PSALM physically turned over the NPPC to TPVI. TPVI is currently working on the rehabilitation of the NPPC.

Cebu Private Power Corporation (CPPC)

Incorporated on July 13, 1994, CPPC owns and operates a 70-MW Bunker C-fired power plant located in the Old VECO Compound, Cebu City ("CPPC Plant"). It is one of the largest diesel powered plants on the island of Cebu and is located within the franchise area of VECO. Commissioned in 1998, the CPPC Plant was constructed pursuant to a BOT contract to supply 61.72 MW of power to VECO.

CPPC is a joint venture company between AboitizPower and the Vivant Group. AboitizPower beneficially owns 60% of CPPC.

Southern Philippines Power Corporation (SPPC)

Incorporated on March 15, 1996, SPPC owns and operates a 55-MW Bunker C-fired power plant ("SPPC Plant") located in Alabel, Sarangani, a municipality outside General Santos City in Southern Mindanao.

SPPC currently supplies power to electric utilities and cooperatives pursuant to PSAs approved by the ERC. These utilities and cooperatives pay SPPC on a monthly basis for the fuel costs, capital recovery, energy, and fixed and variable operations and maintenance fees as specified in the PSAs.

SPPC is a joint venture company of AboitizPower, Alsing Power Holdings, Inc., and Tomen Power (Singapore) Pte. Ltd. AboitizPower has 20% equity interest in SPPC.

Western Mindanao Power Corporation (WMPC)

Incorporated on March 15, 1996, WMPC owns and operates a 100-MW Bunker C-fired power station ("WMPC Plant") located in Zamboanga City, Zamboanga Peninsula in Western Mindanao.

WMPC currently supplies power electric utilities and cooperatives pursuant to PSAs approved by the ERC. These utilities and cooperatives pay WMPC on a monthly basis for the fuel costs, capital recovery, energy, and fixed and variable operations and maintenance fees as specified in the PSAs.

WMPC is a joint venture company of AboitizPower, Alsing Power Holdings, Inc., and Tomen Power (Singapore) Pte. Ltd. AboitizPower has a 20% equity interest in WMPC.

Coal Group

Therma Luzon, Inc. (TLI)

Incorporated on October 20, 2009, TLI is a wholly-owned Subsidiary of TPI and was the first IPPA in the country and has been the registered trader of the contracted capacity of the 764-MW (2x382 MW) (gross) Pagbilao coal-fired thermal power plant located in Pagbilao, Quezon ("Pagbilao Plant" or "Pag1" and "Pag2") since October 1, 2009.

As the IPPA for the Pagbilao Plant, TLI is responsible for procuring the fuel requirements of, and selling the electricity generated by, the Pagbilao Plant. The Pagbilao Plant is owned and operated by TeaM Energy Corporation (TeaM Energy). Under the IPPA Agreement, TLI has the right to receive the transfer of Pag1 and Pag2 at the end of the Energy Conversion Agreement (ECA).

TLI's capacity has been contracted to various cooperatives, private distribution utilities, directly connected customers, and to an Affiliate Retail Electricity Supplier (RES), AESI. AESI, in turn, sells the power to Contestable Customers under the Retail Competition and Open Access (Open Access) regime. The diversification of the customer base spreads the risk of TLI. Most of these bilateral contracts have terms ranging between two to 20 years. A significant number of TLI's Open Access customers consume most of their energy during off-peak periods. This results in a customer mix with a high load factor.

Currently, TLI is undertaking the necessary procedure to secure its own license to operate as a RES. With this license, TLI will be able to sell, broker, market, and/or aggregate electricity to Contestable Customers and participate in the competitive retail electricity market.

Pagbilao Energy Corporation (PEC)

Incorporated on April 30, 2012, PEC owns and operates the third coal-fired power plant within the Pagbilao Plant facilities located in Pagbilao, Quezon, with a net capacity of 400 MW ("Pag3").

Pursuant to their Joint Development Agreement effective May 31, 2012, TPI and TeaM Energy formed PEC as a separate vehicle for Pag3 and as a separate entity from TLI. As such PEC is not covered by TLI's IPPA with PSALM, or TeaM Energy's BOT contract with NPC/PSALM. An Environmental Compliance Certificate (ECC) was issued by the Department of Environment and Natural Resources – Environmental Management

Bureau (DENR-EMB) on June 18, 2013.

In 2014 PEC entered into an Engineering, Procurement and Construction (EPC) contract with a consortium comprised of Mitsubishi Hitachi Power Systems Ltd., Daelim Industrial Co. Ltd., DESCO Inc., and Daelim Philippines Inc. for the project. It started commercial operations in March 2018.

AboitizPower effectively owns 50% of PEC, while TPEC Holdings Corporation owns the remaining 50%.

Therma South, Inc. (TSI)

Incorporated on November 18, 2008, TSI is a wholly-owned Subsidiary of TPI and owns and operates the 300-MW (2x150MW) (gross) CFB coal-fired power plant located both in Barangay Binugao, Toril District, Davao City and Barangay Inawayan, Sta. Cruz, Davao del Sur.

TSI declared commercial operations for Unit 1 and Unit 2 in September 2015 and February 2016, respectively. Formal inauguration of Unit 2 was held on January 8, 2016.

TSI contributes to the continuing growing power requirements of Mindanao by providing stable and cost-effective base load power. TSI has currently contracted out 260 MW of energy and has 22 different approved Power/Energy Supply Agreements with various private distribution utilities and energy cooperatives.

The company seeks to sustain the positive impact it has brought its host communities through various educational, livelihood, and enterprise development programs, benefitting children, students, small and medium business enterprise owners, and most notably its employees.

Therma Visayas, Inc. (TVI)

TVI is the project company for the 2x169 (gross) MW CFB coal-fired power plant located in Barangay Bato, Toledo City, Cebu.

TVI aims to address the increasing power demand of the Visayas Grid with provisions for the future addition of a third generating unit.

In May 2014, TVI signed an EPC contract with Hyundai Engineering Co., Ltd. and Galing Power Energy Co., Inc. The 2x170-MW coal-fired power plant is currently in the testing and commissioning phase, but has experienced technical issues that will delay Commercial Operation Date (COD) of the first unit to June 2019 and the second unit to April 2019.

AboitizPower, through TPI, effectively owns 80% of TVI. The remaining 20% is held by Vivant Group through VIGC and VEC.

Abovant Holdings, Inc. (Abovant) and Cebu Energy Development Corporation (Cebu Energy)

Incorporated on November 28, 2007, Abovant is a joint venture company between AboitizPower and the Vivant Group. Abovant was formed as the holding company for shares in Cebu Energy.

Cebu Energy was incorporated on December 5, 2008 by Abovant and Global Formosa Power Holdings, Inc. (Global Formosa), a joint venture between Global Business Power Corporation and Flat World Limited, to own, operate and maintain a 3x82 MW CFB coal-fired power plant situated within the Toledo Power Complex in Barangay Daanlungsod, Toledo City, Cebu. The first 82 MW unit was commissioned in February 2010, while the second and third units were commissioned in the second and fourth quarter of 2010, respectively.

The Cebu Energy power plant in Toledo City completed its first full year of commercial operations in 2018. The power plant provides much-needed power to the province of Cebu and its neighboring province, Bohol.

Abovant has a 44% equity interest in Cebu Energy, while Global Formosa owns the remaining 56%.

Consequently, AboitizPower, through TPI, holds a 26.4% effective ownership interest in Cebu Energy.

Redondo Peninsula Energy, Inc. (RP Energy)

RP Energy was incorporated on May 30, 2007 to construct, own, and operate the 2x300-MW (net) coal-fired power plant located in the Redondo Peninsula of Subic Bay within the SBFZ, Subic, Zambales.

RP Energy was originally a joint venture between AboitizPower and TCIC. MPGC acquired a majority interest in RP Energy by virtue of a share purchase agreement with TPI on July 22, 2011. AboitizPower, through TPI, and TCIC each retained a 25% stake in RP Energy.

STEAG State Power Inc. (STEAG Power)

Incorporated on December 19, 1995, STEAG Power is the owner and operator of a 232 MW (gross) coal-fired power plant located in PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. The plant was built under a BOT arrangement and started commercial operations on November 15, 2006. STEAG Power has a 25-year PPA with the NPC, which is backed by a Performance Undertaking issued by the Republic of the Philippines.

While STEAG Power's pioneer status expired on November 14, 2012, its COC, on the other hand, was been renewed by the ERC and is effective until August 2021.

AboitizPower has 34% equity interest in STEAG Power following the purchase of said equity from Evonik Steag GmbH (now STEAG GmbH or STEAG), Germany's fifth largest power generator. STEAG and La Filipina Uy Gongco Corporation currently hold the remaining 51% and 15% equity, respectively, in STEAG Power.

GNPower Mariveles Coal Plant Ltd. Co. (GMCP)

GMCP is a private limited partnership organized on May 13, 2007 and established to undertake the development, construction, operation, and ownership of an approximately 2x316 MW (net) pulverized coal-fired power plant located in Mariveles, Bataan, Philippines (Mariveles Project).

The Mariveles Project is located within an industrial zone on a 60-hectare coastal site near the port of Mariveles, Bataan. The project site lies near the northern entrance to Manila Bay, providing easy and safe shipping access from the West Philippine Sea. The Mariveles Project commenced construction after execution of the equity and financing documentation, approval by the relevant government authorities and the initial drawdown under the non-recourse loan on January 29, 2010. It was declared commercially available in 2013 and currently supplies electric capacity and energy to the Luzon and Visayas markets.

The electricity produced by the Mariveles Project is exported through a 230kV high voltage transmission line owned and operated by NGCP. Substantially all of the capacity of the Mariveles Project is contracted under long term power purchase agreements with highly-rated distribution utilities and Contestable Customers, through its designated RES, GNPower Ltd. Co.

In October 2016, TPI entered into Purchase and Sale Agreements for the acquisition of partnership interests held by affiliated investment funds of The Blackstone Group L.P. in World Power Holdings, L.P. (currently registered as Therma Mariveles Holdings L.P.) and Sithe Global Power, L.P. (currently registered as Therma Dinginin L.P.). Following the receipt of approvals from the Board of Investments (BOI) and the PCC, TPI completed the acquisition of GMCP and GNPD on December 27, 2016.

Beginning October 13, 2017, through its general and limited partners, AboitizPower's sharing percentage on: (i) profits and losses and (ii) distributions, including net distributable liquidation proceeds, in GMCP is 66.0749%.

On March 7, 2018, AboitizPower completed the restructuring its share ownership structure in GMCP by transferring its direct ownership of GMCP from the offshore subsidiaries of TPI to TPI itself, and the eventual dissolution and liquidation of the offshore intermediary subsidiaries that own the GMCP shares.

Effectively, the partnership interests in GMCP are owned by (i) TPI, (ii) ACE Mariveles Power Ltd. Co., a joint venture between AC Energy, Inc. (ACE), a wholly-owned Subsidiary of Ayala Corporation and Power Partners Ltd. Co. (Power Partners), and (iii) Power Partners.

GNPower Dinginin Ltd. Co. (GNPD)

GNPD is a limited partnership organized and established on May 21, 2014 with the primary purpose of: (a) developing, constructing, operating, and owning a 2x668 MW (net) supercritical coal-fired power plant to be located at Mariveles, Bataan; (b) generating, selling and trading of electric power, importing machines, equipment, motor vehicles, tools, appurtenant spare parts, coal for fuel, lubricants, cleansing substances, and other necessary and related materials or chemicals; and (c) obtaining, entering into and performing any and all contracts and engaging in any and all transactions consistent with the foregoing purpose.

GNPD successfully achieved financial close and started the construction of Unit 1 in September 2016, with target delivery in 2019. The partnership also proceeded with the expansion of the power plant and successfully achieved its financial closing for Unit 2 in December 2017. To date, GNPD has signed numerous Power Purchase and Sale Agreements with highly-rated distribution utilities and RES.

GNPD's construction is being conducted in two phases: (i) the first phase is for Unit 1 and its associated ancillary facilities as well as the balance of plant and (ii) the second phase is for an additional identical 668MW (net) unit (Unit 2) and its associated ancillary facilities. The electricity that will be produced by Unit 1 of GNPD will be exported through the existing 230kV high voltage transmission line owned and operated by NGCP. Eventually, energy from Unit 1 and Unit 2 will be exported through NGCP's 500kV high voltage transmission line once completed.

On December 27, 2016, TPI completed the acquisition of the partnership interests held by affiliated investment funds of The Blackstone Group, L.P in World Power Holdings, L.P. (currently registered as Therma Mariveles Holdings L.P.) and Sithe Global Power, L.P. (currently registered as Therma Dinginin L.P.). The sharing percentage on (i) profits and losses and (ii) distributions of AboitizPower in GNPD, through its general and limited partners, will eventually be reduced to 40%.

In 2018, AboitizPower, through TPI, restructured its share ownership structure in GNPD and transferred direct ownership of GNPD from the offshore subsidiaries of TPI to TPI itself. After the restructuring and as of December 31, 2018, TPI directly owns a 45% partnership interest in GNPD.

GNPD is co-developed by Power Partners, ACE, and TPI.

Other Generation Assets

Cotabato Light maintains a stand-by 9.927-MW Bunker C-fired power plant capable of supplying approximately 15% of its requirements as of December 31, 2018.

Future Projects

The Company assesses the feasibility of any new power generation project. Factors taken into consideration include the proposed project's land use requirements, access to a power grid, fuel supply arrangements, availability of water, local requirements for permits and licenses, acceptability of the project to the communities and people it will affect, ability of the project to generate electricity at a competitive cost, and the existence of potential purchasers of the electricity generated. For the development of a new power project, the Company, its partners and suppliers are required to obtain all national and local permits and approvals before the commencement of construction and commercial operations, including those related to the project site, construction, the environment, land use planning/zoning, operations licenses, and similar approvals.

DISTRIBUTION OF ELECTRICITY

The Aboitiz Group has more than 85 years of experience in the Philippine power distribution sector. With ownership interests in nine Distribution Utilities, AboitizPower is currently one of the largest electricity distributors in the

Philippines. AboitizPower's Distribution Utilities collectively supply electricity to franchise areas covering a total of 18 cities and municipalities in Luzon, Visayas and Mindanao.

As of December 31, 2018, the power distribution business' earnings contribution from AboitizPower's business segments is equivalent to 18%. The Distribution Utilities had a total customer base of 995,828 as of end-2018, compared to 954,300 in 2017, and 916,876 in 2016.

The table below summarizes the key operating statistics of the Distribution Utilities for each of the past three years:

Company	Electricity Sold (MWh)			Peak Demand (MW)			No. of Customers		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Davao Light	2,468,192	2,317,985	2,173,373	421	404	380	404,574	384,434	367,782
Cotabato Light	165,409	153,973	146,678	31	29	27	41,681	41,110	38,924
VECO	3,159,032	2,938,532	2,922,950	547	522	524	437,823	422,814	408,586
SFELAPCO	665,425	623,607	588,985	134	116	117	107,536	101,942	97,847
SEZ	423,939	517,558	535,010	100	106	103	3,343	3,267	3,151
MEZ	123,276	114,272	111,486	22	21	21	85	83	82
BEZ	100,554	91,273	102,208	27	27	30	31	31	32
LEZ	224,175	197,908	165,481	39	33	28	755	619	472
TOTAL	**7,330,002**	**6,955,108**	**6,746,171**	**1,320**	**1,258**	**1,230**	**995,828**	**954,300**	**916,876**

Visayan Electric Company, Inc. (VECO)

Incorporated on February 22, 1961, VECO is the second largest privately-owned distribution utility in the Philippines in terms of customer size and annual MWh sales. It supplies electricity to the greater part of Metro Cebu, covering an area of 674 square kilometers (sq. kms.) and with a population of approximately 1.7 mn. To date, VECO has 20 power substations and one mobile substation that serve the power needs of the cities of Cebu, Mandaue, Talisay, and Naga, and the municipalities of Minglanilla, San Fernando, Consolacion, and Liloan. As of December 31, 2018, VECO served a total of 437,823 customers and had a peak demand during 2018 of 525 MW.

In 1928, Visayan Electric Company, S.A. was granted a 50-year distribution franchise by the Philippine Legislature. The term of this franchise was extended by Republic Act (RA) 6454 for an additional 25 years starting 1978 and was conditionally renewed for another 25 years from December 2003. In September 2005, the Philippine Congress passed RA 9339, which extended VECO's franchise to September 2030. VECO's application for the extension of its Certificate of Public Convenience and Necessity (CPCN) was approved by the ERC on January 26, 2009.

VECO, directly and through its predecessors-in-interest, has been in the business of distributing electricity in Cebu since 1905. In the early 1900s, the predecessors-in-interest of the Aboitiz Group acquired a 20% interest in VECO's predecessor-in-interest, the Visayan Electric Company, S.A. Since that time, the Aboitiz Group's ownership interest in VECO has increased from 20% to its current ownership interest of 55.25%, which is directly held by AboitizPower.

VECO is part of the third group (Group C) of private distribution utilities to shift to Performance-Based Rate-Setting Regulation (PBR). VECO entered into a PPA for the purchase of electric energy from CPPC for a period of 15 years starting from the commercial operation date of the latter. After its expiry in 2013, a new Power Supply Agreement was signed between VECO and CPPC and it is awaiting for ERC approval. The ERC, however, has allowed VECO to continue drawing power from CPPC under the same terms and conditions of the expired PPA until the ERC approves the 2013 PSA.

For its long-term capacity requirement, VECO entered into a 15-year PSA with TVI for the supply of 150 MW beginning in 2018. To reduce WESM exposure in 2016 until TVI's commercial operations have commenced, the company entered into a PSA with South Luzon Power Generation Company (SLPGC) for 50 MW in 2016. The contract with SLPGC has expired last June 26, 2018.

With the Retail Competition and Open Access, some of VECO's customers who qualified as Contestable Customers voluntarily migrated to Retail Electricity Suppliers. VECO continues to renegotiate the reduction of its bilateral contracts to account for the continued migration of these Contestable Customers.

As of end of 2018, VECO's systems loss is at 6.73%, which includes a feeder loss cap of 5.22%. This is below the government-mandated feeder loss cap of 6.5% which results to reduced power costs thereby providing more savings to the customer.

Davao Light & Power Company, Inc. (Davao Light)

Davao Light is the third largest privately-owned electric distribution utility in the country in terms of customer size and annual kWh sales. Davao Light's franchise area covers Davao City, areas of Panabo City, and the municipalities of Carmen, Dujali, and Santo Tomas in Davao del Norte, with a population of approximately 1.8 mn and a total area of 3,561 sq. kms. As of December 2018, Davao Light served a total of 404,983 customers, with a recorded peak demand of 421 MW during 2018.

Davao Light was incorporated on October 11, 1929, and acquired by the Aboitiz Group in 1946. Davao Light's original 50-year franchise, covering Davao City, was granted in November 1930 by the Philippine Legislature. On September 2000, RA 8960 granted Davao Light a franchise for a period of 25 years, or until September 2025.

The large percentage of Davao Light's power supply comes from renewable energy sources from the NPC-PSALM, Hedcor Sibulan, and Hedcor's Talomo plant, which comprised 52.29% of Davao Light's power mix.

In 2016, Davao Light signed a 60-MW Power Supply Contract (PSC) with San Miguel Consolidated Power Corporation, subject to ERC approval. Davao Light also signed a 50MW firm power supply contract with TMI and 55MW with WMPC on October and November 2017, respectively. This is intended to supply Davao Light's power requirements during the drought months when the supply coming from NPC-PSALM is very limited.

Davao Light has several ongoing projects to improve the services within its franchise area. In July 2018, Davao Light started the works for the implementation of the 1st Phase of its Underground Distribution System which involves 1.2 kilometers of cables being migrated along CM Recto Street.

During the last quarter of 2018, Davao Light began a five-year partnership program with the Davao City LGU to replace all sodium lamps in Davao City with Light Emitting Diode (LED) lamps. The shift is expected to reduce the city's energy consumption without compromising services.

During 2018, Davao Light has upgraded its R. Castillo and Panabo Substations to increase reliability and flexibility in the subtransmission line in the City-North area of Davao Light's franchise to match the power demand of the thriving economy of the franchise's north sector.

Davao Light also installed new 13.2 kV lines within the city's downtown and Calinan areas to increase reliability and provide additional capacity. It has also increased the capacity of its ERA Line 2 and has constructed and upgraded a total of 8.2 circuit kilometers of 13.8 kV line and 6 circuit kilometers of 69 kV line.

These projects are indication of the expected robust economic growth in the various areas within the Davao Light franchise.

The growth during 2018 resulted in total sales of 2,502,802 MWh, a total growth in energy sales of 5.75%, and increase in demand of 6.37%.

Davao Light's systems loss at 7.03% in 2018 remains below the government-mandated cap of 8.5%. Systems loss below the mandated caps translates to reduced power costs, resulting in customer savings.

Davao Light is part of Group C of private distribution utilities to enter the PBR. The reset process for the next regulatory period is put on hold by the ERC.

Davao Light is currently owned 99.93% by AboitizPower.

Cotabato Light and Power Company (Cotabato Light)

Cotabato Light supplies electricity to Cotabato City and portions of the municipalities of Datu Odin Sinsuat and

Sultan Kudarat, both in Maguindanao, with a land area of 191 square kilometers. During 2018 Cotabato Light's peak demand was recorded at 32 MW and as of December 31, 2018 it was serving a total of 41,645 customers.

Cotabato Light began operations on June 18, 1939 by virtue of Commonwealth Act No. 487. In June 16, 2014, franchise was renewed for another 25 years under RA 10637.

As of December 31, 2018, Cotabato Light has three substations of 12 MVA, 12.5 MVA and 25 MVA. It is served by one 69-kV transmission line. Cotabato Light's distribution voltage is 13.8 kV. These lines can be remotely controlled using the Supervisory Control Data Acquisition (SCADA).

The company also maintains a standby 4.45-MW Bunker C-fired plant capable of supplying approximately 15% of its franchise area requirements. The existence of a standby power plant, capable of supplying electricity in cases of supply problems with its power suppliers or NGCP and for the stability of voltage whenever necessary, is another benefit available to Cotabato Light's customers.

As of December 2018, its total systems loss stands at 8.46%, where 7.44% is the feeder loss. Cotabato Light is continuously innovating its strategies and processes to reduce its system losses.

Cotabato Light utilizes the most up-to-date systems such as the Customer Care and Billing, Enterprise Resource Planning (ERP) and soon, the Work and Asset Management (WAM). Cotabato Light is committed to provide reliable and ample power supply when needed, ensure that the supply of electricity is provided at a reasonable and competitive price, and accomplish the first two duties with the least possible adverse effects on our environment and communities.

AboitizPower owns 99.94% of Cotabato Light.

San Fernando Electric Light & Power Co., Inc. (SFELAPCO)

SFELAPCO was incorporated in May 17, 1927 and was granted a municipal franchise in 1927. Its franchise in the City of San Fernando, Pampanga covers an area of 78.514 sq. kms. It supplies 35 barangays in the City of San Fernando, Barangays San Isidro and Cabalantian in Bacolor, Pampanga, 25 barangays in the municipality of Floridablanca, and one barangay in Guagua, Pampanga which includes 584.011 and 977.372 circuit-kilometers on its 13.8-kV and 240- volt distribution lines, respectively. During 2018, SFELAPCO's peak demand was recorded at 118,490 kW, and as of December 31, 2018 it was serving a total of 105,076 customers.

SFELAPCO's current legislative franchise was granted through RA 9967, for 25 years commencing on March 24, 2010. It belongs to the fourth batch (Group D) of private utilities to enter PBR whose reset process for the next regulatory period is put on hold by the ERC.

SFELAPCO's systems loss at 4.7751% remains below the government-mandated cap of 7.5% plus Subtransmission loss. Systems loss below the mandated caps translates to reduced power costs resulting in bigger customer savings.

AboitizPower owns an effective 43.78% interest in SFELAPCO.

Subic EnerZone Corporation (SEZ)

In May 2003, the consortium of AEV and Davao Light won the competitive bid to provide distribution management services to SBMA and to operate the SBFZ power distribution utility for a period of 25 years. On June 3, 2003, SEZ was incorporated as a joint venture company owned by a consortium comprised of Davao Light, AEV, SFELAPCO, Team Philippines, Okeelanta, and PASUDECO to undertake the management and operation of the SBFZ power distribution utility. Eventually, SEZ was formally awarded the contract to manage SBFZ's power distribution utility and took over operations.

The company's authority was granted by SBMA pursuant to the terms of RA 7227 or The Bases Conversion and Development Act of 1992, as amended. As a company operating within the SBFZ, SEZ enjoys a preferential tax of 5% on its gross income in lieu of all other national and local taxes.

In 2018, the contracted capacity of SEZ with TLI was carved down from 15.73 MW in 2017 and then reduced to 12.09 MW in December 2018. Similarly, its contracted capacity with San Miguel Energy Corporation was carved down from 4.2 MW in 2017 and reduced to 4.02 MW in December 2018.

The recorded peak demand during 2018 was 55.99 MW. As of December 31 2018, SEZ served a total of 3,342 customers, consisting of 82 industrial locators, 1,168 commercial locators, 1,973 residential customers, 101 streetlights and 18 industrial locators under Retail Electricity Supplier.

SEZ's systems loss at 2.64% in 2018 remains below the government-mandated feeder loss cap of 6.5%. Systems loss below the mandated cap translates to reduced power costs resulting in customer savings.

Together with Davao Light's interest of 35%, AboitizPower owns 100% of SEZ.

Mactan Enerzone Corporation (MEZ)

MEZ was incorporated on February 19, 2007 when AboitizLand spun off the power distribution system of its Mactan Export Processing Zone II (MEPZ II) project. The MEPZ II project, which was launched in 1995, was operated by AboitizLand under a BOT agreement with the Mactan-Cebu International Airport Authority (MCIAA).

On June 8, 2007, AboitizPower entered into an agreement to acquire AboitizLand's 100% equity stake in MEZ, representing 8,754,443 common shares.

MEZ sources its power from SN Aboitiz Power-Magat and GCGI pursuant to a CSEE. Under this CSEE, GCGI is required to provide 4.957 MW to MEZ as base load. SN Aboitiz Power-Magat is required to supply 4.957 MW with 50% load factor.

During 2018, MEZ recorded peak demand at 22.24 MW, and as of December 31, 2018 served a total of 85 customers, consisting of 53 captive industrial locators, 26 captive commercial locators, and six industrial locators under RES.

MEZ's systems loss at 0.99% in 2018 remains below the government-mandated cap of 8.5%. Systems loss below the mandated cap translates to reduced power costs resulting in customer savings.

AboitizPower directly owns 100% of MEZ.

Balamban Enerzone Corporation (BEZ)

BEZ was incorporated on February 19, 2007 when Cebu Industrial Park Developers, Inc. (CIPDI), a joint venture between AboitizLand and Tsuneishi Holdings (Cebu), Inc. (THC), spun off the power distribution system of the West Cebu Industrial Park – Special Economic Zone (WCIP-SEZ). WCIP-SEZ is a special economic zone for light and heavy industries owned and operated by CIPDI. CIPDI, located in Balamban, Cebu, is home to the shipbuilding and ship repair facilities of Tsuneishi Heavy Industries (Cebu), Inc. (THICI), the modular fabrication facility of Aboitiz Construction International, Inc. (formerly: Metaphil International, Inc.) and recently, Austal Philippines Pty. Limited.

As of February 2017, only the firm contract with Cebu Energy remained, since its other Contestable Customers have switched to RES.

BEZ's peak demand for 2018 was recorded at 27 MW and served a total of 31 customers composed of 14 captive industrial customers, 11 captive commercial customers, and six contestable industrial customers.

BEZ's systems loss at 0.50% in 2018 remains below the government-mandated cap of 8.5%. Systems loss below the mandated cap translates to reduced power costs resulting in customer savings.

AboitizPower directly owns 100% of BEZ.

Lima Enerzone Corporation (LEZ)

LEZ was incorporated as Lima Utilities Corporation in June 5, 1997 to serve and provide locators within the Lima Technology Center (LTC) with a reliable and stable power supply. LEZ was originally a wholly-owned Subsidiary of Lima Land. With the acquisition by AboitizLand of the interests of the Alsons and Marubeni groups in Lima Land in 2013 and 2014, respectively, LEZ and Lima Land became wholly-owned Subsidiaries of AboitizLand.

LEZ's responsive interface ensures that customers receive power that fully meets their business requirements. As asset manager of the electrical infrastructure constructed at the LTC, LEZ has the sole responsibility of providing clean, reliable and uninterrupted power supply to enable the multinational manufacturing companies to produce quality products at international standards. On December 10, 2017, LEZ completed an additional 50-MVA power transformer, and is now capable of serving the increasing demand for future locators and expansions. This allows LEZ to provide reliable and flexible power to LTC.

During 2018, LEZ recorded peak demand at 37 MW, and as of December 31, 2018 it served a total of 771 customers, consisting of 76 captive industrial locators, 21 captive commercial locators, 659 captive residential customers, and 15 industrial locators under RES.

LEZ's systems loss at 5.3% in 2018 remains below the government-mandated cap of 8.5%. Systems loss below the mandated cap translates to reduced power costs resulting in customer savings.

AboitizPower directly owns 100% of LEZ.

Malvar Enerzone Corporation (Malvez)

Malvez was incorporated in June 9, 2017 to serve and provide locators within the Light Industry & Science Park IV (LISP IV) in Malvar, Batangas. The company will manage the construction, installation, operation, and maintenance of the power distribution of LISP IV for 25 years. LISP IV will have two 50-megawatt transformers to provide reliable and quality power to locators, which are mostly from manufacturers and exporters.

RETAIL ELECTRICITY AND OTHER RELATED SERVICES

One of the objectives of electricity reform in the Philippines is to ensure the competitive supply of electricity at the retail level. With the start of retail competition and Open Access, large-scale customers allowed to obtain electricity from RES licensed by the ERC.

Aboitiz Energy Solutions, Inc. (AESI)

Incorporated in August 11, 1998, AESI, a wholly-owned Subsidiary of AboitizPower, is engaged in the business of a retail energy supplier and energy consolidator. It was granted a license to act as a RES on November 9, 2009, which license was renewed on October 29, 2012 for another five years. Its application for renewal of RES license has been duly filed, and is currently pending with the ERC. At the start of commercial operations of Open Access on June 26, 2013, AESI served 42 customers. For the year 2018, AESI supplied retail electricity to a total of 185 customers, with total energy consumption of 2,326.56 mn kWh.

AESI was able to deliver a total of 346.56 mn kWh to its off-taker, VECO, during 2018.

Adventenergy, Inc. (AdventEnergy)

Incorporated in August 14, 2008, AdventEnergy, a wholly-owned Subsidiary of AboitizPower, is a RES company that sells, brokers, markets, or aggregates electricity to end-users, including those within economic zones. AdventEnergy's application for renewal of RES license is currently pending with the ERC. The company was specifically formed to serve Contestable Customers located in economic zones.

AdventEnergy differentiates itself from its competition by sourcing electricity from a 100% renewable source. With this competitive advantage, more and more companies are opting to source their electricity supply from AdventEnergy as an environmental initiative.

During 2018, AdventEnergy supplied retail electricity to 83 customers with a total consumption of 1,944.48 mn kWh.

Prism Energy, Inc. (Prism Energy)

Prism Energy was incorporated on March 24, 2009 as a joint venture between AboitizPower (60%) and Vivant Corporation (40%). It was granted a five-year RES license by the ERC on May 22, 2012, and its application for renewal of RES license has been duly filed and is currently pending with the ERC.

Prism Energy is envisioned to serve Contestable Customers in the Visayas region. As a RES, Prism Energy provides its customers with contract options for electricity supply that is based on their operating requirements.

During 2018, Prism Energy supplied retail electricity to 37 customers with a total energy consumption of 155.90 mn kWh.

SN Aboitiz Power – Res, Inc. (SN Aboitiz Power - RES)

Incorporated on December 23, 2009, SN Aboitiz Power-RES is the RES arm of the SN Aboitiz Power Group. SN Aboitiz Power-RES caters to the Contestable Customer sector and electricity consumers using an average of at least 1 MW in the last twelve months across all industries under Open Access. It offers energy supply packages tailored to its customers' needs and preferences.

The company's vision is to become the leading RES in the country through profitable growth, excellence in business processes, and innovative ideas. It also aims to supply the energy requirements of its customers in a fair and equitable manner, and to contribute to the vibrant local power market that supports the country's development. SN Aboitiz Power-RES harnesses the synergy from the partnership of the SN Power Group, an international hydropower expert, and AboitizPower.

From a single customer in 2013, SN Aboitiz Power-RES has grown its customer base to 31 by the end of 2018, with a significant number of closed deals signed in 2017 and 2018. This growth can be attributed to the strategic focus of SN Aboitiz Power-RES on four major industry segments that allow it to tailor supply packages to customer segment needs and preferences.

Despite the challenging regulatory landscape in the Contestable Market and aggressive competition, SN Aboitiz Power-RES was still able to steadily carve an expanding market share. As of December 31, 2018, SN Aboitiz Power-RES accounts for 379 GWh or 31% of BCQ volumes which contributed ₱115 mn or 9.5% of BCQ net revenue.

SN Aboitiz Power-RES is a joint venture between ARI and SN Power. It is currently 60% owned by MORE with the remaining 40% owned by SN Power Philippines.

(ii) Sales

The operations of AboitizPower and its Subsidiaries and Affiliates are based only in the Philippines.

Comparative amounts of revenue, profitability and identifiable assets are as follows:

	2018	2017	2016
Gross Income	₱131,572	₱119,391	₱89,163
Operating Income	₱36,497	34,174	26,310
Total Assets	**₱389,662**	**₱361,477**	**₱356,891**

Note: Values are in Million Pesos. Operating Income is operating revenue net of operating expenses.

Comparative amounts of revenue contributionby business grouping are as follows:

	2018		2017		2016	
Power Generation	₱85,580	54%	₱78,252	31%	₱51,469	48%

Power Distribution	46,989	29%	44,392	54%	44,666	41%
Retail Electricity Supply	26,191	16%	19,971	14%	10,453	10%
Services	1,098	1%	1,407	1%	1,296	1%
Total Revenue	**159,858**	**100%**	**144,021**	**100%**	**₱107,884**	**100%**
Less: Eliminations	(28,286)		(24,630)		(18,721)	
Net Revenue	**₱131,572**		**₱119,391**		**₱89,163**	

Note: Values are in Millions.

(iii) Distribution Methods of the Products or Services

The Generation Companies sell their capacities and energy in the following manner: an IPPA with the NPC/PSALM; bilateral PSAs, private distribution utilities, electric cooperatives, RES or other large end-users; and through the WESM. There are also Subsidiaries and Affiliates providing ancillary services through ASPAs with NGCP.

Currently, SN Aboitiz Power-Magat, SN Aboitiz Power-Benguet, TMI, and TLI have ASPAs with NGCP as AS providers. The SN Aboitiz Power Group delivers regulating, contingency and dispatchable reserves, as well as blackstart service through its three power plants, namely Ambuklao Hydro, Binga Hydro, Magat Hydro plants. TLI offers contingency reserve under its ASPA. In March 26, 2018 the ERC approved TMI's ASPA with NGCP for a maximum period of five (5) years. TMI provides both contingency and dispatchable reserves to the Mindanao Grid.

In addition, the Hedcor Tudaya Hydro 2, Hedcor Irisan Hydro 1, and Hedcor Sabangan plants, all in commercial operations, have been approved for inclusion in the FIT system for run-of-river HEPPs. Hedcor, Hedcor Tudaya, and Hedcor Sabangan, the companies that own and operate the foregoing plants, have entered into REPAs with Transco, in its capacity as FIT-All Administrator, for the collection and payment of the FIT. The power generated by Hedcor Tudaya 2 is covered by a Renewable Energy Supply Agreement. Currently, HBI is applying for FIT eligibility of the 68.8- MW Manolo Fortich hydro powerplants in Bukidnon province.

AboitizPower's Generation Companies have transmission service agreements with the NGCP for the transmission of electricity to the Grid.

On the other hand, AboitizPower's Distribution Utilities have distribution franchises in the areas where they operate. Each Distribution Utility has a distribution network consisting of a widespread network of predominantly overhead lines and substations. Customers are classified according to voltage levels based on their electricity consumption and demand. Large industrial and commercial consumers receive electricity at distribution voltages of 13.8 kV, 23 kV, 34.5 kV, and 69 kV, while smaller industrial, commercial, and residential customers receive electricity at 240 V or 480 V.

All of AboitizPower's Distribution Utilities have entered into transmission service contracts with the NGCP. These contracts allow the Distribution Utilities to use the NGCP's transmission facilities to receive power from their respective Independent Power Producers (IPP), the NPC, or PSALM for distribution to their respective customers. All customers that connect to the Distribution Utilities' distribution lines are required to pay a tariff approved by the ERC.

AboitizPower's wholly-owned RES companies, AdventEnergy and AESI, have existing electricity supply contracts to ensure continuous supply of power to their customers. AdventEnergy and AESI follow a pricing strategy which allows customer flexibility. The power rates are calculated using a fixed formula pricing arrangement based on customer load curves, resulting in either a peak-off-peak or capacity-based competitive rate.

(iv) New Products/Services

Other than the ongoing Greenfield and/or rehabilitation projects undertaken by AboitizPower's Generation Companies, AboitizPower and its Subsidiaries do not have any publicly announced new products or services as of the date of this report.

(v) Competition

Power Generation Business

The Open Access regime and additional capacities from new power plants have led to a steady but significant increase in competition over the last five years. As of the date of this report, DC 2015-06-010 and the four ERC-issued RCOA resolutions in 2016 regarding Open Access are still subject of a TRO at the Supreme Court.

PEC, which is AboitizPower's joint venture with TeaM Energy, brought a considerable increase in the Company's capacity in 2018 due to the retail and commercial operation of Pag3 in March 2018. The Manolo Fortich hydro power plants also started its commercial operations and contributed an additional 68.8 MW into the net attributable capacity of AboitizPower during 2018.

In 2019, AboitizPower expects to further add some 860MW to its attributable capacity through its ongoing projects. With this project pipeline, the Company is closer to its target of 4,000 MW net attributable capacity on 2020. This target already includes its 40% beneficial share in the Bataan project of GNPD.

AboitizPower's portfolio, consisting of a mix of renewable and non-renewable energy sources and a mix of baseload and peaking power plants, allows for flexibility in pricing and reliability of supply, thus enhancing competitiveness.

Retail Electricity Supply Business

Based on ERC's Competitive Retail Electricity Market Monthly Statistical Data as of November 2018, there are 30 licensed RES companies and 25 Local RES companies participating in the Open Access markets in Luzon and Visayas. The Meralco group, through its RES companies, has the largest market share at 31.33%. The AboitizPower Group, through its RES companies, has the second-largest market share at 19.53%.

From December 2016 through early 2017, RES companies geared up in anticipation of the reduction of the threshold for contestability of 1 MW to 750 kW, and further down to 500 kW. At that point in time, switching to the Open Access regime was mandatory for captive customers with levels of demand at those thresholds. A TRO on the mandatory switching was executed, however, in the first quarter of 2017, which also put a halt to the lowering of the contestability thresholds. With issuance of the TRO, the switch of Contestable Customers continues to be allowed by the DOE (through Department Circular No. 2017-12-0013 published on December 12, 2017), on a voluntary basis for Contestable Customers with an average peak demand of 750 kW and above. This substantially reduced the pool of customers that the numerous RES companies can vie for, and thus intensifying the level of competition

The increase in the number of power plants, the number of RES companies, and volatile oil and coal prices have also increased the level of competition in the Open Access market. RES companies have resorted to both aggressive pricing and contractual concessions.

AboitizPower believes that its portfolio, consisting of different types of energy sources with a mix of renewables and non-renewables, allows it to be flexible in both pricing and reliability of supply, thus enhancing its competitiveness.

Distribution Utilities Business

Each of AboitizPower's Distribution Utilities currently have an exclusive franchise to distribute electricity in the areas covered by their respective franchises.

Under Philippine law, the franchises of the Distribution Utilities may be renewed by the Congress of the Philippines (Congress) provided that certain requirements related to the rendering of public services are met. Each Distribution Utility intends to apply for the extension of its franchise prior to expiration. Distribution Utilities may face competition or opposition from third parties in connection with the renewal of their franchises. It should be noted that under Philippine law, a party wishing to secure a franchise to distribute electricity must first obtain a CPCN from the ERC, which requires that such party has to prove that it has the technical and financial competence to operate a distribution franchise, and that there is a need for such franchise. Ultimately, Congress has absolute discretion in determining whether to issue new franchises or to renew existing franchises. The acquisition by competitors of any of the Distribution Utilities' franchises could adversely affect the results of the Company's operations. However, with the commencement of Open Access in Luzon and Visayas, the supply segment of the distribution business has become a contestable market, initially for customers with at least an average of 1 MW monthly demand.

Pursuant to DOE Circular No. DC2015-06-0010 entitled: "Providing Policies to Facilitate the Full Implementation of Retail Competition and Open Access (RCOA) in the Philippine Electric Power Industry", all Contestable Customers which are currently being served by their franchised distribution utilities are mandated to secure their respective Retail Supply Contracts (RSCs) no later than June 25, 2016 with any of the following: (i) any licensed RES; (ii) any generating company with a COC and a RES license; or (iii) any prospective generation company whose power generation project is undergoing construction or planned and has been included in the DOE's Power Development Plan.

All Contestable Customers with an average demand ranging from 750 kW and 999 kW for the preceding 12-month period were mandated to secure their RSCs with a RES no later than June 25, 2016. Also, Aggregators shall be allowed to compete with RES, generation companies, and prospective generation companies. In the case of retail aggregation, any Contestable Customer within a contiguous area may individually or collectively aggregate their electricity supply requirements to an Aggregator, duly licensed by the ERC. The aggregated demand shall in no case be lower than 750 kW.

All electricity end users with an average demand ranging from 501 kW to below 750 kW for the preceding 12 months may be allowed to choose their respective RES effective June 26, 2018, subject to the determination of the ERC on the basis of its evaluation on the performance of the retail electricity market.

Voluntary contestability for end users with average demand of 500 kW and below for the preceding twelve months shall be based on the continuing evaluation and assessment by the ERC.

On November 29, 2017, the DOE promulgated Department Circular No. 2017-12-0013 entitled "*Providing Policies on the Implementation of Retail Competition and Open Access (RCOA) for Contestable Customers in the Philippine Electric Power Industry*." The circular provides, *inter alia*, that: (i) upon its the effectivity, all Contestable Customers with a monthly average peak demand of 750 kW and above, for the preceding twelve months, may participate in the Contestable Market; (ii) by June 26, 2018 or on an earlier date specified by the ERC, all eligible electricity end-users to become Contestable Customers with a monthly average peak demand of 500 kW to 749 kW for the preceding twelve months may voluntarily participate in the Contestable Market; and (iii) by December 26, 2018 or on an earlier date specified by the ERC, electricity end-users within a contiguous area whose aggregate average peak demand is not less than 500 kW for the preceding twelve-month period may aggregate their demand to be part of the Contestable Market and may voluntarily enter into RSC with the Aggregators. The circular also provides the list of entities that may become Retail Electricity Suppliers, and stipulates that distribution utilities may provide electricity services to Contestable Customers within its franchise area as a local RES upon authorization from the ERC.

Despite the foregoing DOE issuances, the lack of nuance in the TRO issued by the Supreme Court created a blanket prohibition against the implementation of every provision in these issuances. As a result, the ERC has restrained themselves from issuing RES Licenses, for fear that it might be cited in contempt.

(vi) Sources of Raw Materials and Supplies

Power Generation Business

The Power Generation Companies produce energy using the following fuel types: hydropower, geothermal, solar, coal, and oil. In 2018, renewable fuel sources comprised 29% of its production, while fossil fuel accounted for 71%.

The hydropower facilities of some of the Generation Companies harness the energy from the flow of water from neighboring rivers to generate electricity. These facilities have impounding dams allowing the storage of water for later use. The hydroelectric companies on their own, or through the NPC as in the case of LHC, possess water permits issued by National Water Resources Board (NWRB), which allow them to utilize the energy from a certain volume of water from the applicable source of the water flow.

APRI's steam requirement for its geothermal power generation continues to be supplied by the PGPC. The terms of the steam supply are governed by a Geothermal Resource Sales Contract (GRSC) under which price of steam is ultimately indexed to the Newcastle Coal Index and the Japanese Public Utilities coal price. APRI and PGPC signed a new agreement on August 24, 2018 under which PGPC will drill 12 new production wells over the next six (6) years and that the costs shall be completely pegged to the market price by September 26, 2021.

Oil-fired plants use Bunker-C fuel to generate electricity. SPPC and WMPC source fuel from Shell and Phoenix Petroleum, respectively. Each of EAUC, CPPC, TMI, and TMO has a fuel supply agreement with Shell. The fuel prices under these agreements are pegged to the Mean of Platts Singapore index.

TLI has long-term coal supply contracts for the Pagbilao Plant annual coal requirements. Nevertheless, it is continuously looking for and evaluating other coal sources to diversify sources and ensure security of supply.

Likewise, TSI has annual coal supply contracts for its coal plant in Mindanao. It applies the same sourcing strategy as that of Pagbilao where evaluation of other potential coal sources is being conducted in order to establish the most competitive and optimum fuel supply mix. On the other hand, GMCP, STEAG, and CEDC also have long-term coal supply agreements.

Distribution Business

The provisions of the Distribution Utilities' PPAs are governed by the ERC regulations. The main provisions of each contract relate to the amount of electricity purchased, the price, including adjustments for various factors such as inflation indexes, and the duration of the contract.

Hedcor Sibulan supplies Davao Light with electricity generated from its Hedcor Sibulan plants pursuant to the Hedcor consortium's 12-year PSA. To add to its power reserve capacity, Davao Light has entered into a PSC with TMI for 15 MW last March 21, 2011. This was later increased to 30 MW in 2012. The contract with TMI finally ended last July 25, 2018. Davao Light and Cotabato Light entered into 25-year PSCs with TSI for 100 MW and 5 MW, respectively. In September 2015, Davao Light and Cotabato Light started drawing the first half of their contracted capacity, or 50 MW and 2.5 MW respectively, from TSI. Starting February 2016, the full 100 MW and 5MW contracted capacity was supplied by TSI. On June 10, 2016, Davao Light and TSI filed a Joint Manifestation with the ERC stating that they agreed to supplement and modify their supply contract to 108 MW.

On December 25, 2015, the CSEEs of Davao Light and Cotabato Light with PSALM expired. Following negotiations, on December 23, 2015, Davao Light and Cotabato Light entered into PSAs with WMPC for the supply of 18 MW and 2 MW, respectively, for a period of four months from January to April 2016. These PSAs were provisionally approved by the ERC on March 1, 2016. On April 2016, the PSALM CSEEs of Davao Light and Cotabato Light were renewed for an annual term with a lower contracted capacity. Due to significant reduction of the contracted capacity of the PSALM CSEEs, Davao Light and Cotabato Light entered into PSAs with SPPC for a supply of 50MW and 5MW, respectively, on April 28, 2016 for a period of two years. These were provisionally approved by the ERC on July 11, 2016. On December 1, 2016, PSALM wrote a letter to DLPC extending the CSEE up to December 25, 2018 with the amended contracted demand and energy.

In anticipation of higher demand and lower allocation from PSALM, Davao Light entered into a PSC with San Miguel Consolidated Power Corporation (SMCPC) in November 28, 2016 for a supply of 60MW for a period of ten years. This was provisionally approved by ERC on June 20, 2017, and SMCPC began supplying the 60MW contracted capacity on February 26, 2018.

Due to the increasing load demand and decreasing power allocation from PSALM, Cotabato Light renewed its 1 MW PSC with TMI for another year, and entered into a PSC with SMCPC on November 28, 2016 for a supply of 5 MW for a period of ten years. These contracts have been issued Provisional Authority, pending ERC approval.

VECO entered into a PPA for the purchase of electric energy from CPPC for a period of 15 years starting from CPPC's commercial operation date. In 2013 the PPA was extended for another ten years.

To further reduce VECO's WESM exposure, it entered into a PSA with SLPGC for 50 MW in 2016. This contract expired last June 26, 2018. For its long-term capacity requirement, VECO entered into a 15-year PSA with TVI for the supply of 150 MW. In 2018, TVI, during its commissioning and testing stage, has been injecting power to VECO under pre-commercial terms. The contract between VECO and TVI was approved by the Energy Regulatory Commission in June 2018.

When the Retail Competition and Open Access was embarked, there were Contestable Customers who voluntarily migrated to Retail Electricity Suppliers. The DUs will continue to renegotiate the reduction of its bilateral contracts to account for the continued migration of these Contestable Customers.

In 2016, following the onset of Retail Competition and Open Access, the contracted capacity of SEZ with TLI. was carved down from 30 MW to 20.5 MW. This was further reduced to 15.73 MW in 2017 and to 12.09 MW in December 2018.

Also in 2016, the contracted capacity of SEZ with San Miguel Energy Corporation was carved down from 10 MW to 8.8 MW. It was then reduced to 4.2 MW in 2017 and to 4.02 MW in December 2018.

On September 25, 2015, MEZ entered into PSAs with its new power suppliers, SN Aboitiz Power-Magat and Green Core Geothermal Inc. with contracted capacity 10 MW each and load factor 50% and 100%, respectively, which translated to energy per year of 43,920 MWh and 87,840 MWh, respectively. However, on February 26, 2017, these were reduced to 4.957 MW each, with same load factor but with energy per year of 21,712 MWh and 43,423 MWh. The decrease was due to the transfer of MEZ's contestable customers with 1MW capacity to Retail Electricity Suppliers.

On March 26, 2017, the contracted capacity of BEZ with CEDC was reduced to 9.8967 GWh from 51.12 GWh for 2017 and reduced to 6.55275 GWh from 51.12 GWh for 2018. This was due to the entry of six of BEZ's Contestable Customers into Open Access thru various RES. BEZ's PSA with CEDC will end on February 26, 2025.

On February 26, 2017, the contracted capacity of LEZ with Therma Luzon, Inc. was reduced to 51,126 GWh from 163,147 GWh. This was due to the entry of the Contestable Customers into Open Access thru various RES. LEZ's PSA with TLI will end on January 25, 2020.

Transmission Charges

Five of AboitizPower's Distribution Utilities have existing Transmission Service Agreements (TSAs) with the NGCP for the use of the latter's transmission facilities in the distribution of electric power from the Grid to its customers, which are valid until the dates specified below:

Distribution Utility	Valid until
Davao Light	January 25, 2019
Lima Enerzone	July 25, 2022
Mactan Enerzone	January 25, 2020
Balamban Enerzone	January 25, 2020
SFELAPCO	December 25, 2018

Cotabato Light has renewed its TSA while Subic Enerzone is still in the process of securing its TSA with NGCP. VECO, Davao Light and SFELAPCO have each signed the respective TSA renewals and are awaiting NGCP's execution of the document. The Distribution Utilities have negotiated agreements with the NGCP in connection with the security deposit to secure their obligations to the NGCP under the TSAs.

(vii) Major Customers

Power Generation Business

Out of the total electricity sold by AboitizPower's Generation Companies, approximately 94% is covered by bilateral contracts with, among others, private distribution utilities, electric cooperatives, and industrial and commercial companies. The remaining, approximately 6%, is sold by the Generation Companies through the WESM.

Retail Electricity Supply Business

The Company's RES business has nearly 300 Contestable Customers from a wide number of industries, including property development, meat processing, semiconductors, steel, and cement. AboitizPower thus believes that this diversity will insulate its RES business from downturns in any one industry.

Distribution Utilities Business

Most of AboitizPower's Distribution Utilities, on the other hand, have a wide and diverse customer base. As such, the loss of any one customer is not expected to have a material adverse impact on AboitizPower. The Distribution Utilities' customers are categorized into four principal categories:

(a) *Industrial customers.* Industrial customers generally consist of large-scale consumers of electricity within a franchise area, such as factories, plantations and shopping malls.

(b) *Residential customers.* Residential customers are those who are supplied electricity for use in a structure utilized for residential purposes.

(c) *Commercial customers.* Commercial customers include service-oriented businesses, universities and hospitals.

(d) *Other customers.* Customers not falling under any of the above categories.

Government accounts for various government offices and facilities are categorized as either commercial or industrial depending on their load. Each Distribution Utility monitors government accounts separately and further classifies them to local government accounts, national government account, or special government accounts.

(viii) Transactions with and/or Dependence on Related Parties

AboitizPower and its Subsidiaries (the "Group"), in their regular conduct of business, have entered into transactions with Associates and other related parties principally consisting of professional and technical services, power sales and purchases, advances, various guarantees, construction contracts, aviation services, and rental fees. These are made on an arm's-length basis as of the time of the transactions.

Details of the significant account balances of the foregoing related party transactions of the Group can be found in Note 32 of the accompanying consolidated financial statements of the Company.

(ix) Patents, Copyrights, Franchises

Generation Business

Power generation is not considered a public utility operation under the Electric Power Industry Act of 2001 (EPIRA). Thus, a franchise is not needed to engage in the business of power generation. Nonetheless, no person or entity may engage in the generation of electricity unless such person or entity has secured a Certificate of Compliance (COC) from the ERC to operate a generation facility and has complied with the standards, requirements, and other terms and conditions set forth in the said COC.

In its operations, a generation company is required to comply with technical, financial and environmental standards. It shall ensure that facilities connected to the Grid meet the technical design and operation criteria of the Philippine Grid Code, Philippine Distribution Code, and Philippine Electrical Code. It shall also conform with financial standards and comply with applicable environmental laws, rules and regulations.

AboitizPower's Distribution Utilities, Davao Light and Cotabato Light, have their own generation facilities and are required under the EPIRA to obtain a COC. For IPPAs such as TLI, the COCs issued to the IPPs of the relevant generation facilities are deemed issued in favor of the IPPAs. As such, the IPPAs are also bound to comply with the provisions of the Philippine Grid Code, Philippine Distribution Code, WESM rules, and applicable rules and regulations of the ERC.

AboitizPower's HEPPs are also required to obtain water permits from the NWRB for the water flow used to run their respective hydroelectric facilities. These permits specify the source of the water flow that the Generation Companies can use for their hydroelectric generation facilities, as well as the allowable volume of water that can be used from the source of the water flow. Water permits have no expiration date and require their holders to comply with the terms of the permit with regard to the use of the water flow and the allowable volume.

AboitizPower, its Subsidiaries and Affiliates are in various stages of development of several projects. Some of these projects have been awarded renewable energy service contracts by the DOE.

The Generation Companies and the Distribution Utilities, Davao Light and Cotabato Light, possess COCs for their power generation businesses, details of which are as follows:

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	
COC No. 18-12-M-00330L	Hedcor, Inc.	Irisan 3	Hydroelectric Power Plant	Tadiangan, Tuba, Benguet	1.20 MW	Hydro	November 5, 2018 - November 4, 2023	December 11, 2018
COC No. 18-12-M-00334L	Hedcor, Inc.	Bineng 3	Hydroelectric Power Plant	Bineng, La Trinidad, Benguet	5.625 MW	Hydro	November 5, 2018 - November 4, 2023	December 11, 2018
COC No. 18-12-M-00329L	Hedcor, Inc.	Ampohaw	Hydroelectric Power Plant	Banengbeng, Sablan, Benguet	8.00 MW	Hydro	November 5, 2018 - November 4, 2023	December 11, 2018
COC No. 18-12-M-00336L	Hedcor, Inc.	Sal-angan	Hydroelectric Power Plant	Ampucao, Itogon, Benguet	2.40 MW	Hydro	November 5, 2018 - November 4, 2023	December 11, 2018
COC No. 17-04-M-00032L	Hedcor, Inc.	Irisan 1	Hydroelectric Power Plant	Brgy. Tadiangan, Tuba, Benguet	3.89 MW	Hydro	April 30, 2017 – April 29, 2022	April 19, 2017
COC No. 16-05-M-00061M	Hedcor, Inc.	Talomo 1 – Unit 1	Hydroelectric Power Plant	Calinan, Davao City	500 kW	Hydro	February 15, 2015 - February 14, 2020	May 4, 2016
		Talomo 1 – Unit 2			500 kW			
COC No. 16-05-M-00062M	Hedcor, Inc.	Talomo 2 – Unit 1	Hydroelectric Power Plant	Mintal Proper, Davao City	200 kW	Hydro	February 15, 2015 - February 14, 2020	May 4, 2016
		Talomo 2 – Unit 2			200 kW			
		Talomo 2 – Unit 3			200 kW			
COC No. 16-05-M-00063M	Hedcor, Inc.	Talomo 2A – Unit 1	Hydroelectric Power Plant	Upper Mintal, Davao City	450 kW	Hydro	February 15, 2015 - February 14, 2020	May 4, 2016
		Talomo 2A – Unit 2			200 kW			
COC No. 16-05-M-00064M	Hedcor, Inc.	Talomo 2B	Hydroelectric Power Plant	Upper Mintal, Davao City	300 kW	Hydro	February 15, 2015 - February 14, 2020	May 4, 2016
COC No. 16-05-M-00065M	Hedcor, Inc.	Talomo 3 – Unit 1	Hydroelectric Power Plant	Catalunan, Pequeño, Davao	960 kW	Hydro	February 15, 2015 -	May 4, 2016

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	
		Talomo 3 – Unit 2		City	960 kW		February 14, 2020	
COC No. 18-12-M-00327L	Hedcor, Inc.	FLS Plant	Hydroelectric Power Plant	Poblacion, Bakun, Benguet	6.40 MW	Hydro	November 5, 2018 - November 4, 2023	December 11, 2018
COC No. 18-12-M-00335L	Hedcor, Inc.	Lower Labay	Hydroelectric Power Plant	Ampusongan, Bakun, Benguet	2.40 MW	Hydro	November 5, 2018 - November 4, 2023	December 11, 2018
COC No. 18-12-M-00328L	Hedcor, Inc.	Lon-oy	Hydroelectric Power Plant	Poblacion, Bakun, Benguet	3.60 MW	Hydro	November 5, 2018 - November 4, 2023	December 11, 2018
COC No. 15-05-M-56M	Hedcor Sibulan, Inc.	Sibulan A – Unit 1	Hydroelectric Power Plant	Brgy. Sibulan, Sta. Cruz, Davao del Sur	8.164 MW	Hydro	25	May 18, 2015 - August 9, 2020
		Sibulan A – Unit 2			8.164 MW			
COC No. 15-05-M-54M	Hedcor Sibulan, Inc.	Sibulan B – Unit 1	Hydroelectric Power Plant	Brgy. Sibulan, Sta. Cruz, Davao del Sur	13.128 MW	Hydro	25	May 18, 2015 - May 24, 2020
		Sibulan B – Unit 2			13.128 MW			
COC No. 14-03-GN 346-20102M	Hedcor Sibulan, Inc.	Tudaya 1	Hydroelectric Power Plant	Sitio Tudaya, Brgy. Sibulan, Sta. Cruz, Davao del Sur	6.65 MW	Hydro	15	March 10, 2014 - March 10, 2019
COC No. 18-06-M-00017L	Luzon Hydro Corporation	Bakun AC	Hydroelectric Power Plant	Amilongan, Alilem, Ilocos Sur	74.80 MW	Hydro	July 30, 2018 – July 29, 2023	June 20, 2018
COC No. 15-06-M-00013M	Hedcor Tudaya, Inc.	Tudaya 2	Hydroelectric Power Plant	Sta. Cruz, Davao del Sur	8.13 MW	Hydro	25	June 15, 2015
COC No. 15-09-M-00023L	Hedcor Sabangan, Inc.	Sabangan	Hydroelectric Power Plant	Brgy. Namatec, Sabangan, Mountain Province	14.96 MW	Hydro	25	September 29, 2015
COC No. 15-11-M-13701M	Davao Light & Power, Co.	Bajada Diesel Power Plant	Diesel Power Plant	J.P. Laurel Ave., Bajada, Davao City	58.70 MW	Diesel	20	November 26, 2015 - December 7, 2020
			Blackstart		483.20 kW	Diesel	20	
COC No. 17-04-M-15911M	Cotabato Light and Power Company, Inc.	N/A	Bunker C-Fired Diesel Engine	CLPC Compound, Sinsuat Ave., Rosary Heights I, Cotabato City	9.927 MW	Diesel / Bunker C	January 10, 2017 - January 9, 2022	April 19, 2017
			Blackstart		10 kW	Diesel		
COC No. 18-03-M-00002V	East Asia Utilities Corporation	N/A	Bunker C/Diesel Fired Power Plant	Barrio Ibo, Mactan Export Processing Zone 1 (MEPZ 1), Lapu-Lapu City, Cebu	49.60 MW	Bunker C	June 10, 2018 – June 10, 2023	March 27, 2018
COC No. 18-03-M-00001V	Cebu Private Power Corporation	N/A	Bunker C/Diesel Fired Power Plant	Old Veco Compound, Brgy. Ermita, Carbon, Cebu City	70.59 MW	Bunker C/ Diesel	June 4, 2018 – June 3, 2023	March 27, 2018
COC No. 18-12-M-00020M	Western Mindanao Power Corporation	N/A	Bunker C- Fired Power Plant	Malasugat, Sangali, Zamboanga City	112 MW	Bunker C/Diesel	August 27, 2018 – August 26, 2023	December 4, 2018
		N/A	Blackstart		160 kW	Diesel		

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	
COC No. 18-12-M-00021M	Southern Philippines Power Corporation	N/A	Bunker C- Fired Diesel Power Plant	Brgy. Baluntay, Alabel, Sarangani Province	61.72 MW	Bunker C/ Diesel	August 27, 2018 – August 26, 2023	December 4, 2018
			Blackstart		160 kW	Diesel		
COC No. 18-04-M-00150L	SN Aboitiz Power – Magat, Inc.	Maris Main Canal I	Hydroelectric Power Plant	Brgy. Ambatali, Ramon, Isabela	8.50 MW	Hydro	April 4, 2018 – April 3, 2023	April 4, 2018
COC No. 17-03-M-00309L	SN Aboitiz Power – Benguet, Inc.	Binga – Unit 1	Hydroelectric Power Plant	Brgy. Tinongdan, Itogon, Benguet	35.02 MW	Hydro	March 12, 2017 - March 11, 2022	March 9, 2017
		Binga – Unit 2	Hydroelectric Power Plant		35.02 MW			
		Binga – Unit 3	Hydroelectric Power Plant		35.02 MW			
		Binga – Unit 4	Hydroelectric Power Plant		35.02 MW			
		Binga Hydroelectric Power Plant	Blackstart Generator Set		320 KW	Diesel		
		Binga Hydroelectric Power Plant	Auxiliary Generator Set		330.40 KW	Diesel		
COC No. 16-08-M-00087L	SN Aboitiz Power – Benguet, Inc.	Ambuklao – Unit 1	Hydroelectric Power Plant	Brgy. Ambuklao, Bokod, Benguet	34.85 MW	Hydro	August 31, 2016 - August 30, 2021	August 18, 2016
		Ambuklao – Unit 2			34.85 MW			
		Ambuklao – Unit 3			34.85 MW			
		Ambuklao Hydroelectric Power Plant	Auxiliary Generator Set		320 KW	Diesel		
		Ambuklao Hydroelectric Power Plant	Blackstart Generator Set		314 KW	Diesel		
COC No. 16-06-M-00016M	STEAG State Power, Inc.	N/A	Coal Fired Power Plant	Phividec Industrial Estate, Balascanas, Villanueva, Misamis Oriental	232 MW	Coal	August 30, 2016 - August 29, 2021	June 13, 2016
			Emergency Generating Set		1.25 MW	Diesel		
COC No. 15-03-S-00013M	STEAG State Power, Inc.	N/A	Diesel Engine	Phvidec Industrial Estate, Villanueva, Misamis Oriental	400 kW	Diesel	25	March 25, 2015 - March 25, 2020
COC No. 15-05-M-00007L	AP Renewables, Inc.	Makban – Bay, Plant A	Geothermal Power Plant	Brgy. Bitin, Bay, Laguna	63.2 MW	Geo-thermal Steam	23	May 4, 2015 - May 31, 2020
		Makban – Bay, Plant A			63.2 MW			
		Makban – Bay, Plant D			20.0 MW			
		Makban – Bay, Plant D			20.0 MW			

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	
COC No. 15-05-M-00008L	AP Renewables, Inc.	Makban – Calauan, Plant B	Geothermal Power Plant	Brgy. Limao, Calauan, Laguna	63.2 MW	Geo-thermal Steam	23	May 4, 2015 - May 31, 2020
		Makban – Calauan, Plant B			63.2 MW			
		Makban – Calauan, Plant C			55.0 MW			
		Makban – Calauan, Plant C			55.0 MW			
COC No. 15-05-M-00009L	AP Renewables, Inc.	Makban – Sto. Tomas, Plant E	Geothermal Power Plant	Brgy. Sta. Elena, Sto. Tomas, Batangas	20.0 MW	Geo-thermal Steam	23	May 4, 2015 - May 31, 2020
		Makban – Sto. Tomas, Plant E			20.0 MW			
COC No. 15-11-M-00028L	AP Renewables, Inc.	Plant A, Unit 1	Geothermal Power Plant	Brgy. Naga, Tiwi, Albay	60 MW	Geo-thermal Steam	25	November 26, 2015 - December 12, 2020
		Plant A, Unit 2			60 MW			
COC No. 15-11-M-286rL	AP Renewables, Inc.	Plant C, Unit 5	Geothermal Power Plant	Brgy. Cale, Tiwi, Albay	57 MW	Geo-thermal Steam	25	November 26, 2015 - December 12, 2020
		Plant C, Unit 6			57 MW			
COC No. 17-05-M-00105L	AP Renewables, Inc.	MakBan Binary 1	Geothermal Power Plant	Brgy. Sta. Elena, Sto. Tomas, Batangas	7.0 MW	Brine	November 7, 2016 - November 6, 2021	May 15, 2017
COC No. 16-03-M-00286ggM	Therma Marine, Inc.	Mobile 1	Diesel Power Plant	Brgy. San Roque, MACO, Compostela Valley	100.33 MW	Diesel	25	March 30, 2016 - April 18, 2021
			Blackstart		1.68 MW	Diesel	5	
COC No. 16-03-M-00286bbM	Therma Marine, Inc.	Mobile 2	Diesel Power Plant	Brgy. Nasipit, Agusan del Norte	100.33 MW	Diesel	25	March 30, 2016 - April 5, 2021
			Blackstart		1.68 MW	Diesel	5	
COC No. 17-07-M-00305L	Therma Mobile, Inc.	Barge 1/ Mobile 3	Bunker C-Fired Diesel Power Plant	Navotas Fish Port Complex, Navotas, Metro Manila	66 MW	Bunker C/ Diesel	July 9, 2017 - July 8, 2022	June 22, 2017
COC No. 17-07-M-00306L	Therma Mobile, Inc.	Barge 2/ Mobile 4	Bunker C-Fired Diesel Power Plant	Navotas Fish Port Complex, Navotas, Metro Manila	56 MW	Bunker C/ Diesel	July 9, 2017 - July 8, 2022	June 22, 2017
COC No. 17-07-M-00307L	Therma Mobile, Inc.	Barge 3/ Mobile 5	Bunker C-Fired Diesel Power Plant	Navotas Fish Port Complex, Navotas, Metro Manila	57 MW	Bunker C/ Diesel	July 9, 2017 - July 8, 2022	June 22, 2017
COC No. 17-07-M-00308L	Therma Mobile, Inc.	Barge 4/ Mobile 6	Bunker C-Fired Diesel Power Plant	Navotas Fish Port Complex, Navotas, Metro Manila	52 MW	Bunker C/ Diesel	July 9, 2017 - July 8, 2022	June 22, 2017
COC No. 15-09-M-00022M	Therma South, Inc.	Unit 1	Coal Fired Power Plant	Brgy. Binugao, Toril District, Davao City	150 MW	Coal	25	September 1, 2015 - August 31, 2020

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	
		Unit 2	Coal Fired Power Plant	Brgy. Binugao, Toril District, Davao City	150 MW	Coal	25	January 19, 2016 - August 31, 2020
COC No. 18-02-M-00145L	Pagbilao Energy Corporation	Pagbilao Unit 3 Coal Fired Thermal Power Plant	Coal Fired Thermal Power Plant	Isla Grande, Ibabang Polo, Pagbilao, Quezon	420 MW	Coal	February 20, 2018 – February 19, 2023	February 20, 2018
			Black Start		1.04 MW	Diesel		
COC No. 17-11-M-00282L	GNPower Mariveles Coal Plant Ltd. Co.	Unit 1	Coal Fired Power Plant	Brgy. Alas-asin, Mariveles, Bataan	325.8 MW	Coal	December 3, 2017 – December 2, 2022	November 21, 2017
		Unit 2			325.8 MW			
		N/A	Blackstart		1.68 MW	Diesel		

Distribution Business

Under the EPIRA, the business of electricity distribution is a regulated public utility business that requires a franchise that can be granted only by Congress. In addition to the legislative franchise, a CPCN from the ERC is also required to operate as a public utility. However, distribution utilities operating within economic zones are not required to obtain a franchise from Congress, but must be duly registered with the PEZA in order to operate within the economic zone.

All distribution utilities are required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Philippine Distribution Code, which provides the rules and regulations for the operation and maintenance of distribution systems, and the performance standards set out in the implementing rules and regulations of the EPIRA.

Shown below are the respective expiration periods of the Distribution Utilities' legislative franchises:

DU	Franchise	Term	Expiry
VECO	R.A. 9339	25 years from effectivity of R.A. 9339. (R.A. 9339 approved on Sept. 1, 2005. Publication date not known.)	Valid until September 24, 2030
	ERC Certificate No. CPCN-09-01 (ERC Decision dated January 26, 2009, ERC Case No. 2008-095 MC).	25 years from September 24, 2005 to September 24, 2030	
DLPC	R.A. 8960	25 years from effectivity of the Act (Lapsed into law September 7, 2000. Publication date not known.)	Valid until September 7, 2025
	CPCN (Decision dated February 26, 2002, ERC Case No. 2001-792)	September 7, 2000 to September 7, 2025	
CLPC	R.A. 10637 (Approved June 16, 2014)	25 years from expiration of CA 487, as amended	Valid until June 16, 2039
	ERC Certificate No. CPCN-14-001 (ERC Decision dated December 9, 2019, ERC Case No. 2013-063 MC)	25 Years from June 17, 2014 or until June 16, 2039	

SFELAPCO	R.A. 9967	25 years from effectivity of the Act (Lapsed into law on Feb. 6, 2010)	Valid until March 23, 2035
	ERC Certificate No. CPCN-10-01 (ERC Decision dated August 31, 2010, ERC Case No. 2010-029 MC)	March 24, 2010 to March 23, 2035	
SEZ	Distribution Management Service Agreement (DMSA) between SEZ and JV of AEV-DLPC	Notarized on May 15, 2003. Term of the DMSA is 25 years.	Valid until May 15, 2028.

MEZ, BEZ, and LEZ, which operate the power distribution utilities in MEPZ II, WCIP, and LTC, respectively, are duly registered with PEZA as Ecozone Utilities Enterprises. Cotabato Light's franchise was renewed for another 25 years upon the signing of RA 10637 on June 16, 2014 by then-President Benigno C. Aquino III.

Retail Electricity Supply Business

Like power generation, the business of supplying electricity is not considered a public utility operation under the EPIRA, but is considered a business affected with public interest. As such, the EPIRA requires all suppliers of electricity to end-users in the contestable market, other than distribution utilities within their franchise areas, to obtain a license from the ERC. With the implementation of Open Access in 2013, AboitizPower's Subsidiaries, AESI, AdventEnergy, SN Aboitiz Power – RES, and Prism Energy, obtained separate licenses to act as RES and Wholesale Aggregator. AESI, AdventEnergy, and Prism Energy have each filed the corresponding application for renewal of its respective RES license.

Trademarks

AboitizPower and its Subsidiaries own, or have pending applications for the registration of intellectual property rights for various trademarks associated with their corporate names and logos. The following table sets out information regarding the trademark applications the Company and its Subsidiaries have filed with the Philippine Intellectual Property Office (IP Office).

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
A Better Future word mark (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004383 November 11, 2010	Application for the word mark "A Better Future".	Original Certificate of Registration was issued on November 11, 2010. The 3rd year Anniversary Declaration of Actual Use (DAU) was filed on April 23, 2013 with the IP Office. The 5th year Anniversary DAU was filed on October 26, 2016 with the IP Office. The 10th year Anniversary DAU and application for renewal are due for filing on November 11, 2020.
Better Solutions word mark (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004384 November 11, 2010	Application for the word mark "A Better Solutions".	Original Certificate of Registration was issued on November 11, 2010. The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office. The 5th year Anniversary DAU was filed on October 26, 2016 with the IP Office. The 10th year Anniversary DAU and application for renewal are due for filing on November 11, 2020.

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
AboitizPower word mark (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004385 November 11, 2010	Application for the word mark "AboitizPower".	Original Certificate of Registration was issued on November 11, 2010. The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office. The 5th year Anniversary DAU was filed on October 26, 2016 with the IP Office. The 10th year Anniversary DAU and application for renewal are due for filing on November 11, 2020.
AboitizPower Spiral Device (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004380 February 10, 2011	Application for the device mark "AboitizPower Spiral and Device", with color claim. The representation of a spiral rendered in blue.	Original Certificate of Registration was issued on February 10, 2011. The 3rd year Anniversary Declaration of Actual Use (DAU) was filed on April 23, 2013 with the IP Office. The 5th year Anniversary DAU was filed on February 3, 2017 with the IP Office. The 10th year Anniversary DAU and application for renewal are due for filing on February 10, 2021.
Cleanergy word mark (Class No. 40)	Aboitiz Power Corporation	October 19,2001	4-2001-007900 January 13, 2006	Application for the word mark "Cleanergy".	Original Certificate of Registration for the mark CLEANERGY was issued on January 13, 2006. The 3rd year Anniversary DAU was filed on November 11, 2004. The 5th year Anniversary DAU was filed on December 27, 2011 with the IP Office. The 10th year Anniversary DAU and renewal of registration were filed with the IP Office on January 13, 2016. The 15th DAU is due on January 13, 2021.
Cleanergy word mark (Class Nos. 39 and 42)	Aboitiz Power Corporation	January 16, 2019	4-2019-000850	Application for the word mark "Cleanergy" for the additional goods and services under Class Nos. 39 and 42.	Pending with the IP Office. The 3rd year Anniversary DAU is due for filing on January 16, 2022 with the IP Office.

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
Cleanergy and Device (Class No. 42)	Aboitiz Power Corporation	July 30, 2002	4-2002-06293 July 16, 2007	Application for the device mark "Cleanergy and Device", with color claim). The representation of a light with bulb with three leaves attached to it, with the words "CLEANERGY" and a small "ABOITIZ" diamond logo below it.	Original Certificate of Registration was issued on July 16, 2007. The 3rd year Anniversary DAU was filed on June 28, 2005 with the IP Office. The 5th year Anniversary DAU was filed on July 15, 2013 with the IP Office. The 10th year Anniversary DAU and application for renewal of registration were filed on July 16, 2017 with the IP Office. The Renewal DAU was due on July 16, 2018 but was not filed due to non-use.
Cleanergy Get It and Device (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004381 November 11, 2010	Application for the device mark "Cleanergy Get it and Device". The word Cleanergy", with color claim. The phrase "get it" below it with both words endorsed by representation of a thumbs up sign. The whole mark is rendered in two shades of green.	Original Certificate of Registration was issued on November 11, 2010. The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office. The 5th year Anniversary DAU was filed on October 26, 2016 with the IP Office. The 10th year Anniversary DAU and application for renewal are due for filing on November 11, 2020.
Cleanergy Got It and Device (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004382 November 11, 2010	Application for the device mark "Cleanergy got it and device". The word "Cleanergy" with the phrase "got it" below it with both words endorsed by representation of a thumbs up sign. The whole mark is rendered in two shades of green.	Original Certificate of Registration was issued on November 11, 2010. The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office. The 5th year Anniversary DAU was filed on October 26, 2016 with the IP Office. The 10th year Anniversary DAU and application for renewal are due for filing on November 11, 2020.
AboitizPower and Device (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004379 February 10, 2011	Application for the device mark "AboitizPower and Device", with color claim.	Original Certificate of Registration was issued on February 10, 2011. The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office. The 5th year Anniversary DAU was filed on February 3, 2017 with the IP Office. The 10th year Anniversary DAU and application for renewal are due for filing on February 10, 2021.

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
Alterspace word mark (Class Nos. 9, 39 and 40)	Aboitiz Power Corporation	April 6, 2011	4-2011-003968 February 24, 2012	Application for the word mark “ALTERSPACE”.	Original Certificate of Registration was issued on February 24, 2012. The 3rd year Anniversary DAU was filed on May 20, 2014 with the IP Office. The 5th DAU was due on February 24, 2018 but was not filed due to non-use.
Alterspace and Device (Class Nos. 9, 39 and 40)	Aboitiz Power Corporation	May 31, 2011	4-2011-006291 December 22, 2011	Application for the device mark “Alterspace and Device”. A globe with the words “alter” and “space” inside an arrow circling the globe and separating the words. The globe is rendered in forest green, while the words and arrow are rendered in lime green.	Original Certificate of Registration was issued on December 22, 2011. The 3rd year Anniversary DAU was filed May 20, 2014 with the IP Office. The 5th DAU was due on December 22, 2017 but was not filed due to non-use.
RP Energy and Device (Class No. 40)	Redondo Peninsula Energy, Inc.	August 12, 2008	4-2008-0093737 April 13, 2009	Application for the device mark “RP Energy and Device”.	Original Certificate of Registration was issued on April 13, 2009. The 5th year DAU was filed on February 16, 2015. The 10th year Anniversary DAU and application for renewal are due for filing on April 13, 2019.
Subic EnerZone Corporation and Logo (Class No. 39)	Subic EnerZone Corporation	July 6, 2006	4-2006-007306 August 20, 2007	Trademark application for Subic EnerZone Corporation and Logo, with color claim (blue and yellow). The mark consists of the words “SUBIC ENERZONE” in Fujiyama extra bold font with the word “CORPORATION” below it, also in Fujiyama font, rendered in cobalt medium blue color, and a representation of the letter “S” taking the shape of a flame (the company logo) above the words. The logo is likewise rendered in the cobalt medium blue color in a yellow background.	Original Certificate of Registration was issued on August 20, 2007. The mark was renewed on August 20, 2017. The renewal DAU was filed on August 20, 2018 with the IP Office. The Renewal 5th Year DAU is due on August 20, 2023.

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
Subic EnerZone Corporation and Logo (Class No. 39)	Subic EnerZone Corporation	July 6, 2006	4-2006-007305 August 20, 2007	Application for the Subic EnerZone Corporation word mark and device (gray). The mark consists of the words "SUBIC ENERZONE" in Fujiyama extra bold font with the word "CORPORATION" below it, also in Fujiyama font, and a representation of the letter "S" taking the shape of a flame (the company logo) above the words.	Original Certificate of Registration was issued on August 20, 2007. The mark was renewed on August 20, 2017. The renewal DAU was filed on August 20, 2018 with the IP Office. The Renewal 5th Year DAU is due on August 20, 2023.
Subic EnerZone Corporation word mark (Class No. 39)	Subic EnerZone Corporation	July 6, 2006	4-2006-007304 June 4, 2007	Application for the word mark "Subic EnerZone Corporation".	Original Certificate of Registration was issued on June 4, 2007. The 3rd year Anniversary DAU was filed with the IP Office on July 6, 2009. The 5th year Anniversary DAU was filed with the IP Office on June 4, 2013. The 10th year Anniversary DAU and application for renewal of registration was filed with the IP Office on June 4, 2017. The renewal DAU was filed on June 4, 2018 with the IP Office The Renewal 5th Year DAU is due on June 4, 2023.

International Trademarks Application (Madrid Protocol)

Trademarks	Applicant	Date Filed	Country of Application	Status
AboitizPower word mark (#2019006359) (Class No. 39)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.
AboitizPower word mark (#2019006360) (Class No. 40)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.
AboitizPower word mark (#2019006362) (Class No. 42)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.
AboitizPower and device (#2019006349) (Class no. 39)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.
AboitizPower and device (#2019006347) (Class no. 40)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.
AboitizPower and device (#2019006364) (Class no. 42)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.
Cleanergy word mark	Aboitiz Power	February 25, 2019	Malaysia	The application is still

Trademarks	Applicant	Date Filed	Country of Application	Status
(#2019006363) (Class no. 39)	Corporation			pending.
Cleanergy word mark (#2019006361) (Class no. 40)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.
Cleanergy word mark (#2019006357) (Class no. 42)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.
Cleanergy got it device (#2019006351) (Class No. 39)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.
Cleanergy got it device (#2019006350) (Class No. 40)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.
Cleanergy got it device (#2019006348) (Class No. 42)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.
Cleanergy get it device (#2019006358) (Class No. 39)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.
Cleanergy get it device (#2019006354) (Class No. 40)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.
Cleanergy get it device (#2019006353) (Class No. 42)	Aboitiz Power Corporation	February 25, 2019	Malaysia	The application is still pending.

(x) Government Approvals

The discussion on the need for any government approval for any principal products or services of the Company and its Subsidiaries, including COCs obtained by the Generation Companies and franchises obtained by the Distribution Utilities, is included in item (ix) Patents, Copyrights and Franchises.

(xi) Effect of Existing or Probable Government Regulations on the Business

1. The Tax Reform for Acceleration and Inclusion (TRAIN Law)

The TRAIN Law was signed into law by President Rodrigo Roa Duterte on December 19, 2017, and took effect on January 1, 2018. Its declared policies are to: (a) enhance the progressivity of the tax system through the rationalization of the Philippine internal revenue tax system, thereby promoting sustainable and inclusive economic growth; (b) provide, as much as possible, an equitable relief to a greater number of taxpayers and their families in order to improve levels of disposable income and increase economic activity; and (c) ensure that the government is able to provide better infrastructure, health, education, jobs, and social protection for the people.

One of the major provisions of the TRAIN Law is the staggered increase in oil and coal excise taxes. Under the TRAIN Law, rates will be adjusted gradually between 2018 and 2020. For coal, the rates will increase from ₱10 per metric ton to ₱50.00, ₱100.00, and ₱150.00 per metric ton, respectively, in 2018, 2019, and 2020, covering both domestic and imported coal.

Furthermore, the TRAIN Law repeals Section 9 of Republic Act No. 9511 or the National Grid Corporation of the Philippines Act, which effectively removes VAT exemptions on transmission charges and sale of electricity by cooperatives duly registered under the Cooperative Development Authority (CDA). The estimated impact on the cost of electricity are as follows:

Additional cost
All figures in ₱

	kWh consumption	Current cost per kWh	Current Total Cost	Generation Coal	Generation Diesel/Bunker	Transmission	Distribution	UCME[1]	Total	Estimated new total cost	Percent increase
Grid (Meralco)	100	7.80	780.00	2.00	4.40	8.18	0.00	0.38	14.96	794.96	1.92
Grid (non-Meralco, NEA)	100	8.80	880.00	2.00	4.40	5.91	0.00	0.38	12.69	892.69	0.44
Grid (non-Meralco, CDA)	00	8.80	880.00	2.00	4.40	5.91	7.18	0.38	19.87	899.87	2.26
SPUG[2] (NEA[3], coal powered)	00	11.30	1,130.00	4.00	0.00	0.00	0.00	0.38	4.38	1,134.38	0.39
SPUG (CDA, coal powered)	00	11.30	1,130.00	4.00	0.00	0.00	10.17	0.38	14.55	1,144.55	1.29
SPUG (NEA, diesel/bunker powered, full pass-through)	00	11.30	1,130.00	0.00	7 1.00	0.00	0.00	0.00	71.00	1,201.00	6.28
SPUG (CDA, diesel/bunker powered, full pass-through)	00	11.30	1,130.00	0.00	7 1.00	0.00	10.17	0.00	8.7	2.70	7.8
SPUG (NEA, diesel/bunker powered, subsidized)	00	11.30	1,130.00	0.00	0.00	0.00	0.00	0.38	0.38	30.38	0.03
SPUG (CDA, diesel/bunker powered, subsidized)	00	11.30	1,130.00	0.00	0.00	0.00	10.17	0.38	0.55	40.55	0.93

Sources: *Department of Energy (DOE), Kuryente.org, and Department of Finance (DOF) staff estimates*

Notes: Estimates are based on the following assumptions:
i) An additional ₱2.50 per liter increase in the excise tax of diesel and bunker fuel.
ii) An average increase to ₱1.00 in excise tax per metric ton of coal

Another major change introduced by the TRAIN Law is the refund mechanism of zero-rated sales and services under the enhanced VAT refund system. Upon the successful establishment and implementation of an enhanced VAT refund system, refunds of creditable input tax shall be granted by the Bureau of Internal Revenue (BIR) within 90 days from filing of the VAT refund application, provided that all pending VAT refund claims of the taxpayer as of December 31, 2017 shall be fully paid in cash by December 31, 2019. The zero-rated transactions covered by this refund mechanism are the following:

(i) Sale of raw materials or packaging materials to a nonresident buyer for delivery to a resident local export-oriented enterprise;
(ii) Sale of raw materials or packaging materials to export-oriented enterprise whose export sales exceed seventy percent (70%) of total annual production;
(iii) Those considered export sales under Executive Order No. 226, otherwise known as the Omnibus Investment Code of 1987, and other special laws;
(iv) Services performed by subcontractors and/or contractors in processing, converting, of manufacturing goods for an enterprise whose export sales exceed seventy percent (70%) of total annual production; and
(v) Processing, manufacturing or repacking goods for other persons doing business outside the Philippines which goods are subsequently exported, where the services are paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of Bangko Sentral ng Pilipinas.

Finally, the TRAIN Law doubled the documentary stamp tax (DST) on almost all covered instruments, except debt instruments where the increase is 50%. Only the DST on instruments pertaining to property insurance, fidelity bonds, other insurance, indemnity bonds, and deeds of sale and conveyance remain unchanged.

The Corporate Tax Reform and Fiscal Incentives Modernization is the second package of the Comprehensive Tax Reform Program of the Duterte Administration ("Package 2"). In his State of the Nation Address on July 23, 2018, the President certified Package 2 as a priority legislative measure.

[1] Universal Charge of Missionary Electrification
[2] Small Power Utilities Group
[3] National Electrification Administration

The House of Representatives approved its version of Package 2, House Bill No. (HB) No. 8083 or the Tax Reform for Attracting Better and Higher Quality Opportunities ("TRABAHO") bill, on third and final reading on September 10, 2018. On the other hand, the Senate's version, Senate Bill No. (SB) No. 1906, has been pending with the Committee of Ways and Means since August 6, 2018.

Package 2, which the Department of Finance (DOF) claims to be revenue-neutral, proposes to gradually lower the corporate income tax ("CIT") rate while modernizing the fiscal incentives to make them performance-based, targeted, time-bound, and transparent for a more competitive fiscal incentives system for investments. Pursuant to HB No. 8083, from 30%, the CIT shall be 28% beginning January 1, 2021; 26% beginning January 1, 2023; 24% beginning January 1, 2025; 22% beginning January 1, 2027; and 20% beginning January 1, 2029. On the other hand, under SB No. 1906, the CIT rate shall be 25% upon the effectivity of Package 2.

2. Data Privacy Act of 2012

The Data Privacy Act of 2012 is a comprehensive and strict privacy legislation aimed to protect the fundamental human right of privacy by: (i) protecting the privacy of individuals while ensuring free flow of information; (ii) regulating the collection, recording, organization, storage, updating or modification, retrieval, consultation, use, consolidation, blocking, erasure or destruction of personal data; and (iii) ensuring that the Philippines complies with international standards set for data protection through National Privacy Commission (NPC).

Intended to protect the privacy of individuals, it mandates companies to inform the individuals about how their personal information are collected and processed. It also ensures that all personal information must be (i) collected and processed with lawful basis, which includes consent, and only for reasons that are specified, legitimate, and reasonable; (ii) handled properly, ensuring its accuracy and retention only for as long as reasonably needed; and (iii) discarded properly to avoid access by unauthorized third parties.

Its Implementing Rules and Regulations took effect on September 9, 2016, mandating all Philippines companies to comply with the following: (i) appointment of a Data Protection Officer; (ii) conduct of a privacy impact assessment; (iii) creation of a privacy knowledge management program; (iv) implement a privacy and data protection policy; and (v) establish a breach reporting procedure. In addition, companies with at least 250 employees or access to the personal and identifiable information of at least 1,000 individuals are required to register their data processing systems with the National Privacy Commission.

In 2017, AEV launched its data privacy compliance program which includes the implementation of Information Security Management System (ISMS) for the entire Aboitiz Group. Expected time of completion for this compliance program is by the fourth quarter of 2019.

3. The Philippine Competition Act

The Philippine Competition Act (R.A. 10667) is aimed to promote and protect fair market competition. It is intended to improve consumer protection and preserve the efficiency of market competition by establishing the PCC to implement the following: (i) prohibition against entities from entering into anti-competitive horizontal and vertical agreements that substantially prevent, restrict, or lessen competition; (ii) proscription on abuse of dominant position, which refers to conduct by dominant players that substantially prevents, restricts, or lessens competition (e.g., predatory pricing, tying and bundling, or imposing barriers to entry by new player, etc); (iii) regulation or prevention of anti-competitive mergers and acquisitions; and (iv) imposition of fines and criminal penalties.

In 2018, the PCC issued Memorandum Circular No. 18-001, which adjusted the thresholds for the compulsory notification of mergers and acquisitions from ₱1 bn for both the Size of Person and Size of Transaction tests to ₱5 bn for the Size of Person and ₱2 bn for the Size of Transaction as defined in the Implementing Rules and Regulations. The same memorandum circular also provided that unless otherwise modified or repealed by the Commission, the thresholds set out in Rule 4, Section 3 of the Implementing Rules and Regulations, as amended, shall be automatically adjusted commencing on March 1, 2019 and on March 1st of every succeeding year, using as index the Philippine Statistics Authority's official estimate of the nominal Gross Domestic Product (GDP) growth of the previous calendar year rounded up to the nearest hundred millions. The annual nominal GDP from 2017 to 2018 grew by 10.23%.

Based on the nominal GDP growth, the PCC issued Advisory 2019-001, notifying the public of the adjustment of the thresholds:

Adjusted Thresholds to be Implemented		
Test	Old Threshold (2018)	New Threshold (effective March 1, 2019)
Size of Person Test	₱5 bn	₱5.6 bn
Size of Transaction Test	₱2 bn	₱2.2 bn

This means that the value of the assets or revenues of the Ultimate Parent Entity (UPE) of at least one of the parties must exceed ₱5.6 bn instead of ₱5 bn. The UPE is the entity that, directly or indirectly, controls a party to the transaction, and is not controlled by any other entity. In addition, the value of the assets or revenues of the acquired entity must exceed ₱2.2 bn instead of ₱2 bn. Both thresholds must be breached in order for the compulsory notification requirement to apply. The new thresholds will not apply to (a) transactions already pending review with the PCC, (b) notifiable transactions consummated before March 1, 2019, and (c) transactions already decided by the PCC.

The Aboitiz Group, in its effort to create shareholder value by growing its businesses and in the conduct of its business practices, closely monitors its compliance with the Philippine Competition Act.

4. Electric Power Industry Reform Act of 2001 (EPIRA)

Since the enactment of the EPIRA, the Philippine power industry has undergone and continues to undergo significant restructuring. Among the provisions of the EPIRA which have had or will have considerable impact on AboitizPower's businesses relate to the following:

(a) Wholesale Electricity Spot Market (WESM)

The WESM is a mechanism established by the EPIRA to facilitate competition in the production and consumption of electricity. It aims to provide the mechanism for identifying and setting the price of actual variations from the quantities transacted under contracts between sellers and purchasers of electricity by: (a) establishing the merit order dispatch instructions for specific time periods; (b) determining the market clearing price for such time periods; (c) reflecting accepted economic principles; and (d) providing a level playing field to all electric power industry participants.

The WESM provides an avenue whereby generators may sell power and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. Where there are such bilateral contracts, these contracts are nevertheless declared in the market but only to determine the appropriate merit order of generators. Settlement for bilateral contracts between the contracting parties will, however, occur outside the market. Traded electricity not covered by bilateral contracts will be settled through the market on the basis of the market clearing prices for each of the trading periods.

An amended Joint Resolution No. 2 was issued by DOE, ERC, and PEMC on December 27, 2013 adjusting the WESM Offer Price Cap. In this resolution, the Offer Price Ceiling of ₱62,000.00 per MWh as set by the WESM Tripartite Committee was reduced to ₱32,000.00 per MWh. This price cap is provisional in nature and shall be subject to public consultations and review by the WESM Tripartite Committee.

In May 2014, ERC issued an urgent resolution which established a mechanism to impose an interim secondary price cap of ₱6,245.00 per MWh in the WESM. In December 2014, ERC adopted a permanent pre-emptive mitigation measure, where the price cap of ₱6,245.00 per MWh would be imposed in the event the average spot price in WESM would exceed ₱9,000.00 per MWh over a rolling seven-day period.

The Philippine Independent Power Producers Association, Inc. (PIPPA) filed a petition for declaratory relief with the Regional Trial Court (RTC) of Pasig City on the ground that the resolutions establishing the interim secondary price cap and the permanent pre-emptive mitigation measure are invalid and void.

In 2015, DOE issued Circular 2015-10-0015 entitled "Providing Policies for Further Enhancement of the Wholesale Electricity Spot Market (WESM) Design and Operation". The enhancements to the WESM Design are summarized below:

(i) Removal of Pmin constraint in the Market Dispatch Optimization Model;
(ii) Five minutes dispatch intervals from one hour;
(iii) Ex-ante pricing only;
(iv) Maintaining the one hour settlement interval for settlement purposes;
(v) Automated pricing corrections;
(vi) Mandatory integration of distribution utilities' sub-transmission network (with material effect) into the Market Network Model (MNM);
(vii) Changing the values and priorities of some of the Constraint Violation Coefficients (CVCs);
(viii) Imposition of WESM offer cap and floor for energy and reserve as determined through joint study by the DOE, ERC and PEMC;
(ix) Implementation of hourly Day-Ahead Projection (DAP) with sensitivities and Hour-Ahead Dispatch (HAD);
(x) Implementation of nodal-based short-term demand forecasting;
(xi) Enhanced training of WESM participants; and
(xii) Any other enhancements as may be deemed necessary and issued by the DOE.

On May 17, 2017, PEMC filed an application docketed as ERC Case No. 2017-042 RC for the approval of the Price Determination Methodology for the WESM, which includes, *inter alia*, (i) scheduling and pricing of energy and reserves, and (ii) revised settlement formula. Hearings are ongoing.

(b) WESM Mindanao

On May 4, 2017, the DOE issued DC 2017-05-0009 entitled "Declaring the Launch of WESM in Mindanao and Providing Transition Guidelines". This DOE Circular took effect on June 7, 2017, with the following pertinent provisions:

(i) Establishment of Mindanao WESM Transition Committee, which will be one of the committees under the PEMC Board;

(ii) Launch of WESM in Mindanao on June 26, 2017, with the commencement of full commercial operations dependent on various conditions precedent, including installation of metering facilities, approval of the Price Determination Methodology by the ERC, and trial operations of the WESM, among others;

(iii) Conduct of the Trial Operation Program for the WESM;

(iv) Automatic termination of IMEM; and

(v) Implementation of an Interim Protocol to govern the dispatch and scheduling of power generation plants, while the WESM is still not operational.

As of December 2018, trial operations were ongoing to ensure the readiness of eventual WESM participants in Mindanao. According to the DOE, the target commercial operations of the WESM in Mindanao is set on June 2019, although this would still require the promulgation of the the new Price Determination Methodology currently pending in the ERC.

(c) Independent Electricity Market Operator (IEMOP)

On February 04, 2018, DOE issued Circular DC2018-01-0002, setting the policy governing the establishment of an independent market operator (IMO) of the WESM. The policy on IMO outlines the mandates of DOE and ERC over the independent market operator, its guiding principles, composition, including a board composed of at least five members, its functions, and WESM's new governing and governance structure and the conditions for transition.

The IMO transition plan called for the formation of a new company called the IEMOP as an independent market operator, with PEMC remaining as WESM's governing body. Previously, PEMC oversees both the operations and governance functions of WESM. The transition also entails the reconstitution of the PEMC Board, with the DOE Secretary relinquishing his chairmanship, paving the way for a PEMC independent of government.

On September 26, 2018, IEMOP formally took over operations of the WESM from PEMC thereby signifying the government's transfer of WESM operations to the private sector. IEMOP facilitates the registration and participation of generating companies, distribution utilities, directly connected customers or bulk users, suppliers and contestable customers in the WESM. It also determines the hourly schedules of generating units that will supply electricity to the grid, as well as the corresponding spot-market prices of electricity via its Market Management System.

(d) Retail Competition and Open Access (Open Access)

The EPIRA provides for a system of Open Access to transmission and distribution wires, whereby Transco, its concessionaire, NGCP, and any distribution utility may not refuse the use of their wires by qualified persons, subject to the payment of transmission and distribution retail wheeling charges. Conditions for the commencement of Open Access are as follows:

(i) Establishment of the WESM;

(ii) Approval of unbundled transmission and distribution wheeling charges;

(iii) Initial implementation of the cross subsidy removal scheme;

(iv) Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and

(v) Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPPAs.

As provided in the EPIRA, Open Access shall be implemented in phases. The WESM began operations in Luzon in June 2006 and in Visayas in December 2010.

In 2011, the ERC motu proprio initiated proceedings to determine whether Open Access may already be declared in Luzon and Visayas. Following various public hearings, the ERC declared December 26, 2011 as the Open Access Date when full operations of the Competitive Retail Electricity Market (CREM) in Luzon and Visayas should commence. All electricity end- users with an average monthly peak demand of 1 MW for the twelve months preceding December 26, 2011, as certified by the ERC to be Contestable Customers, were given the right to choose their own electricity suppliers. However, on October 24, 2011, upon the request of MERALCO, the Private Electric Power Operators Association and the Philippine Rural Electric Cooperatives Association, Inc. for re-evaluation of the feasibility of the December 26, 2011 Open Access Date, the ERC declared the deferment of the implementation of Open Access in Luzon and Visayas by reason of the inadequacy of rules, systems, preparations, and infrastructure required therefore.

In 2012, the ERC, together with the DOE and PEMC, worked on the development of the Transitory Rules to govern the initial implementation of Open Access, which rules were finalized and issued by the ERC in December 2012. Under the said rules, the ERC declared December 26, 2012 as the Open Access Date, while the period from December 26, 2012 to June 25, 2013 was declared as the transition period during which the required systems, processes, and information technology structure relating to Open Access would be developed and finalized, and registration of retail electricity suppliers and Contestable Customers into the WESM database would be instituted. The period from June 26, 2013 to December 25, 2013 would cover the initial commercial operation of Open Access. From December 26, 2013 onwards, full retail competition was implemented, with PEMC assigned to perform the functions of the Central Registration Body tasked to undertake the development and management of the required systems, processes, information technology structure, and the settlement of transactions in the WESM relating to Open Access.

In Mindanao, a truly competitive environment required by Open Access is not expected in the near future because the largest generating asset owned by NPC in Mindanao has yet to be privatized. In December 2013, however, the IMEM commenced operations to address the supply shortfall in the Grid through the utilization of available resources such that all registered generating facilities are mandated to fully account for their capacities in the market.

In December 2013, ERC issued revised licensing regulations for RES operating in the retail supply segment. In the ERC revised rules, no RES licenses would be issued to generating companies, IPPA and affiliates of distribution utilities during a transition period or until the ERC deems appropriate in consideration of market conditions. Additional restrictions were provided such as: (1) including the contracted capacity of the RES in the grid limitations imposed on the total capacity controlled by its affiliate generation companies; (2) limiting the supply by a RES to its affiliate end-users up to 50% of the RES' capacity; and (3) limiting the supply by a generation company to its affiliate RES up to 50% of the generation requirements of such RES. The Retail Electricity Suppliers Association of the Philippines, Inc. has a petition for declaratory relief with an urgent application for an injunction with the RTC of Pasig on the ground that the revised rules are unconstitutional and invalid.

On October 22, 2014, the ERC issued Resolution No. 17, Series of 2014, which holds in abeyance the evaluation of RES license applications and suspends the issuance of RES licenses pending the ERC's promulgation of the amended RES License Rules. Currently, ERC is reviewing the RES Licensing Rules and Rules for Contestability.

On May 12, 2016, the ERC issued Resolution No. 11, Series of 2016, which disallows distribution utilities from engaging in the supply of electricity to end-users in the Contestable Market unless it is a Supplier of Last Resort. Local RES are also mandated to wind down business within three years from the effectivity of ERC Resolution No. 11-16. Retail Supply Contracts (RSC) executed by Local RES shall remain valid until their expiration, but no new RSCs can be signed or executed. ERC Resolution No. 11-16 further provides that no RES are allowed to supply more than 30% of the total average monthly peak demand of all Contestable Customers in the CREM. Further, RES are not allowed to transact more than 50% of the total energy transactions of its supply business with its affiliate Contestable Customers.

In its Resolution No. 10, Series of 2016, the ERC approved the Revised Rules of Contestability, which establishes the conditions and eligibility requirements for end-users to be part of the Contestable Market.

On May 27, 2016, MERALCO filed a Petition for Declaratory Relief, docketed as SCA No. 4149-PSG, with a prayer for the issuance of a TRO and/or Writ of Preliminary Injunction to: (a) enjoin the DOE and the ERC from enforcing and implementing: (i) DOE Circular No. DC2015-06-0010 in connection with the full implementation of RCOA, (ii) Article 1, Sections 2 and 3 of ERC Resolution No. 5, Series of 2016, (iii) ERC Resolution No. 10, Series of 2016 on the revised rules for contestability, and (iv) ERC Resolution No. 11, Series of 2016 regarding restrictions imposed on the operations of DUs and RES in the CREM; and (b) declare the said DOE Circular and ERC Resolutions void. On July 13, 2016, a Writ of Preliminary Injunction enjoining the implementation of the issuances of the ERC was granted by Branch 157, RTC of Pasig City. The ERC and the DOE, assailing the jurisdiction of the RTC, separately filed Petitions for Certiorari and Prohibition before the Supreme Court on July 5, 2016 (G.R. No. 225141) and on September 27, 2016 (G.R. No. 226800), respectively.

On October 10, 2016, the Supreme Court, acting on the Petition filed by DOE, issued a TRO enjoining Branch 157, RTC of Pasig City from continuing with the proceedings in SCA No. 4149-PSG and from enforcing all orders, resolutions, and decisions rendered in SCA No. 4149-PSG.

In December 2016, the Philippine Chamber of Commerce and Industry, San Beda College Alabang, Inc., Ateneo de Manila University, and Riverbanks Development Corporation filed a new petition before the Supreme Court to enjoin the ERC and the DOE from implementing DOE Circular No. 2015-06-0010, ERC Resolution No. 5, Series of 2016, ERC Resolution No. 10, Series of 2016, ERC Resolution No. 11, Series of 2016, and ERC Resolution No. 28, Series of 2016.

On February 21, 2017, the Supreme Court issued a TRO, effective immediately, enjoining the DOE and the ERC from implementing DOE Circular No. DC2015-06-0010, Series of 2015, ERC Resolution No. 5, Series of 2016, ERC Resolution No. 10, Series of 2016, ERC No. 11, Series of 2016, and ERC Resolution No. 28, Series of 2016.

In a letter to MEZ dated November 7, 2017, ERC through Commissioner Alfredo J. Non, stated that:

> *"Distribution Utilities are reminded to facilitate the switch of contestable customers as the said TRO did not operate to suspend the implementation of RCOA. The RCOA scheme is still effective and the rules governing the same, except for those covered by the TRO, are valid and enforceable."*

In this letter, ERC also reminded MEZ to refrain from any action which would prevent the implementation of the contestability of 1 MW and above in the CREM and the voluntary switch of Contestable Customers to and/or from RES.

On November 29, 2017, DOE promulgated DC2017-12-0013 entitled *"Providing Policies on the Implementation of Retail Competition and Open Access (RCOA) for Contestable Customers in the Philippine Electric Power Industry."* The circular provides, *inter alia*, that (i) upon the effectivity of Circular, all Contestable Customers with a monthly average peak demand of 750 kW and above, for the preceding twelve months, may participate in the Contestable Market; (ii) by June 26, 2018 or on an earlier date specified by the ERC, all eligible electricity end-users to become Contestable Customers with a monthly average peak demand of 500 kW to 749 kW for the preceding twelve months may voluntarily participate in the Contestable Market; and (iii) by December 26, 2018 or on an earlier date specified by the ERC, electricity end-users within a contiguous area whose aggregate average peak demand is not less than 500 kW for the preceding twelve-month period may aggregate their demand to be part of the Contestable Market and may voluntarily enter into RSC with the Aggregators.

On November 29, 2017, DOE promulgated DC2017-12-0014 entitled *"Providing Policies on the Implementation of Retail Competition and Open Access (RCOA) for Retail Electricity Suppliers (RES) Philippine Electric Power Industry."* The circular provides the list of entities that may become Retail Electricity Suppliers. The circular also stipulates that distribution utilities may provide electricity services to Contestable Customers within its franchise area as a Local RES upon authorization from the ERC. The EPIRA provides for a system of Open Access to transmission and distribution wires, whereby Transco, its concessionaire, the NGCP, and any distribution utility may not refuse the use of their wires by qualified persons, subject to the payment of transmission and distribution retail wheeling charges.

(e) Unbundling of Rates and Removal of Subsidies

The EPIRA mandated the unbundling of distribution and wheeling charges from retail rates, with such unbundled rates reflecting the respective costs of providing each service. It also mandated the removal of cross subsidies other than the lifeline rate for marginalized end-users which shall subsist for a period of 20 years, unless extended by law. The lifeline rate is a socialized pricing mechanism set by ERC for low-income, captive electricity consumers who cannot afford to pay the full cost of electricity

(f) Reduction of Taxes and Royalties on Indigenous Energy Resources

EPIRA requires the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel, and other imported fuels. Following the promulgation of the implementing rules and regulations, former President Gloria Macapagal-Arroyo enacted Executive Order No. 100 to equalize the taxes among fuels used for power generation.

(g) Proposed Amendments to the EPIRA

Since the enactment of the EPIRA in 2001, members of Congress have proposed various amendments to the law and its implementing rules and regulations. A summary of the significant proposed amendments are as follows:

(i) Classification of power projects as one of national significance and imbued with public interest;

(ii) Exemption from VAT on the sale of electricity by generation companies;
(iii) Modification of the definition of the term "Aggregator," which is proposed to refer to a person or entity engaged in consolidating electric power demands of end-users of electricity in the contestable market, for the purpose of purchasing, reselling, managing for optimum utilization of the aggregated demand, or simply pooling the tendering process in looking for a supply of electricity on a group basis;
(iv) Requirement for distribution utilities to conduct public and competitive selection processes or Swiss challenges for the supply of electricity and to fully or adequately contract their future and current energy and demand requirements;
(v) Grant of access to electric cooperatives over the missionary electrification fund collected through universal charges;
(vi) Exclusion of the following items from the rate base charged by Transco and distribution utilities to the public: corporate income tax, value of the franchise, value of real or personal property held for possible future growth, costs of over-adequate assets and facilities, and amount of all deposits as a condition for rendition and continuation of service;
(vii) Regulation of generation, transmission, distribution, and supply rates to allow RORB up to 12%;
(viii) Classification of power generation and supply sectors as public utilities, which would be required to secure legislative franchises;
(ix) Prohibition of cross-ownership between generation companies and distribution utilities or any of their subsidiaries, affiliates, stockholders, officials or directors, or the officials, directors, or other stockholders of such subsidiaries or affiliates, including the relatives of such stockholders, officials or directors within the fourth civil degree of consanguinity;
(x) Prohibition against or restriction on distribution utilities from sourcing electric power supply requirements, under bilateral electric power supply contracts, from a single generation company or from a group of generating companies wholly-owned or controlled by the same interests;
(xi) Lowering of the allowable extent of ownership, operation and control of a company or related groups as determined from the installed generating capacity of the grid and/or nationally installed generating capacity;
(xii) Exemption or deferral of the privatization of some assets of NPC, such as the Unified Leyte (Tongonan) Geothermal Complexes, Agus and Polangui Complexes, and Angat Dam;
(xiii) Expansion of the definition of host communities to include all barangays, municipalities, cities and provinces or regions where hydro generation facilities are located and where waterways or water systems that supply water to the dam or hydroelectric power generating facility are located;
(xiv) Prohibition on distribution utilities, except rural electric cooperatives to recover systems losses and placing a 5% cap on recoverable system loss;
(xv) Imposition of a uniform franchise tax for distribution utilities equivalent to 3% of gross income in lieu of all taxes;
(xvi) Grant of authority for NPC to generate and sell electricity from remaining assets;
(xvii) Removal of the requirement of a joint congressional resolution before the President may establish additional power generating capacity in case of imminent shortage of supply of electricity; and
(xviii) Creation of a consumer advocacy office under the organizational structure of the ERC.

5. Implementation of the Performance-based Rating-setting Regulation (PBR)

On December 13, 2006, ERC issued the Rules for Setting Distribution Wheeling Rates (RDWR) for privately-owned distribution utilities entering PBR for the second and later entry points, setting out the manner in which this new PBR rate- setting mechanism for distribution-related charges will be implemented. PBR replaces the Return-on-Rate Base (RORB) mechanism, which has historically determined the distribution charges paid by customers. Under PBR, the distribution- related charges that distribution utilities can collect from customers over a four-year regulatory period is set by reference to projected revenues which are reviewed and approved by ERC and used by ERC to determine the distribution utility's efficiency factor. For each year during the regulatory period, the distribution utility's distribution-related charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor as against changes in overall consumer prices in the Philippines.

The ERC has also implemented a PIS whereby annual rate adjustments under PBR will take into consideration the ability of a distribution utility to meet or exceed service performance targets set by ERC, such as the: (a) average duration of power outages; (b) average time of restoration to customers; and (c) average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

The second regulatory period of Cotabato Light ended on March 31, 2013, while that of VECO and Davao Light ended on June 30, 2014. In addition, the second regulatory period of SEZ and SFELAPCO ended on September 30, 2015. A reset process should have been initiated 18 months prior to the start of the third regulatory period of April 1, 2013 to March 31, 2017 for Cotabato Light, July 1, 2014 to June 30, 2018 for VECO and Davao Light, and October 1, 2015 to September 30, 2019 for SEZ and SFELAPCO. The reset process, however, has been delayed due to the issuance by ERC in 2013 of an Issues Paper on the Implementation of PBR for distribution utilities under RSDWR. Said paper aims to revisit various matters relating to the reset process.

On December 22, 2015, Matuwid na Singil sa Kuryente Consumer Alliance, Inc. (MSK) filed a petition proposing a modified RORB methodology or a modified PBR methodology, wherein the distribution utilities' capital expenditures and rate recovery thereon are approved in advance but the charges to the customers will only commence after the investments have actually been made and validated by ERC auditors. Public consultations were held on various dates in Metro Manila, Cebu and Davao.

Through ERC Resolution No. 25 Series of 2016 dated July 12, 2016, ERC adopted the Resolution Modifying the RDWR for Privately Owned Distribution Utilities Entering PBR. Based on said Resolution, the Fourth Regulatory Period shall be as follows:

- (i) Cotabato Light: April 1, 2017 to March 31, 2021
- (ii) Davao Light and VECO: July 1, 2018 to June 30, 2022
- (iii) SEZ and SFELAPCO: October 1, 2019 to September 30, 2023

The reset process for the fourth regulatory period has not yet started for all private distribution utilities as the abovementioned ERC rules have not been published yet for its effectivity. Due to the rules change on PBR, all AboitizPower Distribution Utilities have not undergone the third regulatory period.

6. Philippine Distribution Code and the Philippine Grid Code

Each of AboitizPower's Distribution Utilities has submitted to ERC a Compliance Monitoring Report based on a self- assessment of a distribution utility's compliance with the Philippine Distribution Code. These Compliance Monitoring Reports were accompanied by Compliance Plans, which outline the activities and projects to be undertaken by a distribution utility to fully comply with the prescribed technical, performance and financial standards of the Philippine Distribution Code.

On October 5, 2016, ERC approved the 2016 Edition of the Philippine Grid Code in Resolution No. 22, Series of 2016.

On February 27, 2018, ERC approved the 2017 Phlippine Distribution Code in Resolution No. 02, Series of 2018. Pertinent additions and revisions include:

- (i) Establishment of connection and operational requirements for Embedded Generating plants, both conventional and variable renewable energy (VRE) source;
- (ii) Classificaiton of Embedded Generating plants according to their characteristics and installed capacity;
- (iii) Specified procedures for new connection and modifications of existing connection to guide prospective project proponents in connecting to the distribution system;
- (iv) Application of the PDC to entities duly authorized to operate a distribution system within the Economic Zones;
- (v) Removal of administrative loss as part of system loss and non distinction of technical and non-technical loss caps;
- (vi) Addition of members representing the Market Operator and the largest Distribution Utility to be added to the Distribution Management Committee (DMC); and
- (vii) Harmonization of PRC with PGC 2016 Edition, the Market Rules of the WESM, and subsequent rules and guidelines issued by the ERC applicable to Distribution Systems.

APRI, TMI, and Hedcor have submitted to ERC their respective Grid Compliance Monitoring Reports based on self- assessments of their compliance with all prescribed technical specifications and performance standards of the Philippine Grid Code. Reliable and attainable compliance plans accompanied these reports to outline the activities and projects that will cause compliance by a generation company with the requirements of the Philippine Grid Code.

7. The Renewable Energy Act of 2008 (RE Law)

The RE Law was signed into law by former President Gloria Macapagal-Arroyo on December 16, 2008 and became effective in January 2009. One of the RE Law's declared policies is to accelerate and develop the use of the country's renewable energy resources to: (a) reduce the country's dependence on fossil fuels, thereby minimizing exposure to price fluctuations in the international markets, and (b) reduce or prevent harmful emissions and promote a healthy and sustainable environment.

The RE Law imposes a government share on existing and new renewable energy development projects at a rate of 1% of the gross income from the sale of renewable energy and other incidental income from generation, transmission and sale of electric power, except for indigenous geothermal energy which shall be at a rate of 1.50% of gross income. Proceeds from micro-scale projects for communal purposes and non-commercial operations, not exceeding 100 kW, and proceeds from the development of biomass resources will not be subject to the said government share.

The RE Law offers fiscal and non-fiscal incentives to renewable energy developers, including developers of hybrid systems, subject to certification by the DOE in consultation with the BOI. These incentives include an ITH for the first seven years of commercial operations; duty-free importations of renewable energy machinery, equipment and materials effective within ten years upon issuance of certification, provided, said machinery, equipment, and materials are directly and actually needed and exclusively used in renewable energy facilities; special realty tax rates on civil works, equipment, machinery and other improvements of a registered renewable energy developer not exceeding 1.50% of the net book value; net operating loss carry-over; corporate tax rate of 10% after the seventh year; accelerated depreciation; zero-percent VAT on sale of fuel or power generated from renewable energy sources and other emerging sources using technologies such as fuel cells and hydrogen fuels and on purchases of local supply of goods, properties and services needed for the development, construction and installation of renewable energy facilities; cash incentives for missionary electrification; tax exemption on the sale of carbon emission credits; and tax credit on domestic purchases of capital equipment and services.

All fiscal incentives apply to all renewable energy capacities upon the effectivity of the RE Law. Renewable energy producers from intermittent renewable energy resources are given the option to pay transmission and wheeling charges on a per kilowatt-hour basis at a cost equivalent to the average per kilowatt-hour rate of all other electricity transmitted through the Grid. Qualified and registered renewable energy generators with intermittent renewable energy resources shall be considered "must dispatch" based on available energy and shall enjoy the benefit of priority dispatch. Electricity generated from renewable energy resources for the generator's own consumption and/or for free distribution to off-grid areas is exempt from the universal charge. The RE Law further provides financial assistance from government financial institutions for the development, utilization and commercialization of renewable energy projects, as may be recommended and endorsed by the DOE.

Pursuant to Department Circular No. DO2009-05-008 dated May 25, 2009 (Rules and Regulations Implementing the Renewable Energy Act of 2008), DOE, BIR, and DOF shall, within six months from its issuance, formulate the necessary mechanism and/or guidelines to implement the entitlement to the general incentives and privileges of qualified renewable energy developers. The six-month deadline was not met and to date no specific guidelines or regulations have been issued by the relevant implementing agencies. As a result, the RE companies of AboitizPower, such as APRI, LHC, Hedcor Sibulan, Hedcor Tamugan, SN Aboitiz Power-Magat, and SN Aboitiz Power-Benguet filed on August 6, 2010, a request before the BIR Law Division for a ruling on the application of zero-rated VAT on all its local purchases of goods and services needed for the development of RE plant facilities, exploration and development of RE sources and their conversion into power. As of date of this report, the said request is still pending with the BIR Law Division.

In Resolution No. 10, Series of 2012, ERC adopted the following FIT and degression rates for electricity generated from biomass, run-of-river hydropower, solar, and wind resources:

Renewable Energy Source	FIT Rate (PhP/kWh)	Degression Rate
Wind	8.53	0.5% after year 2 from effectivity of FIT
Biomass	6.63	0.5% after year 2 from effectivity of FIT
Solar	9.68	6% after year 1 from effectivity of FIT
Hydro	5.90	0.5% after year 2 from effectivity of FIT

In line with the increase in installation target for solar energy from 50 MW to 500 MW and wind energy from 200 MW to 400 MW, ERC issued Resolution No. 6 Series of 2015 approving the Solar FIT2 rate of ₱8.69/kWh for the second set of installation target. On October 6, 2015, ERC issued Resolution No. 14, Series of 2015 adopting the Wind FIT2 rate of ₱7.40/kWh. On September 29, 2016, a Petition for Rule Making was filed by Alternergy Wind One Corporation, Petrowind Energy, Inc., and Trans-Asia Renewable Energy Corporation seeking to amend Resolution No. 14, Series of 2015, and praying to increase the Wind FIT2 rate of ₱7.40/kWh to ₱7.93/kWh. A public consultation was held on the Petition for Rule Making on January 6, 2017. Through a letter dated February 23, 2018, DOE informed ERC of its resolution extending the FIT for Biomass and ROR Hydro until December 31, 2019, which prompted ERC to undergo public consultations for the amendments to the ERC Resolution No. 10, Series of 2012.

On November 23, 2018, ERC issued an Order and Notice of Proposed Rule-Making soliciting comments from interested parties on the NREB's proposed new run-of-river FIT and biomass FIT of ₱5.8705/kWh and ₱6.5969/kWh, respectively. Public consultations were scheduled in January 2019.

Acting upon the application of Transco as Fund Administrator of the FIT Allowance (FIT-All), ERC issued its final approval for the FIT-All of ₱0.0406 per kWh, for calendar years 2014 and 2015. Subsequently, Transco filed an application for approval of the FIT-All for calendar year 2016. In an Order dated February 16, 2016, the ERC provisionally approved a FIT-All of

₱0.1240 per kWh. In a Decision dated May 9, 2017, ERC authorized Transco to collect an additional FIT- All of ₱0.0590 per kWh, thereby bringing the FIT-All to ₱0.1830 per kWh.

On December 22, 2017, DOE promulgated the "Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards for On-Grid Areas" or the "RPS On-Grid Rules," which: (i) requires mandated electric power industry participants to source or produce portion of their electricity requirements from eligible renewable energy resources, establishes a minimum annual incremental RE percentage, (iii) prescribes the eligible renewable energy facilities and the compliance mechanism, (iv) monitor the compliance of mandated electric power industry participants, and (v) provide penalties for non-compliance.

8. Green Energy Option (GEOP)

On July 18, 2018 the Department of Energy issued a department circular entitled "Promulgating the Rules and Guidelines Governing the Establishment of the Green Energy Option Program Pursuant to the Renewable Energy Act of 2008." This Circular was issued pursuant to Section 9, Chapter III of the Renewable Energy (RE) Law, which mandates the DOE to establish a Green Energy Option Program, or GEOP. The program will give end-users the option to source their energy requirements from RE resources.

The GEOP rules establish the general guidelines and procedures governing transactions between consumers, RE suppliers and network service providers, on the matter of choosing and using RE resources at the least cost and in a sustainable manner.

9. ERC Regulation on Systems Loss Cap Reduction

In February 2018, ERC issued Resolution No. 20, Series of 2017 (ERC Resolution No. 20-2017) entitled *"A*

Resolution Adopting the ERC Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency". This set of rules provide for the new Distribution System Loss (DSL) cap that can be recovered and charged by distribution utilities to its customers, beginning in the May 2018 billing period. Private distribution utilities would charge a 6.50% DSL cap for 2018, which shall be reduced gradually on an annual basis until a DSL cap level of 5.50% is achieved by the year 2021. The aforementioned caps are exclusive of sub-transmission and substation losses.

The rules allow distribution utilities to use an alternative method in determining an individualized DSL cap that it shall apply. The individualized cap has two components: one for technical loss (determined using load flow simulations on the DU's reference distribution system) and another for non-technical loss (which represents the level of non-technical loss that minimizes the costs to consumers). In determining the reasonable level of the individualized DSL cap, costs and benefits must be analyzed from the viewpoint of the customer.

On June 4, 2018, Cotabato Light filed with ERC its individualized system loss cap application with technical loss cap at 7.48% and non-technical loss cap at 1.77%. A public hearing on the application was held on August 2, 2018.

10. Proposed Power Supply Agreement (PSA) Rules

On October 20, 2015, ERC issued Resolution No. 13, Series of 2015, entitled, *"A Resolution Directing All Distribution Utilities (DUs) to Conduct a Competitive Selection Process (CSP) in the Procurement of their Supply to the Captive Market".* This resolution provides that a PSA shall be awarded to a winning generation company following a competitive selection process or by direct negotiation, after at least two failed Competitive Supply Process (CSPs). ERC Resolution 13-2015 was restated in ERC Resolution No. 1, Series of 2016, entitled, *"A Resolution Clarifying the Effectivity of ERC Resolution No. 13, Series of 2015."*

ERC Resolution No. 1, Series of 2016 further clarified that automatic renewal clauses or extension of PSAs will no longer be permitted. However, PSAs approved by the ERC or filed with the ERC before the effectivity of this Resolution may have one automatic renewal or extension for a period of one year from the end of their respective terms.

On February 9, 2018, DOE issued Department Circular No. DC2018-02-0003, modifying the existing policy on CSP of power supply contracting, followed by all distribution utilities. Distribution utilities are now mandated by DOE to undertake the creation of an independent, five-man third-party bids and awards committee (TPBAC) that will manage the CSP. The circular also allows the distribution utilities to conduct CSP through an accredited third-party auctioneer.

ERC is currently revising its *"Rules Governing the Execution, Review and Evaluation of Power Supply Agreements Entered Into by Distribution Utilities for the Supply of Electricity to their Captive Market"*, under ERC Case No. 2018-002 RM. To date, the rules have undergone public consultation and is currently on the second draft. The draft Rules did not recognize the DOE's TPBAC, and likewise allowed for the Swiss Challenge for unsolicited proposals. The Company has submitted its comments and still awaiting for the final Rules from the ERC.

11. Pricing and Cost Recovery Mechanism (PCRM)

Reserves are forms of ancillary services that are essential to the management of power system security. The provision of reserves facilitates orderly trading and ensures the quality of electricity.

As provided in the WESM rules, when reasonably feasible, the WESM Market Operator, in coordination with the WESM System Operator, shall establish and administer a spot market for the purchase of certain reserve categories. The reserve categories that shall be traded in the WESM are regulating, contingency and dispatchable reserves as well as interruptible loads in lieu of reserves.

The WESM Reserve PCRM is intended to supplement the WESM Price Determination Methodology for purposes of providing the details of formula and procedures by which reserve trading amounts and reserve cost recovery charges for the categories of reserve that will be traded in the WESM are calculated. Once approved by ERC, this Reserve PCRM will apply to all reserve categories traded in the WESM and will supersede, to this extent, the Ancillary Services Cost Recovery Mechanism of the Transco.

The Reserve PCRM covers the determination of: (1) reserve trading amounts of reserve providers; (2) reserve cost recovery charges; and (3) administered reserve prices and reserve cost recovery charges. To date, the Reserve PCRM is the subject of an application by the WESM Market Operator, which is pending the approval of the ERC.

On December 2, 2014, DOE issued Circular No. 2014-12-0022, otherwise known as the Central Scheduling and Dispatch of Energy and Contracted Reserves. The circular aims to prepare the market participants in the integration of ancillary reserves into the WESM. The ancillary service providers will be paid based on their respective ASPAs with NGCP, while the scheduling of capacity and energy will be based on market results.

On September 14, 2018, NGCP filed a Petition seeking the Commission's approval of its proposed amendments to the Ancillary Services – Cost Recovery Mechanmism. The Company has submitted its initial comments and will submit additional comments and attend the public consultations scheduled throughout January and February 2019.

12. DOE Circular Directing All Power Generation Companies, the Transmission Service Provider, and All Distribution Utilities to Ensure Adequate and Reliable Electric Power Supply in the Country

Under DOE Department Circular No. 2010-03-0003 dated February 26, 2010, generation companies are enjoined to ensure the availability of their generation facilities at all times subject only to technical constraints duly communicated to the WESM System Operator in accordance with existing rules and procedures. For this purpose, generation companies have, among others, the following responsibilities:

(i) All generation companies shall operate in accordance with their maximum available capacity which shall be equal to the registered maximum capacity of the (aggregate) unit less: (1) forced unit outages, (2) scheduled unit outages, and (3) de-rated capacity due to technical constraints which include: (a) plant equipment related failure and ambient temperature, (b) hydro constraints which pertain to limitation on the water elevation/ turbine discharge and megawatt output of the plant, and (c) geothermal constraints which pertain to capacity limitation due to steam quality, steam pressure and temperature variation, well blockage and limitation on steam and brine collection and disposal system;

(ii) Oil-based generation companies shall maintain an adequate in-country stocks of fuel equivalent to at least 15 days of running inventory which includes shipments in transit;

(iii) Coal power plants shall ensure the required 30 day coal running inventory which includes shipments in transit;

(iv) During scheduled maintenance of the Malampaya natural gas facilities, all affected generation companies shall maintain at least 15 days of running inventory of alternative fuel and shall operate at full capacity;

(v) All generation companies with natural gas-fired, geothermal and hydroelectric generating plants shall submit to the DOE a monthly report on the current status and forecast of the energy sources of its generating plants;

(vi) All generation companies must notify and coordinate with the WESM System Operator of any planned activity such as the shutdown of its equipment; All generation companies must immediately inform the DOE of any unexpected shutdown or de-rating of the generating facility or unit thereof; and

(vii) Generation companies shall seek prior clearance from the DOE regarding any plans for deactivation or mothballing of existing generating units or facilities critical to the reliable operation of the Grid.

13. Competitive Renewable Energy Zones

On September 29, 2018, the DOE issued Department Circular No. DC2018-09-0027, or the "*Establishment and Development of Competitive Renewable Energy Zones in the Country.*" The new policy intends to identify competitive renewable energy zones (CREZ), which will serve as a guide in directing the country's power transmission development to reach areas with potential indigenous and renewable energy resources. The identification of renewable energy zones is intended to assist in addressing challenges in developing renewable energy sources, including transmission constraints as well as regulatory barriers that hinder the entry of more investments into the sector.

The Philippine CREZ is intended to enhance the planning process and strengthen implementation of various development plans for energy, distribution, transmission and renewable energy. In the circular, the DOE indicated that ideal candidate areas for CREZ are “geographic areas characterized by high-quality, low-cost RE potential in addition to high levels of private-sector developer interest.”

The circular addresses the transmission and demand side challenges of renewable energy developers, thereby cutting down the activities needed to develop renewable energy projects.

14. Reserve Market

On December 2, 2013, the DOE issued Department Circular No. DC2013-12-0027 entitled: “Declaring the Commercial Launch for the Trading of Ancillary Service in Luzon and Visayas under the Philippine Wholesale Electricity Spot Market”. No date has been set for the launch of the Reserve Market.

Pending the ERC’s approval of the Price Determination Methodology of the Reserve Market, the DOE and PEMC implemented the Central Dispatch and Scheduling of Energy and Reserves in the WESM starting January 2016. The protocol follows that of the Reserve Market, with participants being only those contracted with NGCP, and that no settlement amount will come from the WESM.

15. Implementing Rules and Regulations of the Energy Investment Coordinating Council

On May 04, 2018, the DOE issued Department Circular No. DC2018-04-0013, setting the Implementing Rules and Regulations of Executive Order No. 30 (EO 30) which was signed by President Rodrigo Duterte in June 2017. EO 30 created the Energy Investment Coordinating Council (EICC) in order to streamline the regulatory process affecting energy projects considered as projects of national significance.

Under the Implementing Rules and Regulations (IRR), the processing of permits and licenses for projects deemed as “Energy Projects of National Significance” (EPNS) shall be within a maximum period of 30 days. The 30-day period will start from the complete submission of all documentary requirements to the pertinent government agency involved in the permitting process.

The EICC has yet to issue any certification declaring power projects as “Energy Projects of National Significance”. The certification will be beneficial to “greenfield projects” as this will lead to a streamline and faster approval process of government permits required for said projects.

16. DOE Policy for Direct Connection

On September 14, 2018, the DOE issued Department Circular No. DC2018-08-0025, *“Prescribing the Rules Governing the Review and Evaluation of Direct Connection Applications of Industrial, Commercial and Other Electricity End-Users.”* The policy lays down procedures on how the DOE will exercise its function to review and evaluate applications for direct connection of Industrial, commercial and other end-users to the Grid.

17. Revised Rule on Financial Benefits to Power Plant Host Communities

On July 26, 2018, the DOE issued Department Circular No. DC2018-08-0021, amending rules governing financial benefits to power plant house communities, legally known as Energy Regulation No. 1-94 (ER 1-94). Under the ER 1-94 Program, communities hosting power generation facilities or energy resources are entitled to one centavo per kilowatt-hour (₱0.01/kWh) of the total electricity sales of Generation Companies or Energy Resource Developers.

One of the major amendments to the aforementioned rule is the direct remittance of financial benefits to host communities for their immediate utilization. Streamlining the release of funding will eliminate the bureaucratic process which hampers socio-economic development of the communities hosting the power plants. The aforementioned financial benefits were remitted to the DOE before they are released to host communities.

(xii) Amount Spent on Research and Development Activities

AboitizPower and its Subsidiaries do not allocate specific amounts or fixed percentages for research and development. All research and developmental activities are done by AboitizPower's Subsidiaries and Affiliates on a per project basis. The allocation for such activities may vary depending on the nature of the project.

(xiii) Costs and Effects of Compliance with Environmental Laws

AboitizPower's generation and distribution operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations address concerns relating to air emissions, wastewater discharges, generation, handling, storage, transportation, treatment, and disposal of toxic or hazardous chemicals, materials and waste, workplace conditions, and employee's exposure to hazardous substances, among others. Standard laws and regulations that govern business operations include the Philippine Clean Air Act of 1999 (RA 8749), Ecological Solid Waste Management Act (RA 9003), Clean Water Act (RA 9275), Toxic Chemical Substances and Hazardous and Nuclear Wastes Control Act (RA 6969), and Philippine Environmental Impact Statement System (PD 1586). The Renewable Energy Act of 2008 (RA 9513) added new and evolving measures that must be complied with. These laws usher in new opportunities for the Company and set competitive challenges for the businesses covered. Additional regulations such as DOE Energy Regulation 1-94 require companies to allocate funds for the benefit of host communities for the protection of the natural environment and for the people living within the area. Further, funds are set for the management of carbon sinks and watershed areas through a nationwide reforestation program.

AboitizPower and its Subsidiaries have allocated budgets for environmental expenditures covering costs for waste disposal, remediation, pollution control, and environmental initiatives and programs. All facilities are in compliance with regulatory requirements thus noting zero spending for remediation costs.

In 2018, APRI has used a total of ₱4,070,265.00 for its environmental management programs while Hedcor spent ₱14,403,538.00 to environmentally manage its renewable energy operations and ₱5,834,721.00 was accounted for TSI's program. The SN AboitizPower Group utilized ₱1,619,580.00 and the Oil Group booked ₱4,435,478.00 for their programs.

The alignment to international best practices in all power plants are exemplified with a 100% achievement of ISO certification for the management systems of Quality, Environment, Occupational Health and Safety. To edge even further, Hedcor continues to maintain its ISO certification for Information Security and Asset Management Systems.

DENR Region V conferred the Saringaya Special Award to APRI Tiwi plant for its responsible practices in environmental management. CPPC also received an award from EMB-Region VII for its valuable contribution in the Metro Cebu Airshed Governing Board while TMI Mobile 2 received a Certificate of Recognition from EMB-Region XIII for its Adopt-An-Estero/ Water Body Program.

DOE's SHAPES placed SN Aboitiz Power-Magat and SN Aboitiz Power-Benguet as the 2018 Hall of Famer for Corporate Safety and Health Excellence Award, and its respective point of contacts, namely, Hollis Fernandez, Clifford Dailay, Rachelle Severo, Eliseo Ingles, and Cesar Vicente individually received awards for Outstanding Safety Professional.

In 2018, AboitizPower and its Subsidiaries did not incur any major sanctions for violation of environmental standards and law. However two minor sanctions, both of which are administrative nature relating to submission of reportorial requirements, were received by Aseagas and VECO. Both of these issues were immediately addressed, and internal controls were implemented to prevent recurrence. AboitizPower continues to be cognizant of new opportunities to comply with regulatory requirements and improvement of systems to promote safety and prevent adverse impacts to the environment or affected ecosystems.

(xiv) Employees

At the parent company level, AboitizPower has a total of 383 employees as of February 28, 2019. These include executive, supervisory, and rank and file staff employees. There is no existing Collective Bargaining Agreement (CBA) covering AboitizPower employees.

The following table provides a breakdown of total employee headcount on a per business group basis, according to employees' function, as of February 28, 2019:

Business Group	Number of Employees					Unionized Employees	Expiry of Collective Bargaining Agreement (CBA)
	Total	Executives	Managers	Supervisors	Rank & File		
Aboitiz Power	385	67	60	63	195	N/A	N/A
Generation Companies							
Run-of-River Hydros	719	12	25	62	474	146	September 19, 2022 (Hedcor)
Large Hydros	186	14	32	38	102	N/A	N/A
Geothermal	327	8	19	49	203	48	February 28, 2022 (APRI)
Solar	5	0	0	2	3	N/A	N/A
Oil	414	11	32	182	189	N/A	N/A
Coal	1,389	26	77	313	830	143	December 31, 2020 (GMCP-plant site)
RES	8	0	2	0	6	N/A	N/A
Distribution Utilities	1,061	18	71	136	488	321	December 31, 2016* (VECO) June 30, 2019 (Cotabato Light) June 15, 2021 (Davao Light) May 9, 2019 (SFELAPCO)
Total No. of Employees	**4,494**	**156**	**318**	**845**	**2,490**	**658**	

**Under negotiation*

The Company does not anticipate any significant increase in manpower within the next twelve months unless new development projects and acquisitions would materially require an increase.

(xv) Major Risk/s Involved in the Business

An integral part of AboitizPower's Enterprise Risk Management efforts is to anticipate, understand and address the risks that the Company may encounter in the businesses it is involved in.

1. Regulatory Risk

A constantly evolving political and regulatory landscape requires AboitizPower to keep up with the demands for regulation compliance. Failure to do so will have negative consequence both in the net income and reputation of each business unit and the Group.

To respond proactively to potential fundamental changes that can impact its businesses, AboitizPower has a Regulatory Team that works very closely with its Generation Companies and Distribution Utilities, while maintaining open lines of communication with regulatory agencies. Regular dialogues are conducted with media, non-government organizations, the academe, and organized industry groups such as PIPPA and Philippine Electric Plant Owners Association (PEPOA) to educate various groups about the power industry.

Likewise, they continue to actively participate in consultative processes to provide feedback on the proposed laws and regulations and, equally important, ensure that the Company's interpretation of applicable laws and regulations is aligned with the regulators.

AboitizPower is also actively involved in the Group-wide initiative, led by AEV, to develop the Aboitiz Unified Compliance Management System based on the Governance, Risk and Compliance (GRC) methodology.

2. Competition Risk

As the impact of oversupply of power in the Philippines becomes more evident, the Company continues to make efforts to market and contract ahead of time, project capacities from investments, as well as renew expiring contracts from existing capacities. This is to ensure that plant operations are optimized, and that revenue and cash flow streams are protected.

3. Retail Competition and Open Access

With Open Access, Contestable Customers that are being supplied by their local distribution utility may switch their supplier at any time, to any one of many suppliers that have secured a RES license from the ERC. When this happens, the distribution utility is left with a contract to purchase power without a corresponding buyer until it is able to renegotiate to reduce the contract with the existing supplier. During this transition period, electricity prices to the remaining customers will be slightly higher and thus encourage even more of the Contestable Customers to switch to RES suppliers. This cycle will eventually stabilize, but the transition period exposes the distribution utilities to customer management issues.

At the same time, AboitizPower's RES will have the opportunity to make offers to these Contestable Customers when they consider switching.

4. Electricity Trading Risks

Under new rules set by PEMC and approved by the ERC, on trading intervals will be reduced from one hour to 5 minutes. This means that the number of daily dispatch adjustments will increase from 24 to 288, increasing chances of unintentional errors, and consequently, the potential to incur penalties.

Likewise, WESM in Mindanao is expected to start in 2019. There may be compliance and settlement risks associated with the start of any new market

In view of these changes, AboitizPower continues to enhance its trading capabilities by continuing its efforts to upgrade its trading software, infrastructure, processes, and manpower.

5. Project Risks

AboitizPower continues the commissioning of TVI, while other projects have started commercial operations during 2018. Specifically, Pag3 started commercial operations in March 2018, Hedcor Manolo Fortich (MF) in July 2018 for MF Unit 1, and November 2018 for MF Unit 2.

TVI has experienced technical issues with its turbines, thus extending the testing and commissioning phase, and pushing target commercial operations to the second half of 2019.

To mitigate these project risks, operational readiness reviews are performed, to ensure that these units are ready for commercial operations prior to going on-line.

In its recently-purchased NPPC, a Hazard and Operability (HAZOP) study has also been conducted to ensure that existing diesel units will be safe, environmentally and regulatory-compliant once operation commences.

Projects under construction are also at risk of delays driven by external factors such as late completion and delivery of transmission facilities, which often result from challenges in land procurement and right-of-way issues, among others. Constant collaboration with stakeholders is being done to align project execution timelines.

At the same time, regular reviews of project risk management plans are conducted in order to monitor implementation of risk control measures. Efforts to monitor performance of selected partners and reputable contractors and third-party suppliers are in place. Careful review is also done to ensure that appropriate insurance coverage is obtained.

6. Reputation Risk

AboitizPower recognizes that its reputation is its single most valuable asset, and is a competitive advantage that enables the Company to earn and maintain the trust of its stakeholders. The Company also knows that the reputation it has today took generations to strengthen, and is therefore something that it wants to protect, build, and enhance continuously.

Operating in an environment with increasing corporate governance standards, heightened public consciousness because of social media, and greater scrutiny from key stakeholders, AboitizPower continues to develop a communication plan, founded on a clear understanding of its reputational terrain, and all its stakeholders: team members, customers, shareholders, lenders, regulators, host communities, and local government units (LGU).

A Group-wide stakeholder management strategy that includes policy, framework, guidelines, and metrics has been established to further enhance the Company's ability to identify, understand, and manage the needs and requirements of its different stakeholders.

7. Information Security Risk

AboitizPower is cognizant to the continuous increase of information security incidents happening globally as well as the increasingly complex challenges of digital transformations. Management understands that information security threats should be addressed in order to avoid these breaches, which can have catastrophic implications not only on the organization's bottom line but also to its reputation.

To address this risk, AboitizPower started implementing an Information Security Management System (ISMS) using the ISO 27001:2015 framework during the last quarter of 2017, for the purpose of strengthening its security and resilience for the potential consequences of information security breaches. During 2018, the Company focused on defining information security governance, identifying gaps and creating policies and procedures to address these gaps, embedding the ISMS in the business processes.

The Company believes that organizational awareness is a key stepping stone to building an information security risk-aware culture. Because of this, training sessions have been rolled out to cover all levels in the organization, specifically the risk champions per department/team, top management, managers, supervisors, and staff. This will be an ongoing process of building and improving capabilities as the Company moves toward achieving an acceptable level of risk maturity within the Company and across its operating units. Likewise, the Company shall continue to align and comply with the IT security standards and policies that are being set and managed across the entire Aboitiz Group.

8. Business Interruption Due to Natural and Man-made Calamities, and Critical Equipment Breakdown

The loss of critical functions and equipment caused by natural calamities such as earthquakes, windstorms, typhoons and floods could result in a significant interruption of the businesses within AboitizPower. Interruptions may also be caused by other factors such as a breakdown of major equipment, failures in software, network, and applications, fires and explosions, hazardous waste spills, workplace fatalities, product tampering, terrorism, and other serious risks.

Preventive maintenance of AboitizPower's facilities, technological infrastructure, and systems is regularly performed in accordance with strict standards for compliance, and loss prevention controls are continuously evaluated and strengthened as well.

Configuration of the Enterprise addition of the CMMS Maximo System (Maximo) for AboitizPower's power generation subsidiaries, which started in 2016, has been completed for the Company's Coal, Geothermal, Run-of-River Hydro, and Oil Business Units.

Group insurance facilities that leverage on the Company's portfolio of assets, supported by risk modelling and quantification, are also in place. Business interruption insurance has been procured to cover the potential loss in gross profits in the event of a major damage to AboitizPower's critical facilities and assets. AboitizPower believes that it and its business units have the right insurance solutions to continue their efforts to achieve the optimal balance between retaining and transferring risks and lowering the Total Cost of Insurable Risk (TCOIR).

To ensure the continuity of operations in the event of a business interruption, AboitizPower and its subsidiaries continuously review, test, enhance, and update their Business Continuity Plans to ensure that they remain relevant with the current business conditions. Part of these enhancements are:

(a) Utilization of information disseminated by Weather Philippines Foundation, Inc. to ensure that typhoon preparations of each Business Unit is in place prior to landfall, and tapping of Business Units outside the typhoon path to provide support to the affected Business Units;

(b) Inclusion of emergency exercises related to natural calamities as part of the annual drill roster from flooding to earthquake, as well as evaluation of existing measures in a simulated scenario to ensure that facilities are able to respond effectively and safely; and

(c) Development of new Business Continuity Plans to address newly identified scenarios triggered by changing risks and issues the Company faces.

And to further improve AboitizPower's existing Business Continuity Management (BCM) framework and practices, the Company has undergone a BCM Maturity assessment, which conforms to ISO 22301:2012 standards and requirements. Its output, a Business Continuity Roadmap, will outline the direction and basis of BCM initiatives for the next three years.

9. Financial Risks

In the course of its operations, AboitizPower and its Subsidiaries is exposed to the following financial risks:

(a) Financing risk in terms of the Company's inability to borrow money to fund future projects;
(b) Refinancing and liquidity risks arising from balloon / bullet payments for existing loans;
(c) Interest rate risks resulting from the increasing cost to borrow money as a result of inflation; and
(d) Foreign exchange (forex) risks in terms of foreign exchange fluctuations that may significantly affect its foreign currency- denominated placements, transactions and borrowings.

Aside from the negative effect to the Group's net income, these risks would also put constraints on the Group and its Subsidiaries plans for growth. Furthermore, failure to pay existing loans will eventually lead to reputation risk.

To address these risks, the Company has taken the following actions:

- Regular monitoring of the Company's cash position;
- Issuance of retail bonds;
- Maintaining good relationship with the banks; and
- Strengthening Financial Risk Management to ensure a consistent approach in identifying, assessing, quantifying and mitigating financial risks across the Group

10. Fuel Supply and Price Risk

AboitizPower's thermal plants - TLI, TSI, and TVI (which is currently under commissioning) - utilize coal; while

CPPC, EAUC, TMI, and TMO utilize Bunker-C fuel. These fuel types are exposed to global market price movements and supply challenges.

For its coal-fired power plants, AboitizPower has put in place a Fuel Committee and a Coal Supply and Freight Contracting strategy to better manage high price volatility of coal, freight prices, and counterparty risk.

To mitigate supply challenges, diversifying to multiple sources of coal ensures security of energy supply at competitive prices.

Its partly-owned thermal plants – PEC, GMCP, GNPD – who also utilize coal, have made similar efforts to mitigate fuel supply and price risk.

For its diesel-fired generation plants, CPPC, EAUC, TMI, and TMO, AboitizPower pursues the strategy on the fuel supply side of entering into or renewing their medium-term supply contracts with the leading oil companies in the country.

AboitizPower's exposure to fuel supply and price risk is limited as a result of the utilization of capacity-based contracts for approximately 60% of its PSAs. Such contracts come with a provision for the pass-through of fuel costs, where fuel prices are indexed versus the commodity markets for oil and coal for the energy generated by the Company's Business Units.

It is worthy to note though, that with the industry shift towards short-term fixed price contracts, exposure to this risk will increase over time. AboitizPower shall continue to implement measures to keep vulnerability at an acceptable level.

11. Emerging Risks

Embedded in the risk management process is the continuous identification and monitoring of emerging risks. Emerging risk is currently defined as newly developing risks that cannot yet be fully assessed (due to high uncertainty) but could have a major impact on an organization in the future.

AboitizPower recognizes the need to anticipate, understand and prepare for these potential risks that could be triggered by the continuous and fast – paced changes in the political, economic, social, technological legal and environmental where the Company and its subsidiaries operates.

To address this, Subject Matter Experts (SMEs) closely monitor their area of expertise for potential changes. These changes are communicated to the Group Risk Management Team for further study and analysis, specifically on the potential impact to the Group. Management has also required inclusion of Emerging Risks as part of Risk Management Council and Board Risk Committee regular agenda.

(b) Requirements as to Certain Issues or Issuers

(i) Debt Issues

(a) Ten Billion Fixed-Rate Bonds issued in August 2014

On August 29, 2014, SEC issued an Order of Registration and a Certificate of Permit to Sell Securities for AboitizPower's ₱10bn-retail bonds ("2014 Bonds"). BPI Capital Corporation (BPI Capital) acted as the Issue Manager and Lead Underwriter, BPI Asset Management and Trust Group (BPI AMTG) as the Trustee, and Philippine Depository & Trust Corporation (PDTC) as the Registry and Paying Agent for the transaction. The 2014 Bonds received the highest possible rating of PRS "Aaa" from Philippine Rating Services Corporation (PhilRatings). The 2014 Bonds were listed with the Philippine Dealing & Exchange Corporation (PDEx) on September 10, 2014.

The 2014 Bonds were issued in two series, seven-year bonds with a fixed interest rate of 5.205% per annum, and twelve-year bonds with a fixed interest rate of 6.10% per annum. Interest rate is calculated on a 30/360-day count basis and is paid quarterly in arrears every March 10, June 10, September 10, and December 10 of each year at which the bonds are outstanding, or the subsequent banking day without adjustment if such interest payment date is not a banking day. The Company has the option, but not the obligation, to redeem in whole (and not in part) any series of the outstanding 2014 Bonds, on the following dates or the immediately succeeding banking day if such date is not a banking day:

	Early Redemption Option Dates
Series A Bonds	5.25 years from Issue Date
	6 years from Issue Date

	Early Redemption Option Dates
Series B Bonds	7 years from Issue Date
	8 years from Issue Date
	9 years from Issue Date
	10 years from Issue Date
	11 years from Issue Date

AboitizPower has been paying interest to its bond holders since December 10, 2014.

Use of Proceeds

Following the offer and sale of the 2014 Bonds, AboitizPower received the aggregate amount of ₱10 bn as proceeds. As of December 31, 2016, the proceeds from the 2014 Bonds were fully utilized for the following projects:

(i) 400 MW (net) Pulverized Coal-Fired Expansion Unit 3 in Pagbilao, Quezon;
(ii) 68 MW Manolo Fortich Hydropower Plant Project;
(iii) 300 MW Cebu Coal Project;
(iv) 300 MW Davao Coal Project; and
(v) 14 MW Sabangan Hydropower Plant Project.

(b) Shelf Registration of Thirty Billion Fixed-Rate Bonds issued in 2017 and 2018

On June 19, 2017, SEC issued an Order of Registration and a Certificate of Permit to Offer Securities for AboitizPower's

₱30 bn fixed-rate corporate retail bonds in the aggregate amount of up to ₱30 bn ("2017 Bonds"). The 2017 Bonds were registered under the shelf registration program of the SEC and are to be issued in tranches.

Series "A" Three Billion Fixed Rate Bonds issued in July 2017

Series "A" was issued on July 3, 2017 with an aggregate amount of ₱3 bn, a tenor of ten years, and fixed interest rate of 5.3367% per annum. Interest is payable quarterly in arrears on January 3, April 3, July 3, and October 3 of each year, or the subsequent banking day without adjustment if such interest payment date is not a banking day. AboitizPower engaged BPI Capital as Issue Manager and Underwriter, BPI-AMTG as Trustee, and PDTC as the Registrar and Paying Agent. The Series "A" bonds received a credit rating of "PRS Aaa" with Stable Outlook from Philratings, and is listed with PDEx.

AboitizPower received the aggregate amount of ₱2.97 bn as proceeds from the offer and sale of the Series "A" bonds. As of December 31, 2017, the proceeds were utilized for the following projects:

Name of Project	Projected Usage (Per Prospectus)	Actual Usage
Equity infusions into GNPD in 2017	₱2,206,373	₱1,255,745
Equity infusions into GNPD in 2018	764,395	1,711,317
Bond issuance costs	29,232	32,938
TOTAL	**₱3,000,000**	**₱3,000,000**

Note: Amounts are in thousands.

Series "B" and Series "C" Ten Billion Fixed Rate Bonds issued in October 2018

Series "B" and Series "C" bonds, with an aggregate amount of ₱10 bn and an oversubscription option ₱5 bn, were issued on October 12, 2018. The Series "B" bonds have an interest rate of 7.5095% per annum, and will mature in 2024, while the Series "C" bonds have an interest rate of 8.5091% per annum, and will mature in 2028. Interest is payable quarterly in arrears on January 25, April 25, July 25, and October 25 of each year, or the subsequent banking day without adjustment if such interest payment date is not a banking day.

AboitizPower appointed BDO Capital Corporation as Issue Manager, BDO Capital Corporation, BPI Capital, and United Coconut Planters Bank as Joint Lead Underwriters, BDO Unibank, Inc. Trust & Investments Group as Trustee, and PDTC as the Registry and Paying Agent for the transaction. The Series "B" and Series "C" bonds received the highest possible rating of PRS "Aaa" from PhilRatings and is listed with PDEx.

Use of Proceeds

Name of Project	Projected Usage (Per Prospectus)	Actual Usage
Refinancing of the Medium-Term Loan of Therma Power, Inc.	₱8,700,000	₱8,700,000
Bond issuance costs	118,868	121,924
General corporate purposes	1,381,132	-
TOTAL	**₱10,200,000**	**₱8,821,924**

Note: Amounts are in thousands.

Series "D" Bonds

On January 29, 2019, the Board of Directors of AboitizPower approved the issuance of up to ₱16.8 billion (bn) fixed-rate retail bonds (the "Third Tranche Bonds") out of the ₱30 bn bonds registered in 2017 under the shelf registration program of the SEC.

Subject to market conditions, the Third Tranche Bonds are expected to be offered to the general public in the second half of 2019 and will be listed with the PDEx as and when issued.

Proceeds of the Third Tranche Bonds will be used to finance planned acquisitions, future investments, and/or other corporate requirements.

Item 2. Properties

The Company's head office is located at the 32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines. The office space occupied by the Company is leased from a third party. As a holding company, the Company does not utilize significant amounts of office space.

The Company plans to continually participate in future biddings for new or existing projects, and to develop projects that become available to it.

On a consolidated basis, AboitizPower's Property, Plant and Equipment were valued at around ₱207.11 bn as of end-2018, as compared to ₱204.03 bn as of December 31, 2017. The breakdown of the Company's Property, Plant and Equipment as of December 31, 2018 and December 31, 2017 is as follows:

PROPERTY, PLANT AND EQUIPMENT	2018	2016
Land	₱1,541,756	₱1,596,788
Buildings, Warehouses and Improvements	21,356,246	21,495,721
Powerplant, Equipment and Streamfield Assets	168,443,359	141,380,362
Transmission, Distribution and Substation Equipment	18,971,860	17,401,054

PROPERTY, PLANT AND EQUIPMENT	2018	2016
Transportation Equipment	1,567,976	1,400,941
Office Furniture, Fixtures and Equipment	1,051,445	921,680
Leasehold Improvements	2,774,119	2,760,085
Electrical Equipment	5,685,213	5,500,971
Meter and Laboratory Equipment	1,892,174	1,551,939
Tools and Others	1,335,213	1,252,071
Construction in Progress	35,190,520	53,617,374
Less: Accumulated Depreciation and Amortization	52,699,469	44,853,683
TOTAL	**₱312,509,350**	**₱204,025,303**

Note: Values for the above table are in thousand Philippine Pesos.

Locations of Principal Properties and Equipment of the Company's Subsidiaries are as follows:

Subsidiary	Description	Location/Address	Condition
APRI	Geothermal power plants	Tiwi, Albay, Caluan, Laguna; and Sto. Tomas, Batangas	In use for operations
Aseagas	Raw land and improvements	Lian, Batangas	Ceased operations
Hedcor	Hydropower plants	Kivas, Banengneng, Benguet; Beckel, La Trinidad, Benguet, Bineng, La Trinidad, Benguet; Sal-angan, Ampucao, Itogon, Benguet; and Bakun, Benguet	In use for operations
Hedcor Sibulan	Hydropower plant	Santa Cruz, Sibulan, Davao del Sur	In use for operations
Hedcor Tudaya	Hydropower plant	Santa Cruz, Sibulan, Davao del Sur	In use for operations
Hedcor Sabangan	Hydropower plant	Namatec, Sabangan, Mountain Province	In use for operations
CPPC	Bunker-C thermal power plant	Cebu City, Cebu	In use for operations
EAUC	Bunker-C thermal power plant	Lapu-Lapu City, Cebu	In use for operations
TMI	Barge-mounted diesel power plants	Nasipit, Agusan del Norte and Barangay San Roque, Maco, Compostela Valley	In use for operations
TMO	Barge-mounted diesel power plants	Navotas Fishport, Manila	Inactive[4]
TSI	Coal-fired thermal power plants	Davao City and Davao del Sur	In use for operations
TVI	Land	Bato, Toledo, Cebu	For plant site
GMCP	Coal-fired thermal power plants	Mariveles, Bataan	In use for operations
Cotabato Light	Industrial land, buildings/ plants, equipment, and machineries	Sinsuat Avenue, Cotabato City	In use for operations
Davao Light	Industrial land, buildings/ plants, equipment, and machineries	P. Reyes Street, Davao City and Bajada, Davao City	In use for operations
VECO	Industrial land, buildings/ plants, equipment, and machineries	Jakosalem Street, Cebu City and J. Panis Street, Cebu City	In use for operations

[4] On January 4, 2019, the Company disclosed to the PSE TMO's commercial inactivity since June 26, 2018 following the absence of an approved power supply agreement

LEZ	Industrial land, buildings/ plants, equipment, and machineries	Lipa City and Malvar, Batangas	In use for operations
BEZ	Industrial land, buildings/ plants, equipment, and machineries	Balamban, Cebu	In use for operations

Item 3. Legal Proceedings

Material Pending Legal Proceedings

AboitizPower and its Subsidiaries are currently involved in various legal proceedings in the ordinary conduct in their businesses. The Company believes that the results of these actions will not have a material adverse effect on the Company's financial position and results of operations.

VECO, in particular, received several assessments of real property taxes (RPT) on its electric posts, transformers, wires, machineries, air-conditioning units, and water pumps. VECO consistently maintains that the electric posts, transformers, wires, machineries, air-conditioning units, water pumps and their appurtenances are not considered real properties under the Civil Code and therefore, are not lawful objects of RPT. To date, VECO has similar RPT cases in amounts ranging from ₱14mn to ₱67 mn pending before different City Assessors' Offices or the Local Board of Assessment Appeals (LBAA). In the event that a case is decided against VECO, the company can file an appeal with the Central Board of Assessment Appeals (CBAA), without prejudice to subsequent appeals allowed under existing rules governing the appeals process.

Other cases involving the Company and its Subsidiaries are as follows:

Civil Case No. 08-CV-2414 entitled *"Luzon Hydro Corporation vs. The Province of Benguet, The Provincial Treasurer of Benguet and Hon. Imelda I. Macanes in her Capacity as Provincial Treasurer of La Trinidad, Province of Benguet"*, RTC Branch 10, La Trinidad, Benguet, March 7, 2008

On October 11, 2007, the Provincial Treasurer of Benguet issued an assessment against LHC, requiring LHC to pay franchise tax for the years 2002 to 2007 in the approximate amount of ₱40.40 mn, inclusive of surcharges and penalties. LHC filed a protest letter with the Provincial Treasurer on December 2007 on the ground that LHC is not a grantee of any legislative franchise on which the franchise taxes may be imposed. On February 8, 2008, the Provincial Treasurer, through the Provincial Legal Officer, denied LHC's protest. On March 7, 2008, LHC filed a petition for the annulment of the franchise tax assessment, based primarily on the fact that LHC is not liable for franchise tax because it does not have a franchise to operate its business.

On February 18, 2014, the RTC rendered a Decision in favor of LHC declaring the franchise tax assessment ineffective for lack of sufficient evidence that LHC is holding a special or secondary franchise to operate its plant in Benguet. The Province of Benguet filed a Motion for Reconsideration of the RTC's Decision.

After several postponements, the hearing was set on May 24, 2016, and only LHC appeared. The RTC stated that with no additional arguments coming from the Province of Benguet, the Motion for Reconsideration is denied as the matters raised in such have been addressed in its decision being reconsidered.

To date, LHC has not received any further orders or pleadings appealing the case.

GR No. 229064 (formerly CTA En Banc Case No. 1020; CBAA Case No. L-57 and L-59) entitled *"National Power Corporation vs. Luzon Hydro Corporation (LHC), Banggay T. Alwis, Municipal Assessor, Manuel C. Bagayao, Municipal Treasurer of Bakun, Benguet, Erlinda Estepa, Provincial Assessor and Mauricio B. Ambanloc, Provincial Treasurer of the Province of Benguet"*, May 24, 2013

The Municipality of Bakun, Province of Benguet issued an assessment against LHC for deficiency RPT for the year 2002 on its machineries in the amount of approximately ₱11 mn, inclusive of interests and penalties. LHC appealed the assessment to the LBAA. The NPC intervened in the proceedings before the LBAA arguing that: (i) the liability for the payment of RPT over the machineries is assumed by the NPC under Section 8.6(b) of the Bakun PPA dated November 24, 1996; and (ii) the NPC is exempted from the payment of RPT under Section 234 of the Local Government Code of 1991 (LGC), which provides that machineries which are actually, directly and exclusively used by government-owned and controlled corporations engaged in the generation and transmission of electric power are not subject to RPT. The LBAA ruled in favor of the Municipality of Bakun on the ground that the NPC could not invoke the exception under Section 234 of the LGC because the machineries covered by the assessment are not yet owned by the NPC.

NPC appealed the ruling of the LBAA to the CBAA, which appeal was docketed as CBAA Case No. L-57/59. The Province of Benguet, through the Office of the Governor, and LHC engaged in negotiations to arrive at a possible settlement. In December 2009, NPC moved for the issuance of a decision based on a compromise agreement. The Province of Benguet opposed NPC's motion and prayed that the CBAA continue hearing the case and resolve the same on the merits. LHC filed its reply to the Province of Benguet's opposition.

On July 3, 2012, the CBAA rendered a decision dismissing the appeals of LHC and NPC for lack of merit. LHC then filed its Motion for Reconsideration. On October 4, 2012, LHC received an order from the CBAA noting its Motion for Reconsideration as well as the one filed by NPC, and giving the Province of Benguet a period of ten days from receipt of the said order within which to file its comment/opposition.

On October 11, 2013, LHC, NPC, and the Province of Benguet filed a Joint Motion for Judgment based on a Compromise Agreement with the Court of Tax Appeals (CTA). On January 16, 2014, LHC received a copy of the resolution of the CTA En Banc ordering the parties to submit additional documents in support of the Joint Motion for Judgment. The CTA En Banc held in abeyance the resolution of the Joint Motion for Judgment based on Compromise pending the submission of certain documents.

On September 2, 2015, LHC received a Manifestation from the Province of Benguet stating that the: (i) Sangguniang Panlalawigan of Benguet's Resolution authorizing their Provincial Governor to enter into the January 29, 2004 Compromise Agreement; and (ii) Sangguniang Bayan of Bakun, Benguet's Resolution authorizing its Municipal Mayor Marcelo Contada to enter into the December 2007 Compromise Agreement and January 18, 2008 MOA, do not exist.

Despite close coordination with both the Province of Benguet and the Municipality of Bakun for the issuance of the necessary resolutions to ratify the actions previously taken by their respective Sanggunian, no such action has been taken by the Sangguniang Panlalawigan of Benguet and the Sangguniang Bayan of Bakun.

Given the foregoing and in the interest of substantial justice, LHC filed a Motion to Resolve the Joint Motion for Judgment based on Compromise Agreement on December 29, 2015, attesting that the Province of Benguet and the Municipality of Bakun made representations that they were authorized to execute the Compromise Agreement and that they accepted the Compromise Payments made by LHC pursuant thereto. As a consequence, the Province of Benguet and the Municipality of Bakun are estopped from assailing the Compromise Agreement.

On March 28, 2016, LHC received a notice of resolution from the CTA En Banc denying LHC's Motion to Resolve the Joint Motion for Judgment based on Compromise.

On April 12, 2016, LHC filed a Motion for Partial Reconsideration asking that the CTA En Banc: (1) hold in abeyance the requirement for respondent to file their comment on the Petition; and (2) partially reconsider its resolution by approving the 2007 and 2013 Compromise Agreements and the 2008 and 2012 MOAs, and render a Decision based on the foregoing. On October 2016, the CTA En Banc denied LHC's Motion for Partial Reconsideration for lack of merit.

On December 12, 2016, LHC filed with the Supreme Court a Petition for Certiorari assailing the above resolutions of the CTA for acting with grave abuse of discretion amounting to lack or excess of jurisdiction when it denied the parties' joint motion for judgment based on compromise. On June 7, 2017, the Supreme Court dismissed LHC's Petition for Certiorari for failure to show that the CTA En Banc committed grave abuse of discretion.

Meanwhile, on February 6, 2017, the CTA En Banc required the parties to submit their respective Memoranda. On April 7, 2017, LHC filed its Memorandum. The case is still pending for resolution.

Supreme Court GR No. 223403 and 223460-61 (formerly CTA En Banc Case Nos. 1024 and 1096; CBAA Case Nos. L-96 and L-99) *"Luzon Hydro Corporation and the National Power Corporation vs. The Local Board of Assessment Appeals of the Province of Ilocos Sur, Fatima Tenorio, in her official capacity as the Provincial Assessor of the Province of Ilocos Sur, Antonio A. Gundran, in his capacity as the Provincial Treasurer of the Province of Ilocos Sur"*, July 2, 2003

On July 2, 2003, the Municipal Assessor of Alilem sent LHC two notices of assessment for RPT. The first notice required LHC to pay RPT in the amount of ₱4.3 mn for the fourth quarter of 2002, while the second notice required LHC to pay ₱17.2 mn for 2003. The notices of assessment also contained an additional imposition of 40% of the acquisition cost, which allegedly represented installation costs, and a further imposition of 15%, which allegedly represented freight costs.

LHC filed a Protest before the LBAA which ruled against LHC by upholding the notices of assessment. LHC appealed directly to the CBAA.

On September 26, 2012, the CBAA rendered a decision denying LHC's appeal. On November 14, 2012, LHC filed its Motion for Reconsideration. On March 21, 2013, the CBAA issued a resolution denying LHC's Motion for Reconsideration, a copy of which was received by LHC only on November 6, 2013. LHC filed its Petition for Review with the CTA En Banc on December 6, 2013. The CTA En Banc consolidated the instant case with CTA EB Case No. 1024.

On January 26, 2015, the CTA En Banc denied the Petition, prompting LHC to file a Motion for Reconsideration on February 10, 2015.

On May 13, 2015, LHC filed a Motion to take Judicial Notice of Executive Order No. 173 and suspend proceedings. On March 18, 2016, LHC received a copy of the CTA En Banc's resolution wherein the court took judicial notice of the Executive Order, however, denied the motion to suspend the proceedings. LHC filed its Petition for Review on Certiorari with the Supreme Court on April 4, 2016, which the Supreme Court later on consolidated with petition filed by NPC. On November 29, 2016, LHC received the comment of the Province of Ilocos Sur.

On February 28, 2017, counsel for LHC received a notice from the Supreme Court requiring LHC to file a reply to respondents' comment. LHC's Reply was filed on March 10, 2017. No further orders were received from the Supreme Court.

G.R. No. 210245 entitled *"Bayan Muna Representative Neri Javier Colmenares, et al. vs. Energy Regulatory Commission, et al."*, Supreme Court; December 19, 2013

G.R. No. 210255 entitled *"National Association of Electricity Consumers for Reforms, et al. vs. Manila Electric Company, et al."*, Supreme Court; December 20, 2013

G.R. No. 210502 entitled *"Manila Electric Company, et al. v Philippine Electricity Market Corporation, et al."*, Supreme Court; January 8, 2014

On December 19, 2013, Bayan Muna representatives filed a Petition for Certiorari against the ERC and the MERALCO with the Supreme Court, questioning the alleged substantial increase in MERALCO's power rates for the billing period of November 2013.

These cases raised, among others, the: (i) legality of Section 6, 29 and 45 of the EPIRA, (ii) failure of ERC to protect consumers from high prices of electricity, and (iii) alleged market collusion by the generation companies.

These cases were consolidated by the Supreme Court, which issued a TRO preventing MERALCO from collecting the increase in power rates for the billing period of November 2013. The TRO was subsequently extended by the Supreme Court for another 60 days, or until April 22, 2014. On April 22, 2014, the Supreme Court extended the TRO indefinitely.

MERALCO filed a counter-petition impleading all generation companies supplying power to the WESM to prevent the generation companies from collecting payments on power purchased by MERALCO from the WESM during the contested billing period. The Supreme Court also ordered other power industry participants (the DOE, ERC, PEMC, PSALM, and the generation companies) to respond to MERALCO's counter-petition.

The Supreme Court set the consolidated cases for oral arguments on January 21, 2014, February 4 and 11, 2014. After oral arguments, all parties were ordered to file their comments and/or memoranda. MERALCO has been prevented from collecting the differential increase of the price hike. Because of MERALCO's counter-petition against the generation companies, the PEMC withheld settlement of the power purchases during the covered period.

On February 7, 2019, petitioners in G.R. No. 210245 filed their Motion for Directions, Status Updates and Immediate Resolution. As of February 28, 2019, these cases before the Supreme Court are still pending resolution and the Supreme Court has not lifted the TRO.

SC GR No. 224341 entitled *"Philippine Electricity Market Corporation vs. Therma Mobile, Inc."*, Supreme Court [CA G.R. SP No. 140177 entitled *"PEMC v. Therma Mobile Inc."*, Court of Appeals, Manila]

[SP Proc. No. 12790 entitled *"Therma Mobile Inc. vs. PEMC"*, Regional Trial Court Branch 157-Pasig City]

[PEMC ECO-2014-0009 entitled *"Therma Mobile, Inc. (TMO Power Plants Units 1-4) Possible Non-Compliance with Must-Offer-Rule, Investigation Summary Report, dated August 4, 2014"*]

The Enforcement and Compliance Office of the Philippines Electricity Market Corporation (PEMC-ECO) conducted an investigation on TMO for possible non-compliance with the Must-Offer-Rule for the period October 26, 2013 to December 25, 2013.

PEMC-ECO concluded that TMO was non-compliant with the Must-Offer-Rule for 3,578 intervals and recommended a penalty of ₱234.9 mn.

TMO filed its letter request for reconsideration on September 5, 2014, contending that it did not violate the Must-Offer Rule because its maximum available capacity was limited to 100 MW due to: (i) the thermal limitations of the old TMO 115-kV transmission line, and (ii) the technical and mechanical constraints of the old generating units and the component engines of the TMO power plants which were under various stages of rehabilitation.

In its letter dated January 30, 2015, the PEMC Board of Directors ("PEMC Board") denied TMO's request for reconsideration and confirmed its earlier findings of 3,578 counts of breach of the Must-Offer-Rule and sustained the imposition of financial penalties amounting to ₱234.9 mn on TMO. According to the PEMC Board, the penalties will be collected from TMO through the WESM settlement process.

TMO maintains that there is no basis for the PEMC decision. TMO did not withhold any capacity for the period covered, as it was physically impossible for TMO to transmit more than 100 MW to MERALCO. Although TMO's rated capacity is 234 MW (net), it could only safely and reliably deliver 100 MW during the November and December 2013 supply period because of limitations of its engines and the 115-kV transmission line. This temporary limitation of TMO's plant was confirmed during a dependable capacity testing conducted on November 21, 2013. At this period, TMO's engines and transmission lines were still undergoing rehabilitation after having been non-operational for the five years.

On February 13, 2015, TMO filed a Notice of Dispute with the PEMC to refer the matter to dispute resolution under the WESM Rules, WESM Dispute Resolution Market Manual and the ERC-PEMC Protocol.

On February 16, 2015, TMO filed an Urgent Petition for the Issuance of Interim Measures of Protection for the Issuance of a Writ of Preliminary Injunction with prayer for Temporary Order of Protection before the Pasig City RTC. In its Order dated February 24, 2015, the RTC granted TMO a 20-day temporary order of protection and directed PEMC to: (i) refrain from demanding or collecting the amount of ₱234.9 mn as financial penalty; (ii) refrain from charging interest on the financial penalty and having the same accrue; and (iii) refrain from transmitting PEMC-ECO's investigation report to the ERC. TMO posted a bond in the amount of ₱234.9 mn to answer for any damage that PEMC may suffer as a result of the Order. On April 1, 2015, the RTC rendered a Decision in favor of TMO. PEMC filed a Petition for Review with Prayer for Temporary Restraining Order and/or Writ of Preliminary Injunction before the Court of Appeals (CA) which sought to reverse and set aside the Decision of the RTC.

On December 14, 2015, the CA rendered a Decision denying PEMC's Petition for Review and affirming the April 1, 2015 Decision of RTC in favor of TMO.

On June 6, 2016, PEMC filed a Petition for Review on Certiorari with the Supreme Court to assail the December 14, 2015 CA Decision. On November 14, 2016, TMO filed its Comment to PEMC's Petition for Review. In its Motion for Leave to File Reply to Comment dated December 9, 2016, PEMC prayed with the Supreme Court that it be granted leave to file its Reply. On June 1, 2017, TMO received the Supreme Court Notice dated March 29, 2017 with an attached Resolution. In the Resolution, the Supreme Court noted TMO's Comment and PEMC's Reply.

As of February 28, 2019, PEMC's Petition is still pending before the Supreme Court.

CA G.R. SP. No. 152588 entitled *"Therma Mobile, Inc. vs. Energy Regulatory Commission, Atty. Alfredo P. Vergara, Jr. and Engr. Nelson D. Canlas, in their capacity as Investigating Officers (IOs) of the Investigatory Unit constituted by the Honorable Commission pursuant to its Office Order No. 38, Series of 2013 dated December 26, 2013, as amended by Office Order No. 82, Series of 2017"*, Court of Appeals, Manila;

ERC Case No. 2015-025 MC entitled *"Atty. Isabelo Joseph P. Tomas II, in his capacity as the Investigating Officer of the Investigatory Unit constituted by the Honorable Commission pursuant to its Office Order No. 38, Series of 2013 dated December 26, 2013 vs MERALCO and Therma Mobile, Inc. [For Violation of Section 45 of RA 9136, otherwise known as EPIRA, Rule 11, Section 1 of IRR of the EPIRA (Commission of an Anti-Competitive Behavior, particularly Economic Withholding)]"*, ERC Pasig City, June 4, 2015;

ERC Case No. 2015-027 MC entitled *"Atty. Isabelo Joseph P. Tomas II, in his capacity as the Investigating Officer of the Investigatory Unit constituted by the Honorable Commission pursuant to its Office Order No. 38, Series of 2013 dated December 26, 2013 vs Therma Mobile, Inc. [For Violation of Section 45 of RA 9136, otherwise known as EPIRA, Rule 11, Section 1 and 8(e) of IRR of the EPIRA (Commission of an Anti-Competitive Behavior, particularly Physical Withholding)]"*, ERC, Pasig City, June 4, 2015;

Pursuant to the allegations in the Bayan Muna Supreme Court case, the Investigation Unit of the Energy Regulatory Commission ("ERC-IU") conducted investigations on the alleged anti-competitive behavior and market abuse committed by some participants of the WESM, including TMO.

On January 24, 2014, the ERC issued a Subpoena Ad Testificandum and Duces Tecum directing TMO's representative to give clarification on matters pertaining to offers per trading interval involving the November to December 2013 supply months and provisions on the PSA between MERALCO and TMO. The representative was likewise directed to bring relevant documents.

On January 29, 2014, TMO filed its Compliance and Submission to the Subpoena Duces Tecum. Further, on March 11, 2014, TMO filed its Memorandum arguing that it did not commit any act constituting anti-competitive behavior and/ or misuse of market power. TMO then requested the ERC-IU to terminate and close the investigation.

On May 20, 2015, the ERC-IU issued its report and found that in bidding the way they did for the November and December 2013 supply months, TMO and MERALCO allegedly committed Economic Withholding. In the same report, the ERC IU also found that TMO committed Physical Withholding, and thus recommended the filing of cases for Anti-Competitive Behavior against TMO and MERALCO for Economic Withholding and against TMO alone for Physical Withholding.

On June 23, 2015, the ERC issued an Order directing MERALCO and TMO to file their respective Answers to the Complaint for Economic Withholding within 15 days from receipt of notice, and another Order directing TMO to file its Answer to the Complaint for Physical Withholding within 15 days from receipt of notice.

On August 24, 2015, TMO filed its Answers praying for the dismissal of the Complaints.
In its Manifestation dated October 7, 2016, the ERC-IU manifested the resignation of Atty. Isabelo Tomas as Investigating Officer (IO) and the appointment of Director Alfredo Vergara, Jr. and Engr. Nelson Canlas as new IOs. In a separate pleading, the new IOs filed their Reply to various motions filed by TMO.

On July 27, 2016, Meralco filed in ERC Case No. 2015-025MC an Urgent Motion to Dismiss with Motion to Suspend Proceedings on the ground that the ERC has no jurisdiction over anti-competitive behavior cases, and that jurisdiction is with the PCC. On July 28, 2016, TMO filed in the same case a Manifestation and Motion adopting Meralco's Urgent Motion to Dismiss. On August 1, 2016, TMO also filed its Manifestation and Motion, which sought the dismissal of ERC Case No. 2015-027MC for lack of jurisdiction.

In an Order dated February 2, 2017, the ERC denied Meralco's and TMO's motions to dismiss for lack of jurisdiction. On February 23, 2017, TMO filed its Motion for Reconsideration of the February 2, 2017 ERC Order, which was denied by the ERC in an Order dated June 20, 2017.

On September 18, 2017, TMO filed a Petition for Certiorari (with application for Temporary Restraining Order (TRO) and Writ of Preliminary Injunction) under Rule 65 of the Rules of Court with the CA, docketed as CA GR. No. 152588. TMO prayed for the CA to: (i) issue a TRO commanding the ERC to desist from conducting further proceedings in ERC Case No. 2015-025MC and ERC Case No. 2015-027MC; (ii) after proceedings, issue a Writ of Preliminary Injunction; and (iii) annul and set aside the February 2, 2017 and June 20, 2017 Orders of the ERC.

In a Resolution dated October 2, 2017, the CA directed the respondents to file their comment on TMO's Petition for Certiorari and denied TMO's prayer for a TRO. TMO filed a Motion for Partial Reconsideration of the CA's October 2, 2017 Resolution. Therafter, the CA issued its Notice of Judgment and Decision dated May 23, 2018, which denied TMO's Petition. On June 20, 2018, TMO filed its Motion for Reconsideration of CA's Decision dated May 23, 2018.

In a Resolution dated January 28, 2019, the Court of Appeals denied the motions for reconsideration filed by TMO, Meralco and APRI and the motion for partial reconsideration filed by the ERC.

Subsequently, the ERC filed a Petition dated February 21, 2019 with the Supreme Court via Rule 45 of the Rules of Court, praying that the Supreme Court grant the Petition and modify the CA Decision dated May 23, 2018 and Resolution dated January 28, 2019.

CA G.R. SP. No. 152613 entitled, *"AP Renewables, Inc. vs. Energy Regulatory Commission and Directors Alfredo P. Vergara, Jr. and Engr. Nelson Canlas, in their capacity as the Investigating Officers of the Investigatory Unit of the Energy Regulations Commission"*, Court of Appeals, Manila

ERC Case No. 2015-038 MC entitled *"Energy Regulatory Commission vs. AP Renewables, Inc. ([Violation of Section 45 of EPIRA, Rule 11, Sec. 1 and 8 (E) of the Implementing Rules and Regulations (Commission of an Anti-Competitive Behavior, particularly, Physical Withholding)]"*, ERC, Pasig City, June 9, 2015

The ERC-IU conducted investigations on the alleged anti-competitive behavior and market abuse committed by some participants of the WESM, including APRI.

On May 20, 2015, the ERC-IU released its report holding that APRI's non-compliance with the Must-Offer Rule for four intervals is tantamount to Physical Withholding which, it alleged, is a form of anti-competitive behavior. On June 9, 2015, complainant Atty. Isabelo Joseph Tomas, III, Investigating Officer of the IU, filed the complaint for Anti-Competitive Behavior against APRI. On June 23, 2015, the ERC issued an Order directing APRI to file its answer within 15 days from notice.

On July 1, 2015, APRI received the summons and complaint. Subsequently, on July 7, 2015, APRI through counsel, filed its Entry of Appearance with Omnibus Motion praying that: (a) the Complainant serve upon APRI the complete copy of the complaint and its annexes; (b) the Complainant clarify and put on record the answer to the following issues: (i) which of Makban Plants' generating units is the subject of the complaint; and (ii) the dates and times of the four intervals mentioned in the complaint during which APRI allegedly offered "less than its total registered capacity."

Meanwhile, on July 29, 2015, APRI filed its Answer *ad cautelam*.

Despite manifestations to the contrary, complainant no longer filed a reply to APRI's Answer. APRI is now waiting for the schedule of the hearing of its Affirmative Defenses.

On its Manifestation dated October 7, 2016, the ERC-IU manifested the resignation of Atty. Isabelo Tomas as IO and the appointment of Director Alfredo Vergara, Jr. and Engr. Nelson Canlas as new IOs. In a separate pleading, the new IOs filed their Reply to various motions filed by APRI.

Subsequently, APRI filed a Motion to Dismiss dated July 29, 2016, arguing that jurisdiction over the case is vested in the PCC. APRI also filed its Ad Cautelam Pre-Trial Brief and Judicial Affidavits.

On February 2, 2017, ERC issued an Order denying APRI's Motion to Dismiss dated July 29, 2016 based on lack of subject matter jurisdiction. On March 2, 2017 APRI filed its Motion for Reconsideration of the February 2, 2017 Order, which was denied by the ERC in its Order dated June 20, 2017.

On September 19, 2017, APRI filed a Petition for Certiorari (with application for Temporary Restraining Order and Writ of Preliminary Injunction) with the CA (CA G.R. SP. No. 152613), praying for the CA to: (i) issue a TRO commanding the ERC to desist from conducting further proceedings in ERC Case. No. 2015-038MC; (ii) after proceedings, issue a Writ of Preliminary Injunction; and (iii) annul and set aside the February 2, 2017 and June 20, 2017 Orders of the ERC, and dismiss the complaint and ERC proceedings with prejudice.

On November 6, 2017, the IOs filed a Motion for Consolidation seeking to consolidate CA G.R. SP. No. 152613 with TMO's Petition in CA GR. No. 152588. Therafter, the CA issued its Notice of Judgment and Decision dated May 23, 2018, which denied APRI's Petition. On June 18, 2018, APRI filed its Motion for Reconsideration of CA's Decision dated May 23, 2018.

In a Resolution dated January 28, 2019, the Court of Appeals denied the motions for reconsideration filed by APRI, Meralco and TMO and the motion for partial reconsideration filed by the ERC.

Subsequently, the ERC filed a Petition dated February 21, 2019 with the Supreme Court via Rule 45 of the Rules of Court, praying that the Supreme Court grant the Petition and modify the CA Decision dated May 23, 2018 and Resolution dated January 28, 2019.

Consolidated Regulated Price Case against the Energy Regulatory Commission, Petition for Review on Certiorari , Court of Appeals, Manila;

ERC Case No. 2014-021 MC entitled *"In the Matter of the Prices in the WESM for the Supply Months of November and December 2013 and the Exercise by the Commission of its Regulatory Powers to Intervene and Direct the Imposition of Regulated Prices therein without Prejudice to the On-going Investigation on the Allegation of Anti- Competitive Behavior and Possible Abuse of Market Power Committed by Some WESM Participants"*, March 28, 2014

The ERC conducted an investigation on the alleged collusion by the generation companies to raise the WESM prices. Subsequently, the ERC issued an Order in ERC Case No. 2014-021 MC dated March 3, 2014 (the "ERC Order"), declaring as void the Luzon WESM prices during the November and December 2013 supply months. The ERC also declared the imposition of regulated prices for such billing periods and directed the PEMC to calculate the regulated prices and implement the same in the revised November and December 2013 WESM bills of the concerned distribution utilities in Luzon, except for MERALCO whose November 2013 WESM bill was maintained in compliance with the TRO issued by the Supreme Court.

The ERC also ordered the PEMC, through its Enforcement and Compliance Office (ECO) to conduct an investigation, within a period of no less than 90 days, on the alleged violation of the Must-Offer-Rule.

Pursuant to the ERC Order, on March 18, 2014, the PEMC issued adjusted billing statements for all generators trading in the WESM, including Cebu-based EAUC and CPPC, recalculating the WESM prices.

The Company's Affiliates and Subsidiaries, APRI, TLI, TMO, AESI, AdventEnergy, SN Aboitiz Power-Magat, SN Aboitiz Power- Benguet, CPPC, and EAUC filed their respective Motions for Reconsideration, questioning the validity of the ERC Order on the ground of lack of due process, among others. In its March 27, 2014 Order, the ERC ordered deferral of PEMC's implementation of the adjusted billing statements for forty 45 days. This was subsequently extended with no clear timeline by the ERC in its order dated June 6, 2014.

The ERC, in its Order dated October 15, 2014, denied said Motions for Reconsideration. SN Aboitiz Power-Benguet, SN Aboitiz Power-Magat, APRI, TLI, and TMO filed their Petitions for Review (the "Petitions") before the CA on November 19, 24, December 1, and 4, 2014, respectively. The CA ordered the consolidation of the Petitions on October 9, 2015.

On November 7, 2017, the CA granted the Petitions. The ERC's March 3, 2014 Order, among other orders, were declared null and void, and the Luzon WESM market prices in November and December 2013 were declared valid and therefore reinstated.

Thereafter, ERC and Meralco filed their respective motions for reconsideration. Several entities also filed motions to intervene in the case. APRI, TLI, and TMO filed their oppositions to the motions for reconsideration and motions to intervene. The CA denied the motions to intervene filed by several entities, which thereafter filed their motions for reconsideration.

As of February 28, 2019, the motions for reconsideration relating to the CA November 7, 2017 Decision and relating to the Court of Appeals' denial of the motions to intervene are still pending resolution with the Court of Appeals.

ERC Case No. 2013-077 MC entitled *"In Re: Petition for Dispute Resolution: Manila Electric Company (MERALCO) vs. South Premier Power Corporation (SPPC), Masinloc Power Partners Company, Ltd. (MPPCL), AP Renewables, Inc. (APRI), Therma Luzon, Inc. (TLI), San Miguel Energy Corporation (SMEC) and SEM-Calaca Power Corporation (SCPC)"*, August 29, 2013

On August 29, 2013, MERALCO filed a petition before the ERC against TLI and APRI, among other Successor Generating Companies (SGCs), docketed as ERC Case No. 2013-077 MC, where MERALCO prayed that it be refunded by the respondent- SGCs of the transmission line losses. The petition arose from a claim of refund on account of the alleged over-recoveries of transmission line losses.

The petition was filed by MERALCO pursuant to the ERC Order dated March 4, 2013 and July 1, 2013 in ERC Case No. 2008- 083 MC where the SGCs were not parties to.
On September 20, 2013, APRI and TLI, together with the other SGCs, filed a Joint Motion to Dismiss arguing that MERALCO's petition should be dismissed for failure to state a cause of action and ERC's lack of jurisdiction over the subject matter of the case. The motion argued that: (i) MERALCO cannot base its cause of action against the SGCs on a decision issued by ERC in another case where none of the SGCs were made parties to the case; and (ii) MERALCO's claim is in a nature of a claim for sum of money which is properly within the jurisdiction of regular courts. The Joint Motion to Dismiss has since then been submitted for resolution with the ERC.

As of February 28, 2019, the ERC has yet to render its decision on the Joint Motion to Dismiss.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

(1) Market Information

AboitizPower's common shares are traded on the PSE.

The high and low stock prices of AboitizPower's common shares for each quarter of the past two years and first quarter of 2019 were as follows:

	2019		2018		2017	
	High	Low	High	Low	High	Low
First Quarter	₱39.20	₱33.70	₱41.80	₱37.50	₱44.25	₱41.55
Second Quarter	N/A	N/A	39.70	34.25	43.00	38.50
Third Quarter	N/A	N/A	38.20	33.45	42.85	38.80
Fourth Quarter	N/A	N/A	35.50	31.20	42.95	38.30

The closing price of AboitizPower common shares as of March 29, 2019 is ₱35.40 per share.

(2) Holder

As of March 29, 2019, AboitizPower has 632 stockholders of record, including PCD Nominee Corporation (Filipino) and PCD Nominee Corporation (Foreign). Common shares outstanding as of same date were 7,358,604,307 shares.

The top 20 stockholders of AboitizPower as of March 29, 2019 are as follows:

Name	Number of Shares	Percentage
1) Aboitiz Equity Ventures, Inc.	5,657,530,774	76.88%
2) PCD Nominee Corporation (Filipino)	957,568,900	13.01%
3) PCD Nominee Corporation (Foreign)	463,209,725	6.29%
4) Bauhinia Management, Inc.	18,109,100	0.25%
5) Portola Investors, Inc.	13,634,856	0.19%
6) Hawk View Capital, Inc.	13,633,657	0.19%
7) San Fernando Electric Light & Power Co., Inc.	7,931,034	0.11%
8) Parraz Development Corporation	7,827,522	0.11%
9) Dominus Capital Inc.	7,241,050	0.10%
10) FMK Capital Partners Inc.	6,538,000	0.09%
11) Sabin M. Aboitiz	5,667,406	0.08%
12) Iker M. Aboitiz	5,465,100	0.07%
13) Aboitiz & Company, Inc.	5,360,000	0.07%
14) Daniele Management & Development	5,234,949	0.07%
15) Arrayanes Corporation	4,146,243	0.06%
16) Danel C. Aboitiz	4,081,636	0.06%
17) Ramon Aboitiz Foundation, Inc.	3,900,000	0.05%
18) Tris Management Corporation	3,130,359	0.04%
19) Tinkerbell Management Corporation	3,042,454	0.04%
20) Cal Management Corporation	3,036,798	0.04%
SUBTOTAL	**7,196,289,563**	**97.80%**
Other Stockholders	**162,314,744**	**2.21%**
TOTAL SHARES	**7,358,604,307**	**100.00%**
NET ISSUED AND OUTSTANDING SHARES	**7,358,604,307**	**100.00%**

(3) Dividends

During the regular board meeting of the Company held on November 28, 2012, the Board approved a revised dividend policy consisting of an annual cash dividend payment ratio of 50% of its consolidated net income from the previous fiscal year based on the audited financial statements of the Company. The policy changed the previous cash dividend payment ratio of 33% of previous year's net profits. The Company's current dividend policy has been in effect since 2013.

The cash dividends declared by AboitizPower to common stockholders from 2017 to the first quarter of 2019 are shown in the table below:

Year	Cash Dividend Per Share	Total Declared	Declaration Date	Record Date	Payment Date
2019 (regular)	₱1.47	₱10.82 bn	3/7/2019	3/21/2019	4/5/2019
2018 (regular)	₱1.36	₱10.00 bn	3/8/2018	3/22/2018	4/12/2018
2017 (regular)	₱1.36	₱10.00 bn	3/7/2017	3/21/2017	4/10/2017

There are no restrictions that limit the payment of dividends on common shares to stockholders of records as of March 21, 2019.

(4) Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction

AboitizPower does not have any recent sales of unregistered or exempt securities including recent issuances of securities constituting an exempt transaction.

Item 6. Management's Discussion and Analysis or Plan of Action

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the Company's consolidated financial condition and results of operations and certain trends, risks, and uncertainties that may affect its business. The critical accounting policies section discloses certain accounting policies and management judgments that are material to the Company's results of operations and financial condition for the periods presented in this report. The discussion and analysis of the Company's results of operations is presented in three comparative sections: the year ended December 31, 2018 compared with the year ended December 31, 2017, the year ended December 31, 2017 compared with the year ended December 31, 2016, the year ended December 31, 2016 compared with the year ended December 31, 2015.

Prospective investors should read this discussion and analysis of the Company's consolidated financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto set forth elsewhere in this report.

Top Five Key Performance Indicators

Management uses the following indicators to evaluate the performance of the Registrant, and its Subsidiaries:

1. **Share in Net Earnings of Associates and Joint Ventures.** This represents the Group's share in the undistributed earnings or losses of its investees for each reporting period subsequent to acquisition of said investment, net of goodwill impairment cost, if any. Goodwill is the difference between the purchase price of an investment and the investor's share in the value of the net identifiable assets of the investee at the date of acquisition. Share in Net Earnings of Associates and Joint Ventures indicates profitability of the investment and investees' contribution to the Group's net income.

   Manner of Computation: Investee's Net Income (Loss) x Investor's % ownership - Goodwill Impairment Cost

2. **Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA).** The Company computes EBITDA as earnings before extra-ordinary items, net finance expense, income tax provision, depreciation and amortization. It provides management and investors with a tool for determining the ability of the Group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the Group's ability to service its debts.

3. **Cash Flow Generated.** Using the Consolidated Statement of Cash Flows, management determines the sources and usage of funds for the period and analyzes how the Group manages its profit and uses its internal and external sources of capital. This aids management in identifying the impact on cash flow when the Group's activities are in a state of growth or decline, and in evaluating management's efforts to control the impact.

4. **Current Ratio.** Current ratio is a measurement of liquidity, calculated by dividing total current assets by total current liabilities. It is an indicator of the Group's short-term debt paying ability. The higher the ratio, the more liquid the Group

5. **Debt–to–Equity Ratio.** Debt-to-Equity ratio gives an indication of how leveraged the Group is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total debt by stockholders' equity.

Year Ended December 31, 2018 versus Year Ended December 31, 2017

The table below shows the comparative figures of the top five key performance indicators for 2018 and 2017.

Key Performance Indicators	2018	2017
Amounts in thousands of ₱s, except for financial ratios		
SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	**4,356,825**	4,697,864
EBITDA	**51,490,894**	47,650,408
CASH FLOW GENERATED:		
Net cash flows from operating activities	**37,287,900**	30,235,931
Net cash flows used in investing activities	**(7,243,119)**	(9,452,925)
Net cash flows from/ (used in) financing activities	**(19,155,753)**	(32,122,699)
Net (Decrease)/Increase in Cash & Cash Equivalents	**10,889,028**	(11,339,693)
Cash & Cash Equivalents, Beginning	**35,699,631**	47,094,741
Cash & Cash Equivalents, End	**46,343,041**	35,699,631
CURRENT RATIO	**1.89**	1.38
DEBT-TO-EQUITY RATIO	**1.85**	1.92

Share in net earnings in associates and joint ventures declined by 7% in 2018 compared to 2017 due to decreases in contributions from WMPC, SPPC, RP Energy, SFELAPCO, and large hydropower plants, SN AboitizPower-Magat and SN AboitizPower-Benguet. Lower income contributions attributable to large hydropower plants were due to a lower hydrology in 2018 compared to the higher than usual hydrology levels during 2017.

Consolidated EBITDA increased by 8% in 2018, primarily due to the fresh contributions from PEC and Hedcor Bukidnon, which commenced commercial operations in March 2018 and July 2018, respectively, and further augmented by higher contributions from GMCP due to higher availability factor in 2018 as compared to the previous year. These were largely offset by lower contributions arising from: (i) TSI due to higher operating costs; and (ii) TMO due to expiration of power supply contracts in 2018.

During 2018, cash and cash equivalents increased by ₱10.64 bn, due to higher operating cash flows, proceeds from debt-raising activities at parent, and proceeds of the long-term debts of GMCP and TVI. In 2018, the Company also managed to return the same levels of cash dividends to its shareholders, and deploy financial resources to continue the construction of various greenfield projects.

Current ratio at the end of 2018 was at 1.89x from the previous year's 1.38x, due to the 31% increase in current assets and 5% decrease in current liabilities.

Debt-to-equity ratio as of December 31, 2018 was at 1.85, lower than the 1.92 recorded at the end of 2017.

Results of Operations

Net income for 2018 increased 6% Year-on-Year (YOY), from ₱20.42 bn in 2017 to ₱21.71 bn in 2018. This translated to earnings per share of ₱2.95. During 2018, the Company recognized non-recurring losses of ₱2.08 bn (versus 2017's loss of ₱2.93 bn) mainly resulting from: (i) foreign exchange (forex) losses from revaluation of dollar-denominated liabilities; and (ii) asset impairment. Adjusting for these one-off losses, the Company's core net income for 2018 amounted to ₱23.78 bn, up by 2% YoY.

Power Generation and Retail Electricity Supply (RES)

The power generation group and RES' income contribution for 2018 was ₱19.96 bn, up 12% YoY. The growth was largely driven by fresh income contributions from PEC and Hedcor Bukidnon. Netting out forex losses and impairment costs recognized in 2018, the generation group and RES' core net income contribution remained flat at ₱20.95 bn. Capacity sold during 2018 was flat YoY, from 3,167 MW in 2017 to 3,152 MW in 2018.
As of year-end 2018, AboitizPower's net sellable capacity stood at 3,111 MW.

Power Distribution

The power distribution group's earnings contribution decreased by 5% YoY, from ₱4.27 bn in 2017 to ₱4.05 bn in 2018. Stripping out the impairment loss in 2018, its recurring earnings contribution grew 6% YoY from ₱4.11 bn in 2017 to ₱4.37 bn in 2018. This increase was mainly attributable to electricity sales which increased by 5% YoY, from 5,288 GWh in 2017 to 5,540 GWh in 2018 as energy sales grew across all customer segments.

Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income

Consolidated Statements of Income

Consolidated net income attributable to equity holders of the parent increased by 6% from ₱20.42 bn in 2017 to ₱21.71 bn in 2018. The various movements in line items are shown below to account for the increase:

Consolidated Net Income Attributable to Equity Holders of the Parent for 2016	**₱20,416,442**
Increase in operating revenues	12,180,781
Increase in operating expenses	(9,857,828)
Increase in interest income	(46,927)
Increase in interest expense	(834,378)
Decrease in share in net earnings of associates and joint ventures	(341,039)
Increase in other income	411,689
Lower provision for taxes	932,775
Increase in income attributable to non-controlling interests	(1,153,912)
Total	1,291,161
Consolidated Net Income Attributable to Equity Holders of the Parent for 2017	**₱21,707,603**

Operating Revenues
(10% increase from ₱119.39 bn to ₱131.57 bn)

The 10% increase in operating revenues was mainly attributable to the higher revenues recorded by the power generation and RES groups, which combined accounted for ₱10.59 bn of the ₱12.18 bn increase. The higher revenues were driven by: (i) fresh contributions from PEC and Hedcor Bukidnon; and (ii) higher sales at TLI. These were offset by lower revenues at some of the oil-fired power generation companies (Oil Group).

The increase in operating revenues was also attributable to higher electricity sales during 2018 by the Company's two largest distribution utilities. This segment of the Company's business experienced a ₱1.35 bn increase in operating revenues.

Operating Expenses
(12% increase from ₱85.22 bn to ₱95.08 bn)

Operating expenses increased by 12% during 2018, driven by the 25% increase in cost of generated power as fuel costs rose during the year. Depreciation and amortization, general and administrative expenses also went up as power plants entered commercial operations during the year.

Interest Income
(5% decrease from ₱927 mn to ₱880 mn)

The decrease in interest income during 2018 was mainly due to lower average cash and cash equivalent balances carried at the Company and at two of its intermediate holding companies, ARI and TPI, for most of the year.

Interest Expense and Other Financing Costs
(7% increase from ₱11.25 bn to ₱12.08 bn)

Interest expense increased in 2018 as the Company issued a total of ₱10.20 bn in retail bonds in October 2018.

PEC also started to recognize interest on its project loans during 2018. These new interest charges were offset by the lower interest expense taken up at TPI as it fully paid its dollar-denominated loan in 2018.

Share in Net Earnings of Associates and Joint Ventures
(7% decrease from ₱4.70 bn to ₱4.36 bn)

Share in net earnings of associates and joint ventures declined by 7% in 2018, as lower contracted capacities at two associate oil companies operating in Mindanao, WMPC and SPPC, led to lower contributions. SFELAPCO also saw a decline in net profits during the year. Lastly, the effects of the El Niño in 2018 led to lower water levels, which adversely affected income contributions from SN AboitizPower-Magat and SN AboitizPower-Benguet.

Other Income (Expenses) – net
(Decrease from ₱1.70 bn other expense to ₱1.29 bn other expense)

This account stayed in an expense position at year-end 2018 due to net unrealized forex loss in 2018, primarily due to the restatement of TLI's dollar-denominated debt on its monthly obligations to the PSALM. The decrease in this expense line item was from other income recognized on supplier settlements recognized at PEC.

Provision for Taxes
(24% decrease from ₱3.86 bn to ₱2.93 bn)

The decrease was due to deferred tax benefits recognized in 2018 at Davao Light for the impairment of assets, and at TLI on unrealized forex losses.

Net Income Attributable to Non-controlling Interests
(45% increase from ₱2.57 bn to ₱ 3.73 bn)

The increase in the contributions from GMCP during 2018 also led to the higher take-up of attributed income for GMCP minority shareholders.

Consolidated Statements of Comprehensive Income

The movements in cumulative translation adjustments led to the increase in total net other comprehensive income for 2018 at ₱1.06 bn (versus ₱378 mn in 2017). Total consolidated comprehensive income was ₱26.49 bn for the year.

Changes in Registrant's Resources, Liabilities and Shareholders' Equity

Assets

Total assets (as of December 31, 2018 compared to December 31, 2017) increased by ₱28.19 bn, or 8% YOY. The major movements of the accounts leading to the increase were as follows:

(a) Cash and cash equivalents increased by 30% during 2018. Cash generated from operations increased supplemented by the lower cash used in financing activities due to loan proceeds. The consolidated cash position of the Company increased by ₱10.64 bn.
(b) Trade and other receivables increased by 25% (from ₱17.36 bn in 2017 to ₱21.72 bn in 2018) mainly due to advances to partners in GMCP and the take-up of the PSALM deferred adjustments at Davao Light and VECO. PSALM deferred adjustment pertains to Generation Rate Adjustment Mechanism and Incremental Currency Exchange Rate Adjustment to be recovered from customers or to be collected from PSALM.
(c) Net derivative assets went down by ₱161 mn during 2018 mainly due to mark-to-market losses on the Group's swap and forward contracts.
(d) Inventories increased by 19% (from ₱5.64 bn in 2017 to ₱6.69 bn in 2018) as the Group recognized inventories held at TPVI, which took over the Naga Power Plant Complex in 2018, and due to higher inventory balances at GMCP, TSI and TVI. This was offset by lower inventory balances at the Oil Group.
(e) Property held for sale of ₱676 mn as of December 31, 2018 pertains to transmission assets that will be transferred and sold to the NGCP. This account was nil in 2017.
(f) Other current assets was higher by 46% (from ₱9.03 bn in 2017 to ₱13.21 bn in 2018) mainly driven by the increase of restricted cash at TSI. The maintenance of a cash reserve forms part of TSI's compliance with the covenants on its project debt. TVI's recognition of a receivable from NGCP on the construction of transmission

line also contributed to the increase in this account.

(g) Investments and advances increased mainly as a result of capital infusions into GNPD as it continues the construction of a 1x668 MW supercritical coal-fired power plant in Bataan. The account increased from ₱31.25 bn at the end of 2017 to ₱34.33 bn at the end of 2018.
(h) Property, plant and equipment (PPE) slightly increased by 2% (from ₱204.03 bn in 2017 to ₱207.11 bn in 2018) mainly due to new additions during 2018 for the on-going construction of hydropower facilities under Hedcor and Hedcor Bukidnon, and TVI's coal plant.
(i) Available-for-sale investments went from ₱103 mn in 2017 to nil at the end of 2018 as these were reclassified to Financial Assets at fair value through profit or loss.
(j) Financial assets at fair value through profit or loss went up to ₱101 mn in 2018 from nil as these were reclassified from Available-for-Sale investments.
(k) Net pension assets increased by ₱71 mn in 2018 due to the increase in the fair value of plan assets for contributions made during 2018.
(l) Deferred income tax assets increased by 59% (from ₱1.41 bn in 2017 to ₱2.23 bn in 2018). The increase was driven by the deferred tax benefits recognized by Davao Light in 2018 on the impairment of its assets and at TLI for unrealized forex losses.

Liabilities

Consolidated liabilities increased by 7% YOY, from ₱237.50 bn at the end of 2017 to ₱253.09 bn at the end of 2018. The major movements of the accounts leading to the increase were as follows:

(a) Short term loans were up 145%, or ₱6.83 bn, mainly due to new loans of the Company for working capital purposes.
(b) Trade and other payables increased by 10% (from ₱19.85 bn in 2017 to ₱21.80 bn in 2018), primarily due to the take-up of the PSALM deferred adjustment at Davao Light and VECO. PSALM deferred adjustment refers to the amounts to be remitted to PSALM or refunded to customers.
(c) Income tax payable decreased by 32% (from ₱646 mn in 2017 to ₱439 mn in 2018) primarily due to lower corporate taxes payable at the end of 2018.
(d) Long-term debt (current and non-current portions) increased by 4% (from ₱152.05 bn in 2017 to ₱158.06 bn in 2018). The increase was mainly attributable to the net effect of the following:

    (i) The Company's ₱10.20 bn new bonds issued in October 2018;
    (ii) Net increase during 2018 of GMCP's project debt by ₱10.67 bn, which was a combination of new drawdowns and forex adjustment; and
    (iii) TPI's loan payment of ₱15.15 bn.

(e) Finance lease obligation (current and noncurrent portions) decreased by 5% from a total of ₱49.23 bn in 2017 to ₱46.89 bn at the end of 2018, as TLI made timely payments on its obligation to PSALM during 2018.
(f) Long term obligation on power distribution system (PDS) decreased by 7% as regular annual payments were made.
(g) Asset retirement obligation increased by 24% (₱2.96 bn in 2017 to ₱3.68 bn in 2018) due to an increase in the estimated future decommissioning costs on the Group's steam field assets.
(h) Deferred income tax liabilities (DTL) decreased by 6% ₱913 mn in 2017 to ₱858 mn in 2018), mainly due to unrealized gain on forward contract in 2017 that was reversed in 2018.
(i) Net pension liabilities decreased by 32% (₱361 mn in 2017 to ₱245 mn in 2018) on account of benefits paid to retired employees during the year.
(j) Other noncurrent liabilities went from ₱403 mn in 2017 to ₱3.18 bn at the end of 2018 due to the recognition of the PSALM deferred adjustment.

Equity

Equity attributable to equity shareholders of the parent company increased by 11% YOY (from ₱115.40 bn at the end of 2017 to ₱127.71 bn at the end of 2018), driven mainly by the recognition of income during 2018 of ₱21.71 bn, net of dividends declared and paid to the Company's shareholders.

Material Changes in Liquidity and Cash Reserves of Registrant

Cash generated from operations of ₱37.29 bn continued to provide a source of liquidity during 2018, growing by ₱7.05 bn as compared to 2017. Cash from the operations of fully-commissioned PEC augmented the cash streams from operations.

During 2018, the Group utilized ₱7.24 bn cash for investing activities. This was ₱2.21 bn more than during 2017, the largest portion of which was used to construct a coal plant in the Visayas for TVI. Meanwhile, the Company continued to deploy financial resources in the construction of other greenfield projects. Funds were also invested to infuse more capital to GNPD. The outflows were supported by dividends received during 2018.

In 2018, the Company availed of long-term debt through a bond issuance, fresh loans availed of by certain subsidiaries, and draw down on project finance facilities. In the first half of 2018, the Company declared ₱10.23 bn in dividends to its shareholders. These activities led to cash flow used in financing activities of ₱19.16 bn during 2018.

As of December 31, 2018, the Group's cash and cash equivalents increased to ₱46.34 bn, compared to ₱35.70 bn as of the end of 2017.

Financial Ratios

Current assets increased by 31% while current liabilities decrease by 5%, the current ratio at the end of 2018 was at 1.89x, versus 1.38x at the end of 2017.

Consolidated debt to equity ratio at the end of 2018 was at 1.85 versus 1.92 as of end 2017, as the Company's increase in equity surpassed the increase in liabilities.

Outlook for the Upcoming Year/ Known Trends, Events, Uncertainties which may have Material Impact on Registrant

AboitizPower is focused on addressing the needs of its markets, namely: (1) reliable supply, at a (2) reasonable cost, and with (3) three minimal impact on the environment and communities. The Company believes that no single technology that can completely address the country's energy requirements and that a mix of power generation technologies is necessary to address the country's needs. Thus, AboitizPower continues to pursue both renewable projects and thermal technologies, where and when it makes sense.

Despite increased competition in the power generation market, the Company is confident that it has built the foundation to sustain long term growth, as seen in its pipeline of new projects (see Part 1 (i) General of Electricity on page 5 where target commercial operation dates for each project are discussed per business unit). The Company is also currently on track with its target to reach 4,000 MW net attributable capacity by 2020.

AboitizPower believes that it is well-positioned to take advantage of opportunities arising from developments in the power industry. Its sound financial condition is expected to give it the agility to create or acquire additional generating capacity over the next few years.

The Company expects that its existing distribution utilities will continue to realize modest growth. It continuously seeks efficiency and improvements in its distribution utilities' operations in order to maintain healthy margins.

AboitizPower has alloted over ₱50 bn for capital expenditures in 2019, about 80% of which is for thermal projects, and the remaining balance allocated mainly for exploratory and operating activities.

Other known trends, events, uncertainties which may have material impact on the Registrant have been discussed in previous sections of the report (e.g., for an extensive discussion on regulatory issues, see Part 1 (xi) Effects of Existing or Probable Government Regulations on the Business on page 40).

Year Ended December 31, 2017 versus Year Ended December 31, 2016

The table below shows the comparative figures of the top five key performance indicators for 2017 and 2016.

Key Performance Indicators	2017	2016
Amounts in thousands of ₱s, except for financial ratios		
SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	**4,697,864**	**3,641,210**
EBITDA	**47,650,408**	**38,085,726**
CASH FLOW GENERATED:		
Net cash flows from operating activities	**30,235,931**	29,887,980
Net cash flows used in investing activities	**(9,452,925)**	(81,380,348)
Net cash flows from/ (used in) financing activities	**(32,122,699)**	47,483,228
Net (Decrease)/Increase in Cash & Cash Equivalents	**(11,339,693)**	(4,009,140)
Cash & Cash Equivalents, Beginning	**47,094,741**	51,098,269
Cash & Cash Equivalents, End	**35,699,631**	**47,094,741**
CURRENT RATIO	**1.38**	2.25
DEBT-TO-EQUITY RATIO	**1.92**	2.18

Share in net earnings in associates and joint ventures grew by 29% in 2017, as contributions from SN Aboitiz Power-Magat and SN Aboitiz Power-Benguet increased. The improved hydrology experienced by both companies during the first half of 2017 led to higher revenues.

The primary driver of the 25% growth in EBITDA during 2017 was the full year EBITDA contributions of GNPower Mariveles, which was acquired by the Company at the close of 2016.

Supported by increased cash flows from operations and inflows from new loans, the Company continued to infuse capital to its Subsidiaries in 2017 to complete various projects, made timely payments on its obligations, and distributed dividends to its shareholders. During 2017, net outflows relating to financing and investing activities outpaced cash inflow from operations, which led to the ₱11.34 bn decrease in cash and cash equivalents as of year-end 2017.

Current ratio at the end of 2017 was 1.38x, down from end-2016's 2.25x. This was driven by the 8% decrease in current assets mainly due to the decrease in cash and cash equivalents, coupled with a 50% increase in current liabilities as certain long-term debt are expected to fall due in 2018.

Debt-to-equity ratio as of December 31, 2017 was at 1.92:1, down from end-2016's 2.18:1, as long-term debts were paid down in 2017.

Results of Operations

The Company's net income for 2017 increased to ₱20.42 bn from ₱20.00 bn in 2016, a 2% year-on-year (YoY) increase. This translated to earnings per share of ₱2.77 for 2017. During 2017, the Company recognized non-recurring losses of ₱2.90 bn (versus 2016's non-recurring loss of ₱611 mn), primarily due to asset impairment costs related to Aseagas and debt prepayment costs on an existing loan of GNPower Mariveles, which were partially offset by a one-off recognition of lower interest expense from an acquired loan. Without these one-off adjustments, the Company's core net income grew to ₱23.35 bn in 2017 from ₱20.61 bn in 2016, or an increase of 13% YoY.

Power Generation

On a full year basis, the power generation group recorded a consolidated EBITDA share of ₱38.79 bn in 2017, up 27% YoY, and accounted for 83% of the EBITDA contributions from the Company's business segments. This was driven by the full-year fresh contribution from GNPower Mariveles, and the higher EBITDA of the hydro group as power generation increased during 2017 due to higher water inflows. At the core net income level, the power generation group grew 18% YoY, from ₱17.16 bn in 2016 to ₱20.20 bn in 2017. Non-recurring charges relating to impairment costs, prepayment charges on GNPower Mariveles' loan upon refinancing, and the one-off recognition of lower interest expense from the foregoing acquired loan, brought the power generation group's net income contribution in 2017 to ₱17.07 bn.

The Company's capacity sold increased by 41% YoY, from 2,223 MW in 2016 to 3,124 MW in 2017. This was mainly driven by the additional capacities from GNPower Mariveles, increased generation by its HEPPs, and additional capacities contracted.

Power Distribution

The distribution group's EBITDA increased by 14% YoY, to ₱7.76 bn in 2017. Net income contribution in 2017 increased by 16% YoY to ₱4.27 bn.

The distribution group's gross margin on a per kWh basis increased by 9% YoY, to ₱1.73 in 2017 from ₱1.59 in 2016. The improved margins were driven by more adequate power supply, better supply mix, and recoveries on purchased power costs.

The distribution group's attributable sales for 2017 was 5,288 GWh, registering a 4% YoY increase from 2016.

Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income

Consolidated Statements of Income

Consolidated net income attributable to equity holders of the parent company increased by 2% YoY, from ₱20.00 bn in 2016 to ₱20.42 bn in 2017. The various movements in line items are shown below to account for the increase:

Consolidated Net Income Attributable to Equity Holders of the Parent for 2016	**₱20,002,582**
Increase in operating revenues	30,228,034
Increase in operating expenses	(22,364,605)
Increase in interest income	(156,523)
Increase in interest expense	(3,543,769)
Decrease in share in net earnings of associates and joint ventures	1,056,654
Increase in other income	(3,373,212)
Lower provision for taxes	(362,258)
Increase in income attributable to non-controlling interests	(1,070,461)
Total	413,860
Consolidated Net Income Attributable to Equity Holders of the Parent for 2017	**₱20,416,442**

Operating Revenues
(34% increase from ₱89.16 bn to ₱119.39 bn)

Revenues of the power distribution group decreased by 2% YoY, while the power generation group saw a 61% YoY increase from ₱35.69 bn in 2016 to ₱57.42 bn in 2017. The full year consolidation of the operating revenues of GNPower Mariveles accounted for 96% of the increase in the power generation group's revenue. The balance of this increase was attributed to higher operating revenues at the small HEPPs (increase of 14% YoY) due to better hydrology in 2017 and the full commercial operations of TSI two units during 2017. The higher operating revenues were partly offset by lower operating revenues at TMI during 2017 as a result of expiring contracts.

In anticipation of the commercial operations of PEC and TVI in 2018, the RES companies progressively entered into contracts throughout 2017, resulting in a ₱9.59 bn increase in operating revenues.

Operating Expenses
(36% increase from ₱62.85 bn to ₱85.22 bn)

Cost of purchased power increased by ₱6.48 bn during 2017 as RES companies incur higher costs to serve their new contracts.

Cost of generated power increased during 2017 as the costs at GNPower Mariveles were consolidated during the year. This accounted for ₱7.35 bn of the ₱11.24 bn increase in this account for 2017. The balance came from higher cost of steam at APRI, as well as higher fuel costs at the thermal companies due to the price increases on coal and oil during 2017.

All other operating expenses relating to general and administrative expenses, operations and maintenance, and depreciation and amortization increased during 2017 as a result of the full year consolidation of GNPower Mariveles' expenses.

Interest Income
(14% decrease from ₱1.08 bn to ₱ 927 mn)

The decrease in interest income in 2017 was mainly due to lower average cash balances carried at the Parent Company and at its intermediate holding companies, ARI and TPI, during most of the year.

Interest Expense and Other Financing Costs
(46% increase from ₱7.70 bn to ₱11.25 bn)

Higher interest expense incurred on TPI's bridge loan, full year recognition of GNPower Mariveles' interest expenses, and interest payments made on the Company's corporate retail bonds led to the 46% YoY increase during 2017 in this account as compared to 2016. This increase was net of lower debt service costs from the Company's other Subsidiaries, as timely principal payments were made during 2017 on project debts.

Share in Net Earnings of Associates and Joint Ventures
(29% increase from ₱3.64 bn to ₱4.70 bn)

The higher volumes sold and ancillary revenues at SN Aboitiz Power-Magat and SN Aboitiz Power-Benguet led to an increase in contributions in 2017 as compared to 2016, as these companies experienced better hydrology in 2017 as compared to very low hydrology during 2016.

Other Income (Expenses) – net
(from ₱1.67 bn other income to ₱ 1.70 bn other expense)

The shift from an Other Income position in 2016 to an Other Expense position in 2017 was primarily due to an impairment loss on Property, Plant and Equipment (PPE) at Aseagas (₱ 3.13 bn) during 2017, as compared to a non-recurring gain in 2016 relating to supplier settlements.

Provision for Taxes
(10% increase from ₱3.50 bn to ₱3.86 bn)

The increase was due to the full year consolidation of tax provisions taken by GNPower Mariveles.

Net Income Attributable to Non-controlling Interests
(71% increase from ₱1.50 bn to ₱2.57 bn)

The increase in this account during 2017 was mainly from the take-up of the minority shareholders' participation in the income of GNPower Mariveles in 2017.

Consolidated Statements of Comprehensive Income

The movements in cumulative translation adjustments, the share of an associate's unrealized mark-to-market gains on its available-for-sale (AFS) investments, and the recognition of losses and gains on defined benefit plans led to higher comprehensive income recognized for 2017. Total consolidated comprehensive income attributable to equity holders of the Parent was ₱20.62 bn for 2017.

Changes in Registrant's Resources, Liabilities and Shareholders' Equity

Assets

Total assets (as of December 31, 2017 vs. December 31, 2016 as restated) increased by ₱4.47 bn or by 1%. The major movements of the accounts leading to the increase were as follows:

(a) Cash and cash equivalents decreased by 24%, or by ₱11.40 bn, during 2017. Cash generated from operations continue to provide significant liquidity for the Company. Long-term debt payments were made during 2017, including approximately ₱16 bn on TPI's bridge financing obtained in 2016 to fund the acquisitions of GNPower Mariveles and GNPower Dinginin; and ₱2.43 bn as prepayment of Aseagas' project debt. During 2017, the Company also made timely payments on its other obligations as they became due, and also paid dividends to its shareholders.
(b) Trade and other receivables increased by 12% (from ₱15.47 bn in 2016 to ₱17.36 bn in 2017), due to the increase in receivables as new contracts were signed by the Company's RES-licensed companies, AESI and AdventEnergy, as well as higher trade receivable balances of the Company's distribution utilities. The increases noted in the RES companies and distribution utilities constituted 80% of the increase, with the balance mainly coming from higher trade receivables at TLI and TSI.
(c) Inventories increased by 27% (from ₱4.45 bn in 2016 to ₱5.64 bn in 2017) as higher inventory balances as of year-end 2017 were noted at the Company's thermal plants.
(d) Other current assets increased by ₱40% during 2017, driven mainly by higher prepaid insurance and prepaid taxes of the Company's Subsidiaries.
(e) At the end of 2017, PPE increased by 6% [from ₱192.98 bn at end-2016 (as restated) to ₱204.03 bn at end-2017], as various projects entered the final stages of their construction activities, in particular, Hedcor Bukidnon's hydro project, and TVI and PEC's coal plants.
(f) The increase in derivative assets (both current and non-current) of the Group by ₱50.08 mn as of end-2017 was driven by fair value changes during the course of 2017.
(g) Net pension assets went up by ₱11 mn, or 24% during 2017, due to the increase in the fair value of plan assets as contributions made during the year.
(h) Due to the refinancing of GNPower Mariveles' outstanding loan in 2017, previously recognized deferred tax assets relating to the loan were written down, resulting in a 22% decrease in the deferred income tax asset account as of end-2017.
(i) Other non-current assets decreased by 7% as of end-2017, mainly from the Group's acquisition of Sacasun loan payable during 2017, which offset the Group's receivables from Sacasun.

Liabilities

Consolidated liabilities decreased by 3%, from ₱244.80 bn as of December 31, 2016 to ₱237.50 bn as of December 31, 2017.

(a) Short term loans increased by 14% or ₱562 mn, mainly from an increase in the number of short-term debts incurred by the distribution utilities to meet working capital requirements.
(b) Trade and other payables increased by 14% or ₱2.45 bn, as payables to suppliers and contractors increased as construction of various power plants continued.
(c) Long-term debt (current and non-current) decreased by ₱7.32 bn (from ₱159.37 bn in 2016 to ₱152.05 bn in 2017). The decrease was mainly due to the ₱15.93 bn prepayment of TPI's bridge loan obtained in 2016 to fund the acquisition of GNPower Mariveles and GNPower Dinginin, and the ₱2.43 bn prepayment of Aseagas' project debt. The decrease was net of drawdowns on various project loans and the issuance of the first tranche of corporate retail bonds amounting to ₱3 bn during 2017.
(d) Finance lease obligations (current and non-current) decreased by 6% (from ₱52.34 bn in 2016 to ₱49.22 bn in 2017), as TLI continues to make timely payments to the PSALM on its obligations as IPPA.
(e) Asset retirement obligation account increased as a result of the revaluation of the future obligation on APRI's asset retirement obligations. The account increased by 62% (from ₱1.82 bn in 2016 to ₱2.96 bn in 2017).
(f) Long term obligation on power distribution system (PDS) decreased by 6%, as regular annual payments were made in 2017.

(g) Derivative liabilities (current and non-current) decreased by 87% (from ₱361 mn as of December 31, 2016 to ₱ 48 mn as of December 31, 2017) due to the de-recognition of the derivative liability related to the loan prepayment of GNPower Mariveles during 2017.
(h) Customers' deposits decreased by 11% (from ₱6.83 bn in 2016 to ₱6.09 bn in 2017), as special deposits were refunded by distribution utilities to its customers during 2017.
(i) Other non-current liabilities increased by 20%, driven by an increase of retention payables to suppliers during 2017.
(j) Pension liability increased by 46% (from ₱247 mn in 2016 to ₱361 mn in 2017) on account of additional retirement costs, net of retirement contributions, made by certain Subsidiaries during 2017.
(k) Deferred income tax liabilities (DTL) decreased by 13% (from ₱1.04 bn in 2016 to ₱912 mn in 2017), mainly due to lower deferred tax provisions on unrealized foreign exchange gains and valuation changes recognized during 2017.

Equity

Equity attributable to equity shareholders of the Parent increased by 10% (from ₱105.11 bn at year-end 2016 to ₱115.40 bn at year-end 2017) driven mainly by the recognition of income totalling to ₱20.42 bn in 2017, net of dividends declared and paid to the Company's shareholders.

Material Changes in Liquidity and Cash Reserves of Registrant

Cash generated from operations during 2017 were consistent with previous cash flows from operations, bringing in ₱30.24 bn in 2017 as compared to ₱29.89 bn in 2016.

During 2017, the Group's net cash used for investing activities of ₱9.45 bn was used primarily to continue the construction of various power projects. The Group received cash dividends from Associates amounting to ₱5.07 bn during 2017, which provided inflows from investing activities.

In 2017, cash outflows from the payment of long-term debt exceeded cash inflows from availment of long term debt, driven primarily by the Group's prepayment of ₱2.43 bn for the Aseagas project debt, and approximately ₱16 bn payment on TPI's bridge loan. During 2017, the Company also raised ₱3.0 bn in corporate retail bonds. Various Subsidiaries also drew down on their project loans, as necessary to bring their respective on-going projects to completion. Net cash outflows for financing activities is ₱32.12 bn during 2017.

As of December 31, 2017, the Group's cash and cash equivalents decreased by 24%, or from ₱47.09 bn as of year-end 2016 to ₱35.70 bn as of year-end 2017.

Financial Ratios

Current assets decreased by 8% in 2017 as compared to 2016, accompanied by corresponding increase in current liabilities of 50%. The current ratio as of year-end of 2017 was 1.38x, compared to 2.25x at year-end 2016.

Consolidated debt to equity ratio at year-end 2017 was at 1.92:1, as compared to 2.18:1 as of year-end 2016, owing to the Company's growth in equity and substantial debt paid down during 2017.

Year Ended December 31, 2016 versus Year Ended December 31, 2015

The table below shows the comparative figures of the top five key performance indicators for 2016 and 2015.

Key Performance Indicators	2016	2015
Amounts in thousands of ₱s, except for financial ratios		
SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	**3,641,210**	**3,979,947**
EBITDA	**37,842,865**	**33,664,121**
CASH FLOW GENERATED:		
Net cash flows from operating activities	**29,887,980**	25,199,597
Net cash flows used in investing activities	**(81,380,348)**	(8,902,646)
Net cash flows from/ (used in) financing activities	**47,483,228**	(5,448,755)
Net (Decrease)/Increase in Cash & Cash Equivalents	**(4,009,140)**	**10,848,19**
Cash & Cash Equivalents, Beginning	**51,098,269**	40,231,875
Cash & Cash Equivalents, End	**47,094,741**	51,098,269
CURRENT RATIO	**2.25**	**3.12**
DEBT-TO-EQUITY RATIO	**2.18**	**1.39**

Share in net earnings in associates and joint ventures declined by 9% in 2016, as contributions from WMPC, SPPC, STEAG Power and the large hydroelectric power plant, SN Aboitiz Power-Magat, decreased during 2016 compared to 2015.

The main driver of the 12% increase in consolidated EBITDA during 2016 was the full year EBITDA contributions of TSI, which started commercial operations for its first coal-fired unit on September 2015, and for its second unit on February 2016.

During 2016, cash and cash equivalents decreased by ₱4.01 bn, as cash was used in investing activities, mainly, the acquisition of partnership interests in GNPower-Mariveles and GNPower Dinginin. In 2016, the Company also managed to return the same levels of cash dividends to its shareholders, and continued to deploy financial resources for the construction of various greenfield projects.

Current ratio at the end of 2016 was 2.25x compared to the previous year's 3.12x, as the 45% increase in current liabilities outpaced the 5% increase in current assets.

Debt-to-equity ratio as of December 31, 2016 was at 2.18, higher than the 1.39 recorded the end of 2015.

Results of Operations

Net income for 2016 increased to ₱20.00 bn from ₱17.60 bn in 2015, a 14% year on year (YoY) increase. This translated to earnings per share of ₱2.72 for 2016. During the year, the Company recognized non-recurring losses of ₱612 mn (versus 2015's loss of ₱762 mn), primarily due to forex losses from the revaluation of its dollar-denominated liabilities, refinancing costs and goodwill impairment. Adjusting for these one-offs, the Company's core net income for 2016 amounted to ₱20.6 bn, an increase of 12% YoY.

<u>Power Generation</u>

The power generation group continued to lead in terms of earnings contribution during 2016, accounting for 82% of earnings contributions from the Company's business segments. Income share for 2016 was ₱16.26 bn, up 17% YoY. The growth was largely driven by TSI's full year contribution. Netting out one-off items, AboitizPower's generation business generated ₱17.16 bn for the period, which was 16% higher than 2015.

Attributable net energy rose in 2016 by 8% YoY, from 12,550 GWh to 13,495 GWh, as electricity sold through bilateral contracts, which made up 91% of total energy sold during the period, expanded by 8% to 12,279 GWh. On the other hand, spot market sales increased by 4% during 2016 from 1,168 GWh in 2015 to 1,216 GWh.

As of year-end 2016, AboitizPower's net sellable capacity stood at 2,975 MW, after the acquisition of GNPower-Mariveles (604-MW) and GNPower Dinginin (2x668-MW) on December 27, 2016.

<u>Power Distribution</u>

The power distribution group's earnings share for 2016 decreased by 4%, from ₱3.81 bn to ₱3.67 bn. This is equivalent to 18% of the 2016 earnings contributions from the Company's business segments. Total attributable electricity sales increased by 7% YoY, from 4,759 GWh to 5,105 GWh, as energy sales grew across all customer segments. Meanwhile, the group's gross margin on a per kWh basis in 2016 decreased to ₱1.59 from ₱1.61 in 2015.

Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income

Consolidated Statements of Income

Consolidated net income attributable to equity holders of the parent increased by 14%, from ₱17.60 bn in 2015 to ₱20.00 bn in 2016. The various movements in line items are shown below to account for the increase:

Consolidated Net Income Attributable to Equity Holders of the Parent for 2015	**₱17,603,797**
Increase in operating revenues	3,989,317
Increase in operating expenses	(2,365,594)
Increase in interest income	237,242
Increase in interest expense	(1,070,153)
Decrease in share in net earnings of associates and joint ventures	(338,737)
Increase in other income	2,005,851
Lower provision for taxes	93,529
Increase in income attributable to non-controlling interests	(152,670)
Total	2,398,785
Consolidated Net Income Attributable to Equity Holders of the Parent for 2016	**₱20,002,582**

<u>Operating Revenues</u>
(5% increase from ₱85.17 bn to ₱89.16 bn)

Higher revenues during 2016 from the distribution segment, which accounted for ₱3.21 bn out of the ₱3.99 bn increase, served as the primary driver of the increase in operating revenues. Robust growth in the demand for electricity across the distribution companies' franchise areas, notably in the areas of VECO and Davao Light, led to higher operating revenues in 2016.

The generation segment likewise noted a 7% increase in operating revenues for 2016 versus 2015. This was mainly driven by the full year operating revenues of TSI, which was offset by lower revenues of some of the oil-fired plants due to lower dispatch during the year, and of the small hydroelectric power plants, due to lower water levels brought about by the El Niño.

<u>Operating Expenses</u>
(4% increase from ₱60.49 bn to ₱62.85 bn)

Operating expenses increased during 2016, as costs of purchased power, general and administrative expenses and higher depreciation expenses (primarily from the first year deprecation of the TSI assets) were incurred. This was offset by a ₱1.22 bn decrease in the cost of generated power as fuel costs declined during the year.

Interest Income
(28% increase from ₱846 mn to ₱1.08 bn)

Increase in interest income in 2016 was mainly due to higher average cash and cash equivalent balances carried at the Parent Company and at the intermediate holding companies, ARI and TPI, during the year.

Interest Expense and Other Financing Costs
(16% increase from ₱6.63 bn to ₱7.70 bn)

The higher interest expense in 2016 was due to the recognition of interest expense on TSI's project debt, as well as the interest expense on a notes facility which APRI availed of in the first quarter of 2016.

Share in Net Earnings of Associates and Joint Ventures
(9% decrease from ₱3.98 bn to ₱3.64 bn)

Share in net earnings of associates and joint ventures declined by 9% in 2016 as lower contracted capacities at two associate oil companies operating in Mindanao, WMPC and SPPC, led to lower contributions. STEAG Power also saw a decline in net profits during the year. The effects of the El Niño led to lower water levels affecting the income contributions from SN Aboitiz Power-Magat.

Other Income (Expenses) – net
(Increase from ₱337 mn other expense to ₱1.67 bn other income)

The increase in the account was due to the recognition of other income of insurance proceeds from the settlement of liquidated damages during 2016, a gain on the step-acquisition of EAUC, and lower foreign exchange losses.

Provision for Taxes
(3% decrease from ₱3.59 bn to ₱3.50 bn)

The decrease was due to lower provision for taxes recognized at Davao Light and TLI in 2016.

Net Income Attributable to Non-controlling Interests
(11% increase from ₱1.35 bn to ₱ 1.50 bn)

Minority shareholders of VECO took up higher attributed income during 2016. The balance of the increase was due to the take up of the minority shareholder's participation in the income of CEDC and CPPC's net income for the 2016.

Consolidated Statements of Comprehensive Income

The movements in cumulative translation adjustments and recognition of slight gains on defined benefit plans (versus actuarial losses recognized in the prior year) led to lower total net other comprehensive income for 2016 at ₱71 mn (compared to ₱226 mn in 2015). Total consolidated comprehensive income was ₱21.58 bn for 2016.

Changes in Registrant's Resources, Liabilities and Shareholders' Equity

Assets

Total assets (as of December 31, 2016 vs. December 31, 2015) increased by ₱112.29 bn or 46%. The major movements of the accounts leading to the increase are as follows:

(a) Cash and cash equivalents decreased by 8% in 2014. Cash generated from operations continued to provide significant liquidity for the Company, but a major acquisition during 2016 and the need to fund ongoing greenfield projects, resulted in the consolidated cash position of the Company decreasing ₱4.00 bn during 2016.
(b) Trade and other receivables increased by 13% (from ₱13.69 bn in 2015 to ₱15.47 bn in 2016) primarily due to to the take up of the trade receivables at newly consolidated Subsidiary GNPower Mariveles.

(c) Inventories increased by 118% (from ₱2.04 bn in 2015 to ₱4.45 bn in 2016) due to the consolidation of inventories held at GNPower Mariveles and higher inventory balances at TSI and TLI.
(d) Other current assets rose by 90% (from ₱3.39 bn in 2015 to ₱6.45 bn in 2016), mainly driven by ₱2.10 bn in restricted cash at TSI to comply with the covenants for its project debt. The balance of the increase was due to the consolidation of prepaid assets at GNPower Mariveles.
(e) Investments and advances increased mainly as a result of the acquisition of a minority interest in GNPower Dinginin. The account increased from ₱22.55 bn at the end of 2015 to ₱30.60 bn at the end of 2016.
(f) After the acquisition of a majority interest in GNPower Mariveles, the resulting consolidation of its Property, Plant and Equipment (PPE) led to an increase of 43% (from ₱134.81 bn in 2015 to ₱192.63 bn in 2016). The Group also continued to the final stages of the construction of its hydro facilities under Hedcor Sabangan during 2016 and continued the construction of its various coal plants under TVI and PEC.
(g) Intangible assets increased by ₱36.05 bn as the Company recognized ₱36.27 bn of provisional goodwill resulting from the acquisition of GNPower Mariveles, net of ₱169 mn of goodwill impaired on the Company's investment in MEZ.
(h) The additions to derivative instruments as a result of business combinations during 2016 (the acquisition of GNPower Mariveles) led to an increase in derivative assets net of derivative liabilities (current and non-current).
(i) Available for sale (AFS) investments went up by ₱97 mn during 2016 mainly due to the consolidation of AFS investments at GNPower Mariveles.
(j) Net pension assets went up by ₱11 mn (or 31%) due to the increase in the fair value of plan assets as contributions made during the year.
(k) Deferred income tax assets increased by 262% (from ₱585 mn in 2015 to ₱2.12 bn in 2016). The increase was driven by the take up of deferred tax assets at newly consolidated GNPower Mariveles. The balance was attributable to the corresponding deferred tax benefits recognized on the unrealized foreign exchange losses recognized by the Group during the current year.
(l) Other noncurrent assets increased by 80% (from ₱6.12 bn in 2015 to ₱11.01 bn in 2016) mainly due to the increase in input VAT on the on-going construction of various greenfield projects as well as a loan receivable of ARI from Sacasun.

<u>Liabilities</u>

Consolidated liabilities increased by 73% from ₱140.88 bn as of December 31, 2015 to ₱243.15 bn as of December 31, 2016.

(a) Short term loans increased by 62% or ₱1.59 bn, primarily due to temporary advances during 2016 between Davao Light and AEV Parent.
(b) Trade and other payables increased by 23% (from ₱14.14 bn in 2015 to ₱17.40 bn in 2016) as the Company consolidated trade and other payables of GNPower Mariveles. Also contributing to the increase were higher payables to suppliers and contractors as construction of various power plants continued.
(c) Income tax payable decreased by 23% (from ₱853 mn in 2015 to ₱654 mn in 2016) primarily due to lower corporate and final taxes payable at the end of the year.
(d) Long-term debt (current and non-current) increased by 170% (from ₱58.38 bn in 2015 to ₱157.72 bn in 2016) net of payments on long term debt made during the year.

    This increase was attributable to the following:

    (i) TPI's ₱30.49 bn bridge financing to fund the acquisition of GNPower Mariveles and GNPower Dinginin;
    (ii) New loans during the year for APRI (₱11.61 bn) and Hedcor Sibulan (₱4.05 bn) ;
    (iii) Increase in long-term debt relating to the drawdowns on various financing facilities for TVI, PEC and Hedcor Bukidnon; and
    (iv) Consolidation of GNPower Mariveles' project debt of ₱26.43 bn.

(e) Long term obligation on PDS decreased by 5% as regular annual payments were made during 2016.
(f) Customers' deposits increased by 7% (₱6.38 bn in 2015 to ₱6.83 bn in 2016) due to increases in deposits at Davao Light and VECO resulting from the growth in their customer base during the year, as well as additional deposits from retail electricity supply customers in 2016.
(g) The revaluation of the future obligations on APRI's asset retirement obligation resulted in a decrease by 40% (₱3.02 bn in 2015 to ₱1.82 bn in 2016).

(h) Pension liability decreased by 50% (₱493 mn in 2015 to ₱247 mn in 2016) due to retirement contributions made by the group during the year.
(i) Deferred income tax liabilities (DTL) decreased by 8% (₱1.13 bn in 2015 to ₱1.04 bn in 2016) primarily due to lower deferred tax provisions on unrealized forex gains and actuarial valuations recognized during the year.
(j) Other noncurrent liabilities went from nil in 2015 to ₱334 mn at the end of 2016 due to retention payables at PEC as provided for under its EPC contracts.

Equity

Equity attributable to equity shareholders of the parent increased by 8% (from ₱97.57 bn at year end 2015 to ₱105.11 bn at year-end 2016) driven primarily by the recognition of income during the year of ₱20.00 bn, net of dividends declared and paid to the Company's shareholders.

Material Changes in Liquidity and Cash Reserves of Registrant

Cash generated from operations of ₱29.89 bn continued to provide a source of liquidity during 2016, growing by ₱4.69 bn as compared to 2015. Cash from operations of fully commissioned TSI augmented the cash streams from operations.

During 2016, the Group used ₱81.38 bn cash for investing activities. This was ₱72.48 bn more compared to 2015, and largest portion was used to acquire indirect, majority interests in GNPower-Mariveles, and a minority interest in GNPower Dinginin. Meanwhile, the Company continued to deploy financial resources in the construction of various greenfield projects. Funds were also invested in the step acquisition of a subsidiary. The outflows were supported by dividends received during the year.

In 2016, the Group availed of long term debt through bridge financing, fresh loans availed of by certain subsidiaries and draw down on project finance facilities. During the first half of 2016, the Company declared ₱12.22 bn in dividends to its shareholders. These activities led to cash flow from financing activities of ₱47.48 bn during the year.

As of December 31, 2016, the Group's cash and cash equivalents decreased to ₱47.09 bn, from ₱51.10 bn as of the end of 2015.

Financial Ratios

Current assets increased by 5% but with the marked increase in current liabilities of 45%. The current ratio at the end of 2016 is now at 2.25x versus 3.12x at the end of 2015.

Consolidated debt to equity ratio at the end of 2016 was at 2.18 versus 1.39 as of end-2015, owing to the Company's increasing debt position as a result of consolidating a new Subsidiary's debt, and project and bridge financing incurred as it pursues its strategy to grow the business.

Item 7. Financial Statements

The consolidated financial statements of AboitizPower are incorporated herein by reference. The schedules listed in the accompanying Index to Supplementary schedules are filed as part of this SEC Form 17-A.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company has engaged the services of SyCip Gorres Velayo & Co. (SGV) during the two most recent fiscal years. There were no disagreements with SGV on accounting and financial disclosure.

Information on Independent Public Accountant

As a matter of policy, the Board Audit Committee (the "Committee") selects, monitors, and reviews the independence, performance and effectiveness, scope of work, fees, and remuneration of external auditors, in consultation with the Chief Executive Officer, the Chief Financial Officer, and the Group Internal Audit Head. Where appropriate, the Committee may recommend to the Board of Directors the re-appointment or replacement of the current external auditor.

During the March 7, 2019 board meeting, the Chairman of the Audit Committee, Mr. Carlos C. Ejercito, reported to the Board that the Committee evaluated and assessed the performance for the previous year of the Company's external auditor, SyCip Gorres Velayo & Co. (SGV). Based on the results of its evaluation, the Committee advised the Board of Directors that it is satisfied with SGV's performance for the previous year and recommended SGV's re-appointment as the Company's external auditor for 2019.

The Board of Directors discussed the Committee's recommendation, and after discussion, approved the re-appointment of SGV. The Board of Directors will endorse to the shareholders the re-appointment of SGV as the Company's external auditor for 2019.

The accounting firm of SGV has been AboitizPower's Independent Public Accountant for the last 20 years. Ms. Maria Veronica Andresa R. Pore has been AboitizPower's audit partner since audit year 2017. AboitizPower complies with the requirements of Section 3(b)(ix) of SRC Rule 68 on the rotation of external auditors or signing partners and the two-year cooling-off period. There was no event in the past 20 years wherein AboitizPower and SGV (or its handling partner) had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Representatives of SGV will be present during the 2019 Annual Stockholders' Meeting and will be given the opportunity to make a statement if they so desire. They are also expected to respond to appropriate questions, if needed.

The Chairman of the Audit Committee is Mr. Carlos C. Ejercito, an Independent Director. The members are Messrs. Romeo L. Bernardo and Eric Ramon O. Recto, both Independent Directors, and Messrs. Mikel A. Aboitiz and Enrique M. Aboitiz, directors of AboitizPower.

External Audit Fees and Services

The following table sets out the aggregate fees billed to the Company for each of the last two years for professional services rendered by SGV.

Fee	2018	2017
Audit Fees		
Audit Fees	₱460,000.00	₱442,000.00
Audit Related Fees	-	31,500.00
Total	**460,000.00**	**473,500.00**
Non-Audit Fees		
Financial and Tax Due Diligence	4,470,000.00	7,480,000.00
Bond Related Fees	6,600,000.00	3,500,000.00
Total	**11,070,000.00**	**10,980,000.00**
Total Audit and Non-Audit Fees	**₱11,530,000.00**	**₱11,453,500.00**

SGV was engaged by the Company to audit its 2018 and 2017 annual financial statements. The Company engaged SGV to conduct post reviews and other procedures for the purpose of issuing a comfort letter in connection with the issuance of the ₱10.2 bn Bonds in 2018 and ₱3 bn Series "A" 2017 Bonds. In 2018 and 2017, the Company also engaged SGV to provide financial and tax due diligence in relation to the Company's participation in biddings, acquisitions, and other projects.

As a policy, the Board Audit Committee makes recommendations to the Board of Directors concerning the choice of external auditor and pre-approves audit plans, scope, and frequency before the audit is conducted.

Audit services of SGV for 2018 and 2017 were pre-approved by the Board Audit Committee. The Board Audit Committee also reviewed the extent and nature of these services to ensure that the independence of the external auditors was preserved. SGV does not have any direct or indirect interest in the Company.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company has engaged the services of SGV during the two most recent fiscal years. There are no disagreements with SGV on accounting and financial disclosure.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

(a) Directors and Officers for 2018-2019

(1) Directors for 2018-2019

Below is the list of AboitizPower's directors for 2018-2019 with their corresponding positions and offices held for the past five years. Except for Messrs. Luis Miguel O. Aboitiz and Danel C. Aboitiz who assumed directorships to serve for the unexpired terms of Messrs. Antonio R. Moraza and Jon Ramon Aboitiz, respectively, the directors assumed their directorship during AboitizPower's Annual Stockholders' Meeting in 2018 for a term of one year.

MIKEL A. ABOITIZ
Chairman of the Board of Directors
Member – Board Audit Committee
– Board Risk and Reputation Management Committee
– Board Corporate Governance Committee
– Board Executive Committee

Mr. Mikel A. Aboitiz, 64 years old, Filipino, has been Director of AboitizPower since February 13, 1998 and was appointed as Chairman of the Board on September 1, 2018. He has been a member of the Company's Board Audit Committee since October 26, 2007, the Board Risk and Reputation Management Committee since May 19, 2014, the Board Corporate Governance Committee since December 11, 2018, and the Board Executive Committee since May 21, 2018. He was Vice Chairman of City Savings Bank, Inc. (CitySavings) from 2015 to 2016, and was the bank's President and Chief Executive Officer from 2001 to 2014. He is currently Chairman of the Board of Aboitiz & Company, Inc. (ACO); Vice Chairman of Aboitiz Equity Ventures Inc. (AEV), a publicly-listed company, since May 15, 2017; and Trustee and Vice Chairman of Ramon Aboitiz Foundation, Inc. (RAFI).

Mr. Aboitiz holds a degree in Bachelor of Science in Business Administration from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.

ENRIQUE M. ABOITIZ
Vice Chairman of the Board of Directors
Chairman – Board Risk and Reputation Management Committee
Member – Board Audit Committee
– Board Executive Committee

Mr. Enrique M. Aboitiz, 65 years old, Filipino, was appointed as Vice Chairman of AboitizPower on December 11, 2018. Mr. Aboitiz has served as Director of the Company since May 18, 2009, and as Chairman of the Board of Directors from 2009 to May 2018. He has been the Chairman of the Board Risk and Reputation Management Committee since May 16, 2011, and member the Board Audit Committee since September 1, 2018 and of the Board Executive Committee since December 11, 2018. On December 11, 2018, Mr. Aboitiz was appointed the Chairman of the Board of AEV, a publicly-listed company. He is also the Vice Chairman of ACO.

Mr. Aboitiz graduated with a degree in Bachelor of Science in Business Administration, Major in Economics from Gonzaga University, Spokane, Washington, U.S.A. Mr. Aboitiz is not connected with any government agency or instrumentality.

ERRAMON I.ABOITIZ
Director
President and Chief Executive Officer
Chairman – Board Executive Committee
Member – Board Corporate Governance Committee

Mr. Erramon I. Aboitiz, 62 years old, Filipino, was appointed as President and Chief Executive Officer of AboitizPower on September 1, 2018. He has been a Director of the Company since February 13, 1998 and has served as Chief Executive Officer from 1998 to September 2018. He is a member of the Board Corporate Governance Committee since May 17, 2010, and was appointed as Chairman of the Board Executive Committee on September 1, 2018.

Mr. Aboitiz is currently the President & Chief Executive Officer of AEV, a publicly-listed company. He has been Director of AEV since 1994 and was its Executive Vice President and Chief Operating Officer from 1994 to 2008.

Mr. Aboitiz is also the President and Chief Executive Officer of ACO; Chairman of the Board of Directors of the following companies: Aboitiz Infracapital, Inc. (Aboitiz InfraCapital), Aboitiz Land, Inc. (AboitizLand), San Fernando Electric Light and Power Co., Inc. (SFELAPCO), the SN Aboitiz Power Group, Therma Power, Inc. (TPI), CRH Aboitiz Holdings, Inc. (CRH Aboitiz), and Aboitiz Renewables, Inc. (ARI). He is Vice Chairman of Republic Cement and Building Materials, Inc. (RCBM) and of Union Bank of the Philippines (UnionBank), a publicly-listed company. He is also Chairman of UnionBank's Executive Committee and Nominations Committee. Lastly, he is Chairman of the Board of Trustees of Aboitiz Foundation, Inc. (Aboitiz Foundation), and is a director of the Philippine Disaster Recovery Foundation.

Mr. Aboitiz was awarded the Management Association of the Philippines Management Man of the Year and Ernst & Young Enterpreneur of the year both in 2011.

Mr. Aboitiz holds a Bachelor of Science degree in Business Administration, Major in Accounting and Finance from Gonzaga University in Spokane, Washington, U.S.A. He was also conferred an Honorary Doctorate Degree in Management by the Asian Institute of Management. He is not connected with any government agency or instrumentality.

LUIS MIGUEL O. ABOITIZ
Director
Chief Strategy Officer
Member – Board Executive Committee

Mr. Luis Miguel O. Aboitiz, 54 years old, Filipino, was appointed as Chief Strategy Officer of AboitizPower on May 21, 2018, and as Director on September 1, 2018. Prior to this, he served as AboitizPower's Executive Vice President and Chief Operating Officer-Corporate Business Group from 2016 to 2018 and as Senior Vice President-Power Marketing and Trading from 2009 to 2015. He was appointed as member of the Board Executive Committee on September 1, 2018.

Mr. Aboitiz is also currently Senior Vice President of AEV, a publicly-listed company, a position which he held since 2015. He is Director and First Vice President of ACO, and Trustee of Aboitiz Foundation. He also serves as Director and President of Manila- Oslo Renewable Enterprise, Inc. (MORE); and Director of Abovant Holdings, Inc. (Abovant), ARI, TPI, Pilmico, Pilmico Animal Nutrition Corporation (PANC), Therma South, Inc. (TSI), Therma Luzon, Inc. (TLI), Aboitiz InfraCapital, San Carlos Sun Power Inc. (Sacasun), Cebu Energy Development Corporation (Cebu Energy), Southern Philippines Power Corporation (SPPC), Western Mindanao Power Corporation (WMPC), and Unionbank, a publicly-listed company. He is also Chairman of UnionBank's Technology Steering Committee, member of the Audit Committee and Operations Risk Management Committee, and alternate member of the Executive Committee. He holds a management position in GNPower Mariveles Coal Plant Ltd. Co. (GMCP) and its holding company. Mr. Aboitiz is also a member of the Board of Trustees of the Philippine Independent Power Producers Association, Inc. (PIPPA)

Mr. Aboitiz graduated from Santa Clara University, California, U.S.A. with a degree of Bachelor of Science in Computer Science and Engineering, and earned his Master's degree in Business Administration from the University of California in Berkeley, U.S.A. He is not connected with any government agency or instrumentality.

JAIME JOSE Y. ABOITIZ
Director
Executive Vice President and Chief Operating Officer – Power Distribution Group
Member – Board Risk and Reputation Management Committee
– Board Executive Committee

Mr. Jaime Jose Y. Aboitiz, 57 years old, Filipino, was Director of AboitizPower from 2004 to April 2007, and was re-elected as Director on May 18, 2009. He is also the Company's Executive Vice President and Chief Operating Officer-Power Distribution Group, a position he has held since August 14, 2008. He was appointed as member of the Board Executive Committee on May 21, 2018 and of the Board Risk and Reputation Management Committee on September 1, 2018.

Mr. Aboitiz is a member of the Board of Advisers of ACO, Chairman of the Board of Aboitiz Construction, Inc. (ACI), and a Trustee of Aboitiz Foundation. He is also Chairman of the Board of Subic EnerZone Corporation (SEZ), Mactan Enerzone Corporation (MEZ), Lima Enerzone Corporation (LEZ), Balamban Enerzone Corporation (BEZ), Malvar Enerzone Corporation (Malvez), and Cebu Private Power Corporation (CPPC); President and Chief Executive Officer of Abovant, Cotabato Light & Power Company (Cotabato Light), and Davao Light and Power Company, Inc. (Davao Light); President of Visayan Electric Company, Inc. (VECO); and Director of ARI, SFELAPCO, AboitizLand, Cebu Industrial Park Developers, Inc. (CIPDI), Hedcor, Inc. (Hedcor), Hedcor Sabangan, Inc. (Hedcor Sabangan), Hedcor Sibulan, Inc. (Hedcor Sibulan), Hedcor Tudaya, Inc. (Hedcor Tudaya), Hedcor Bukidnon, Inc. (Hedcor Bukidnon), Tsuneishi Heavy Industries (Cebu), Inc. (THICI), Aboitiz InfraCapital and Apo Agua Infrastructura, Inc. (Apo Agua).

Mr. Aboitiz holds a degree in Mechanical Engineering from Loyola Marymount University in California, U.S.A., and a Master's Degree in Management from the Asian Institute of Management. He is not connected with any government agency or instrumentality. He is not a director of any other publicly-listed company.

DANEL C. ABOITIZ
Director

Mr. Danel C. Aboitiz, 37 years old, Filipino, was appointed as Director of AboitizPower on December 11, 2018.

He is the President and Chief Operating Officer (COO) of AboitizPower's Coal Business Unit, under which, are AboitizPower subsidiaries and affiliates that own, manage, or operate coal- fueled power generation assets. These include TLI, TSI, and TVI. Mr. Aboitiz is also Director of Pagbilao Energy Corporation (PEC), GMCP, GNPower Dinginin Ltd. Co. (GNPD), Cebu Energy, STEAG State Power Inc. (STEAG State), Abovant and RP Energy. He holds management positions in GMCP, as well as in GNPD, where he is also the Chief Commercial Officer.

Mr. Aboitiz is also Director of various companies under AboitizPower's Oil Business Unit, such as Therma Mobile, Inc. (TMO), Therma Power-Visayas, Inc. (TPVI), East Asia Utilities Corporation (EAUC), and Therma Marine, Inc. (TMI). He also serves as a Member of the Board of Advisers of ACO.

Mr. Aboitiz obtained his Master of Arts (MA) in Philosophy and Politics degree from the University of Edinburgh, where he graduated with honors. He also studied the Chinese language at the Beijing Language and Culture University.

He is a private sector representative to the Regional Development Council XI. He is not a director of any other publicly-listed company

ROMEO L. BERNARDO
Lead Independent Director
Chairman – Board Corporate Governance Committee
Member – Board Audit Committee
– Board Risk and Reputation Management Committee
– Board Related Party Transactions Committee

Mr. Romeo L. Bernardo, 64 years old, Filipino, was elected Lead Independent Director of AboitizPower on May 15, 2017. He has been an Independent Director of the Company, and a member of its Board Audit Committee and Board Corporate Governance Committee since May 19, 2008. He was appointed as member of the Board Related Party Transactions Committee on May 15, 2017, and Chairman of the Board Corporate Governance Committee on December 11, 2018.

Mr. Bernardo is the Managing Director of Lazaro Bernardo Tiu and Associates, a boutique financial advisory firm based in Manila. He is also an economist of GlobalSource in the Philippines. He is Chairman of ALFM Family of Funds and Philippine Stock Index Fund. He is an Independent Director of the following publicly- listed corporations: Globe Telecom, RFM Corporation, and Bank of the Philippine Islands (BPI). He is likewise Independent Director of several companies and organizations, including BPI Capital Corporation, BPI/MS Insurance Corporation, and BPI-Philam Life Assurance Corporation. He is currently affiliated in various capacities with the Foundation for Economic Freedom, World Bank Philippine Advisory Group, and International Centre for Settlement of Investment Disputes.

Mr. Bernardo previously served as Undersecretary for International Finance of the Department of Finance, and as Alternate Executive Director of the Asian Development Bank. He has held various positions in government, including the National Power Corporation and Philippine National Bank. He was a member of the Board of Trustees of the Philippine Institute for Development Studies from October 2005 until March 2016. He was an Advisor of the World Bank and the International Monetary Fund, and served as Deputy Chief of the Philippine Delegation to the General Agreement on Tariffs and Trade (World Trade Organization) in 1979. In the same year, he was Finance Attaché of the Philippine Mission to the United Nations in Geneva, Switzerland. He was formerly President of the Philippine Economics Society, Chairman of the Federation of ASEAN Economic Societies, and a faculty of the College of Business Administration of the University of the Philippines.

Mr. Bernardo holds a Bachelor of Science degree in Business Economics from the University of the Philippines (magna cum laude) and a Master's degree in Development Economics from Williams College in Williamstown, Massachusetts, U.S.A. where he graduated top of the class. He is not connected with any government agency or instrumentality.

CARLOS C. EJERCITO
Independent Director
Chairman – Board Audit Committee
Member – Board Corporate Governance Committee
– Board Risk and Reputation Management Committee
– Board Related Party Transactions Committee

Mr. Carlos C. Ejercito, 73 years old, Filipino, has been an Independent Director of AboitizPower since May 19, 2014. He is the Chairman of the Board Audit Committee, member of the Board Corporate Governance Committee and the Board Risk and Reputation Management Committee since May 19, 2014, and a member of the Board Related Party Transactions Committee since May 15, 2017.

Mr. Ejercito is also an Independent Director and Chairman of the Board Audit Committee of Bloomberry Resorts Corporation and an independent Director of Century Properties Group, Inc., both publicly-listed companies. He is also an Independent Director of Monte Oro Resources and Energy Corporation.

Mr. Ejercito is President and Chief Executive Officer of Mount Grace Hospitals, Inc., Chairman and Chief Executive Officer of Forum Cebu Coal Corporation, and Chairman of Northern Access Mining, Inc. He is a Board Member of thirteen (13) hospitals, including Medical Center Manila, VR Potenciano Medical Center, Tagaytay Medical Center, Pinehurst Medical Services Inc., Grace General Hospital, Healthserv

Medical Center, Lorma Medical Center, Mary Mediatrix Medical Center, and Silvermed Corporation, and Capitol Medical Center. He was formerly the Chairman of the Board of United Coconut Planters Bank, and a former Director of the National Grid Corporation of the Philippines. He was also the President and Chief Executive Officer of United Laboratories, Inc., Unilab Group of Companies, Univet Agricultural Products, Inc., and Greenfield Development Corporation, as well as the Vice President and Senior Country Operation Officer of Citibank, NA. Prior to Citibank, Mr. Ejercito was a System Engineer in IBM Philippines, and Accounting Unit Head in Procter & Gamble Philippines, Inc. He was a member of the Board of Governors of the Management Association of the Philippines.

Mr. Ejercito graduated *cum laud*e from the University of the East with a degree in Bachelor of Science in Business Administration. He also completed the Management Development Program of the Harvard Business School in 1983, and has completed the coursework for Masters in Business Administration at the Ateneo Graduate School of Business. Mr. Ejercito is a certified public accountant. He is not connected with any government agency or instrumentality.

ERIC RAMON O. RECTO
Independent Director
Chairman – Board Related Party Transactions Committee
Member – Board Audit Committee
– Board Corporate Governance Committee
– Board Risk and Reputation Management Committee

Mr. Eric O. Recto, 55 years old, Filipino, was elected as Independent Director of AboitizPower, Chairman of the Board Related Party Transaction Committee, and a member of the Company's Board Audit Committee, Board Corporate Governance Committee, and Board Risk and Reputation Management Committee on May 21, 2018.

He currently holds positions in the following publicly-listed companies: Chairman and President of ISM Communications Corporation; Chairman of the Philippine Bank of Communications, Vice Chairman and President of Atok-Big Wedge Co., Inc.; and Independent Director in PH Resorts Group Holdings, Inc. He is also the Chairman and President of Bedfordbury Development Corporation; President/Director of Q-Tech Alliance Holdings, Inc.; and Supervisory Board Member of Acentic Gmbh and Ltd.

Mr. Recto held various positions in Philweb Corporation from 2005 to 2015. He was also the Vice Chairman of Alphaland Corporation from 2007 to 2014; Director of San Miguel Corporation from 2010 to 2014, and of Manila Electric Company from 2010 to 2013 and President of Top Frontier Investment Holdings, Inc. from 2010 to 2013. Mr. Recto was formerly the Undersecretary of the Philippine Department of Finance from 2002 to 2005.

Mr. Recto earned his Bachelor of Science degree in Industrial Engineering from the University of the Philippines Diliman. He completed his Masters in Business Administration, with concentration in Finance and Operation Management, from the Johnson Graduate School of Management at the Cornell University in Ithaca, New York, U.S.A. He is not connected with any government agency or instrumentality.

Nominations for Independent Directors and Procedure for Nomination

The procedure for the nomination and election of the Independent Directors is in accordance with Rule 38 of the Securities Regulation Code ("SRC Rule 38"), AboitizPower's Amended By-Laws, and the Guidelines. The Guidelines were approved by the AboitizPower Board on May 15, 2007 and disclosed to all stockholders. On June 14, 2007, AboitizPower initially adopted and incorporated the provisions of SRC Rule 38 in its Amended By-Laws. Thereafter, the AboitizPower Board approved the Amended Guidelines for the Nomination and Election of Independent Directors (the "Amended Guidelines") on March 23, 2017, which was disclosed to all stockholders.

Nominations for Independent Directors were opened beginning January 1, 2019 and the table for nominations was closed on February 15, 2019, in accordance with Section C(1) of the Guidelines.

SRC Rule 38 further requires the Board Corporate Governance Committee to meet and pre-screen all nominees and submit a Final List of Nominees to the Corporate Secretary, so that such list will be included in the Company's Preliminary and Definitive Information Statements. Only nominees whose names appear on the Final List shall be eligible for election as Independent Directors. No other nominations shall be entertained after the Final List of nominees has been prepared. The name of the person or group of persons who nominates an Independent Director shall be identified in such report including any relationship with the nominee.

In approving the nominations for Independent Directors, the Board Corporate Governance Committee considered the guidelines on the nominations of Independent Directors prescribed in SRC Rule 38, the Amended Guidelines, and AboitizPower's Revised Manual on Corporate Governance (the "Revised Manual"). The Revised Manual was approved by the AboitizPower Board of Directors on July 24, 2014, March 23, 2017 and further amended on November 23, 2018. All amendments to the Revised Manual were timely disclosed to all stockholders. With the approval of the Revised Manual in 2014, the Board Corporate Governance Committee took over the functions of the Board Nominations and Compensation Committee. In 2018, Mr. Jon Ramon Aboitiz was the Chairman of the Board Corporate Governance Committeee, until his untimely demise in November 2018. Mr. Romeo L. Bernardo, Lead Independent Director, replaced Mr. Aboitiz as the Chairman of the Corporate Governance Committee. The voting members are Messrs. Erramon I. Aboitiz, Mikel A. Aboitiz, Carlos C. Ejercito, and Eric Ramon O. Recto, while the *ex-officio* non-voting members are Mr. Joseph Trillana T. Gonzales and Ms. Susan V. Valdez.

No nominations for Independent Director shall be accepted at the floor during the Annual Stockholders' Meeting at which such nominee is to be elected. Independent Directors shall be elected in the Annual Stockholders' Meeting during which other members of the Board are to be elected.

Messrs. Romeo L. Bernardo, Carlos C. Ejercito, and Eric Ramon O. Recto are the nominees for Independent Directors of AboitizPower. They are neither officers nor employees of AboitizPower or any of its Affiliates, and do not have any relationship with AboitizPower which would interfere with the exercise of independent judgment in carrying out the responsibilities of an Independent Director. Attached as Annexes "B-1," "B-2", and "B-3" are the Certifications of Qualification as Independent Director of Messrs. Bernardo, Ejercito, and Recto, respectively.

AboitizPower stockholders, Ms. Esmeraldo C. Dano, Ms. Joy Ann Bisnar, and Ms. Katrina B. Aliman, have respectively nominated Messrs. Bernardo, Ejercito, and Recto as AboitizPower's Independent Directors. None of the nominating stockholders have any relation to the respective independent director they are nominating.

Other Nominees for Election as Members of the Board of Directors

As the Board Corporate Governance Committee conveyed to the Corporate Secretary on Febrary 18, 2019, the following were also nominated and qualified as candidates to the AboitizPower Board of directors for the ensuing year 2019-2020:

Mikel A. Aboitiz
Enrique M. Aboitiz
Erramon I. Aboitiz
Luis Miguel O. Aboitiz
Jaime Jose Y. Aboitiz
Danel C. Aboitiz

Pursuant to Section 7, Article I of the Amended By-Laws of AboitizPower, nominations for members of the Board, other than Independent Directors, for the ensuing year must be submitted in writing to the Corporate Secretary at least 15 working days prior to the Annual Stockholders' Meeting on April 22, 2019 or not later than March 27, 2019.

All other information regarding the positions and offices by the abovementioned nominees are integrated in Item 5 (a) above.

(2) Officers for 2018-2019

Below is the list of AboitizPower's officers for 2018-2019 with their corresponding positions and offices held for the past five years. Unless otherwise indicated hereunder, the officers assumed their positions during AboitizPower's organizational meeting in 2018 for a term of one year.

MIKEL A. ABOITIZ
Chairman of the Board of Directors
Member – Board Audit Committee
– Board Risk and Reputation Management Committee
– Board Corporate Governance Committee
– Board Executive Committee

Mr. Mikel A. Aboitiz, 64 years old, Filipino, has been Director of AboitizPower since February 13, 1998 and was appointed as Chairman of the Board on September 1, 2018. He has been a member of the Company's Board Audit Committee since October 26, 2007, the Board Risk and Reputation Management Committee since May 19, 2014, the Board Corporate Governance Committee Meeting since December 11, 2018, and the Board Executive Committee since May 21, 2018. He was Vice Chairman of CitySavings from 2015 to 2016, and was the bank's President and Chief Executive Officer from 2001 to 2014. He is currently Chairman of the Board of ACO; Vice Chairman of AEV, a publicly-listed company, since May 15, 2017; and Trustee and Vice Chairman of RAFI.

Mr. Aboitiz holds a degree in Bachelor of Science in Business Administration from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.

ENRIQUE M. ABOITIZ
Vice Chairman of the Board of Directors
Chairman – Board Risk and Reputation Management Committee
Member – Board Audit Committee
– Board Executive Committee

Mr. Enrique M. Aboitiz, 65 years old, Filipino, was appointed as Vice Chairman of AboitizPower on December 11, 2018. Mr. Aboitiz has served as Director of the Company since May 18, 2009, and as Chairman of the Board of Directors from 2009 to May 2018. He has been the Chairman of the Board Risk and Reputation Management Committee since May 16, 2011, member the Board Audit Committee since September 1, 2018 and of the Board Executive Committee since December 11, 2018. On December 11, 2018, Mr. Aboitiz was appointed the Chairman of the Board of AEV, a publicly-listed company. He is also the Vice Chairman of ACO.

Mr. Aboitiz graduated with a degree in Bachelor of Science in Business Administration, Major in Economics from Gonzaga University, Spokane, Washington, U.S.A. Mr. Aboitiz is not connected with any government agency or instrumentality.

ERRAMON I. ABOITIZ
Director
President and Chief Executive Officer
Chairman – Board Executive Committee
Member – Board Corporate Governance Committee

Mr. Erramon I. Aboitiz, 62 years old, Filipino, was appointed as President and Chief Executive Officer on September 1, 2018. He has been a Director of the Company since February 13, 1998 and has served as Chief Executive Officer from 1998 to September 2018. He is a member of the Board Corporate Governance Committee since May 17, 2010, and was appointed as Chairman of the Board Executive Committee on September 1, 2018.

Mr. Aboitiz is the President & Chief Executive Officer of AEV, a publicly- listed company. He has been Director of AEV since 1994 and was its Executive Vice President and Chief Operating Officer from 1994 to 2008. Mr. Aboitiz is also the President and Chief Executive Officer of ACO; Chairman of the Board of

Directors of the following companies: Aboitiz Infracapital, AboitizLand, SFELAPCO, the SN Aboitiz Power Group, TPI, CRH Aboitiz, and ARI. He is Vice Chairman of RCBM and of UnionBank, a publicly-listed company. He is also Chairman of UnionBank's Executive Committee and Nominations Committee. Lastly, he is Chairman of the Board of Trustees of Aboitiz Foundation, and is a director of the Philippine Disaster Recovery Foundation.

Mr. Aboitiz was awarded the Management Association of the Philippines Management Man of the Year and Ernst & Young Enterpreneur of the year both in 2011.

Mr. Aboitiz holds a Bachelor of Science degree in Business Administration, Major in Accounting and Finance from Gonzaga University in Spokane, Washington, U.S.A. He was also conferred an Honorary Doctorate Degree in Management by the Asian Institute of Management. He is not connected with any government agency or instrumentality.

LUIS MIGUEL O. ABOITIZ
Director
Chief Strategy Officer
Member – Board Executive Committee

Mr. Luis Miguel O. Aboitiz, 54 years old, Filipino, was appointed as Chief Strategy Officer of AboitizPower on May 21, 2018, and as Director on September 1, 2018. Prior to this, he served as Executive Vice President and Chief Operating Officer-Corporate Business Group from 2016 to 2018 and as Senior Vice President-Power Marketing and Trading from 2009 to 2015. He was appointed as member of the Board Executive Committee on September 1, 2018.

Mr. Aboitiz is also currently Senior Vice President of AEV, a publicly- listed company, a position which he held since 2015. He is Director and First Vice President of ACO, and Trustee of Aboitiz Foundation. He also serves as Director and President of MORE; and Director of Abovant, ARI, TPI, Pilmico, PANC, TSI, TLI, Aboitiz InfraCapital, Sacasun, Cebu Energy, SPPC, WMPC, and Unionbank, a publicly-listed company. He is is also Chairman of UnionBank's Technology Steering Committee and member of the Audit Committee and Operations Risk Management Committee, and alternate member of the Executive Committee. He holds a management position in GMCP and its holding company. Mr. Aboitiz is also a member of the Board of Trustees of the PIPPA.

Mr. Aboitiz graduated from Santa Clara University, California, U.S.A. with a degree of Bachelor of Science in Computer Science and Engineering, and earned his Master's degree in Business Administration from the University of California in Berkeley, U.S.A. He is not connected with any government agency or instrumentality.

JAIME JOSE Y. ABOITIZ
Director
Executive Vice President and Chief Operating Officer – Power Distribution Group
Member – Board Risk and Reputation Management Committee
– Board Executive Committee

Mr. Jaime Jose Y. Aboitiz, 57 years old, Filipino, was Director of AboitizPower from 2004 to April 2007, and was re-elected as Director on May 18, 2009. He is also the Company's Executive Vice President and Chief Operating Officer-Power Distribution Group, a position held since August 14, 2008. He was appointed as member of the Board Executive Committee on May 21, 2018 and of the Board Risk and Reputation Management Committee on September 1, 2018.

Mr. Aboitiz is a member of the Board of Advisers of ACO, Chairman of the Board of ACI, and a Trustee of Aboitiz Foundation. He is also Chairman of the Board of SEZ, MEZ, LEZ, BEZ, Malvez, and CPPC; President and Chief Executive Officer of Abovant, Cotabato Light, and Davao Light; President of VECO; and Director of ARI, SFELAPCO, AboitizLand, CIPDI, Hedcor, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor Bukidnon, THICI, Hijos, Aboitiz InfraCapital and Apo Agua.

Mr. Aboitiz holds a degree in Mechanical Engineering from Loyola Marymount University in California, U.S.A., and a Master's Degree in Management from the Asian Institute of Management. He is not connected with any government agency or instrumentality. He is not a director of any other publicly-listed company.

EMMANUEL V. RUBIO
Chief Operating Officer

Mr. Emmanuel V. Rubio, 54 years old, Filipino, was appointed as Chief Operating Officer of AboitizPower on June 1, 2018. He served as the Company's Executive Vice President and Chief Operating Officer - Power Generation Group from 2014 to June 2018.

Mr. Rubio is currently Chairman of Sacasun, TSI, TVI, Luzon Hydro Corporation (LHC), Hedcor, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor Bukidnon, and PEC; President and Director of TPI; and Director of ARI, Abovant, Cebu Energy, East Asia Utilities Corporation (EAUC), MORE, STEAG Power, TMI, TMO, TPVI, VECO, CPPC, and RP Energy. He holds directorship and management positions in GMCP and GNPD and their holding companies. He is also a member of the Board of Trustees and President of Philippine Electricity Market Corporation (PEMC) and Trustee of Aboitiz Foundation.

Prior to joining AboitizPower, Mr. Rubio was connected with Consolidated Industrial Gases, Inc. (CIGI) Philippines, where he worked in various capacities, including Vice President for Sales and Marketing from 1996 to 2001, and eventually, President from 2003 to 2007.

Mr. Rubio is a graduateof Bachelorof Science in Industrial Management Engineering, with a minor in Mechanical Engineering, from De La Salle University, where he also completed his post-graduate studies. He is also a certificate course graduate of the University of Michigan Executive Education Program, the LEAD program of Columbia University, and the Strategic Management Course of the Nanyang Technological University in Singapore. He recently completed the Advanced Management Program of Columbia University. Mr. Rubio is a holder of the Executive Certificate in Directorship from the Singapore Management University-Singapore Institute of Directors (SMU-SID). He is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.

FELINO M. BERNARDO
Chief Operating Officer – Power Generation Group

Mr. Felino M. Bernardo, 55 years old, Filipino, was appointed as Chief Operating Officer – Power Generation Group on June 1, 2018. Prior to this, he served as President & Chief Operating Officer of (APRI) from 2015 to 2018.

Mr. Bernardo is currently Chairman of the Board of EAUC, TMI, and TMO; Director and Chief Executive Officer of APRI; and Director of CPPC, Hedcor, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor Bukidnon, LHC, MORE, Sacasun, TLI, TPI, TSI, TVI, TPVI, PEC, and STEAG State. He holds management positions in GMCP and GNPD and their holding companies.

Mr. Bernardo has a proven track record in leading companies to growth and profitability under competitive market conditions. Prior to joining the Aboitiz Group, Mr. Bernardo was the Country Manager of LIXIL for Philippines, Singapore, and Malaysia from 2005 to 2015, and the Country Manager of Kodak Philippines from 1997 to 2005.

Mr. Bernardo graduated from the University of the Philippines – Diliman with a degree in Bachelor of Science in Electrical Engineering, Major in Electronics. He has also completed the Strategic Business Economics course conducted by the University of Asia and Pacific. He is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.

JUAN ANTONIO E. BERNAD
Executive Vice President for Regulatory and Industry Affairs

Mr. Juan Antonio E. Bernad, 62 years old, Filipino, has been AboitizPower's Executive Vice President for Regulatory and Industry Affairs since May 18, 2009. He has served the Company in several capacities, as Director from 1998 until 2009, as Executive Vice President/Chief Financial Officer/Treasurer from 1998 to 2003, and as Executive Vice President for Regulatory Affairs/ Chief Financial Officer from 2004 to 2007.

Mr. Bernad was Senior Vice President-Electricity Regulatory Affairs from 2004 to 2007, Senior Vice President - Chief Financial Officer from 1995 to 2004, and Senior Vice President from 1995 to 2018 of AEV, a publicly-listed company. Mr. Bernad is also Vice Chairman of the Board of VECO; Director and the Executive Vice President - Regulatory Affairs of Davao Light; Director and Chief Financial Officer/ Treasurer of Hijos; and Director of Cotabato Light, and SFELAPCO. He is also Vice Chairman of the National Renewable Energy Board (NREB), representing Private Distribution Utilities.

Mr. Bernad graduated with a degree in Economics from Ateneo de Manila University and a Master's degree in Business Administration from the Wharton School of the University of Pennsylvania, U.S.A. He is not a director of a publicly-listed company.

GABRIEL T. MAÑALAC
Senior Vice President and Group Treasurer

Mr. Gabriel T. Mañalac, 62 years old, Filipino, has been AboitizPower's Treasurer since May 11, 2004 and its Senior Vice President and Group Treasurer since May 17, 2010. He has been Senior Vice President and Group Treasurer of AEV, a publicly-listed company, since 2009. Mr. Mañalac joined AEV as Vice President for Treasury Services in 1998 and was promoted to First Vice President for Treasury Services in 2004. He is also Vice President and Treasurer of Davao Light and Treasurer of Cotabato Light.

Mr. Mañalac graduated cum laude with a Bachelor of Science degree in Finance and a Bachelor of Arts in Economics degree from De La Salle University. He obtained his Masters of Business Administration in Banking and Finance degree from the Asian Institute of Management and was awarded the Institute's Scholarship for Merit. He is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.

SUSAN V. VALDEZ
Senior Vice President and Chief Reputation and Risk Management Officer
Ex-officio Member – Board Risk and Reputation Management Committee

Ms. Susan V. Valdez, 58 years old, Filipino, has been the Chief Reputation Officer and Risk Management Officer of AboitizPower since December 14, 2012. She was appointed Senior Vice President and Chief Reputation and Risk Management Officer on May 18, 2015. She has been an *Ex-officio* member of the Board Risk and Reputation Management Committee since May 21, 2012 and of the Board Corporate Governance Committee since January 1, 2019. She is also Senior Vice President and Chief Human Resources Officer of AEV, a publicly-listed company. She is currently Trustee and President of Aboitiz Foundation; Trustee and President of WeatherPhilippines Foundation, Inc. (WeatherPhilippines); and Director of Archipelago Insurance Pte Ltd (Archipelago Insurance).

Before joining the Company, Ms. Valdez held various executive positions for 15 years in Aboitiz Transport System (ATSC) Corporation (now 2GO Group, Inc., a publicly-listed company), as Chief Finance Officer, Chief Information Officer, and Chief Operating Officer of its freight and supply chain business units.

Ms. Valdez is a Certified Public Accountant, and graduated cum laude from St. Theresa's College with a degree of Bachelor of Science in Commerce, Major in Accounting. She earned her Master's degree in Business Management from the University of the Philippines, and completed a program on Management Development at Harvard Business School. She is not connected with any government agency or instrumentality. She is also not a director of a publicly-listed company.

LIZA LUV T. MONTELIBANO
Senior Vice President/Chief Financial Officer/Corporate Information Officer
Ex-officio Member – Board Risk and Reputation Management Committee

Ms. Liza Luv T. Montelibano, 43 years old, Filipino, was appointed as Chief Financial Officer-Power Generation Group of AboitizPower on January 2, 2014 until she was promoted as First Vice President/ Chief Financial Officer/Corporate Information Officer on May 18, 2015. She was appointed as *Ex-officio* member of the Board Risk and Reputation Management Committee on the same date. On May 16, 2016, Ms. Montelibano was promoted to Senior Vice President and Chief Financial Officer/Corporate Information Officer, a position that she holds to date.

Ms. Montelibano is Director and Senior Vice President-Finance of ARI, and Director of MORE, VECO, Hedcor Bukidnon, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor, LHC, TPI, SEZ, AboitizPower International Pte. Ltd. (AboitizPower International), and Archipelago Insurance. She holds a management position in GMCP and its holding company.

Prior to joining AboitizPower, Ms. Montelibano was the Country Controller of NXP Semiconductors. Her background is in finance, risk assessment, and internal audit, arising from her previous experience with various multinational companies. She also served as Chief Financial Officer of SteelAsia Manufacturing Corporation from September 2012 to March 2013, and as General Manager for Finance and Administration at L'Oreal Philippines, Inc. from March 2006 to August 2012.

Ms. Montelibano graduated cum laude from the Ateneo de Manila University with a degree in Bachelor of Science in Management, Minor in Finance. She is also a Certified Internal Auditor under the Institute of Internal Auditors. She is not connected with any government agency or instrumentality. She is not a director of a publicly-listed company.

ROBERT MCGREGOR
Executive Director – Chief Investment Officer

Mr. Robert McGregor, 59 years old, British, was appointed as Executive Director – Chief Investment Officer of AboitizPower on June 1, 2018. He was Executive Director for Business Development of AboitizPower from May 2017 to May 2018, and Executive Director – Investments from 2015 to 2017. Mr. McGregor is concurrently the Executive Director – Chief Investment Officer of AEV, a publicly-listed company. He first joined the Aboitiz Group as AEV's Senior Vice President - Chief Strategy Officer in May 2014, and was appointed as Chief Strategy and Investment Officer in November of the same year.

Mr. McGregor brings with him a wealth of experience in management, investment banking, and private equity investing, with almost 39 years of experience in energy markets. He also has extensive experience in corporate strategy, marketing and business planning in oil, gas and electricity industries in the United Kingdom. He moved to Hong Kong in 1997 and enjoyed an 11-year career in regional investment banking, before moving to Singapore to take up a partnership in Actis, an emerging market private equity company. In 2012, he returned to Hong Kong with Hongkong and Shanghai Banking Corporation Limited as an investment banker.

Mr. McGregor completed his honours degree in Applied Chemistry from The University of Strathclyde in Glasgow, United Kingdom and obtained his Masters Degree in Business Administration from the same university. He is not connected with any government agency or instrumentality. He is also not a director of a publicly-listed company.

CHRISTOPHER B. SANGSTER
Executive Director – Business Development and Project Development and Execution

Mr. Christopher B. Sangster, 51 years old, Australian, was appointed Executive Director – Business Development and Project Development and Execution on May 1, 2018. He was previously the Company's Executive Director – Power Generation Group from May 2017 to May 2018. He first joined the Aboitiz Group in May 2008, and served as Executive Director of LHC.

Prior to joining the Aboitiz Group, Mr. Sangster was Executive Manager for Asian Development and Operations of Pacific Hydro Pty Ltd. from August 2005 to May 2008. He has over 20 years of experience in the power sector with expertise on international development, construction, economic analysis, and technical and risk evaluations.

Mr. Sangster earned his degree in Civil Engineering from the University of Adelaide in Adelaide, South Australia and his Masters in Business Administration degree from Melbourne Business School in Melbourne, Victoria, Australia. He is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.

JOSEPH TRILLANA T. GONZALES
General Counsel and Compliance Officer
Ex-officio Member – Board Corporate Governance Committee

Mr. Joseph Trillana T. Gonzales, 52 years old, Filipino, was appointed General Counsel of AboitizPower on January 1, 2015. He was appointed as the Company's Compliance Officer and *Ex-officio* member of the Board Corporate Governance Committee on March 1, 2018.

He previously served as Assistant Corporate Secretary of the Company from August 2007 to May 2016. He was Vice President for Legal and Corporate Services of AEV from 2008 to 2014.

Mr. Gonzales was Special Counsel of SyCip Salazar Hernandez & Gatmaitan Law Offices until he joined the Aboitiz Group as Assistant Vice President of the Corporate and Legal Services of ACO in 2007.

Mr. Gonzales is a graduate of Bachelor of Arts, Major in Economics, and Bachelor of Laws from the University of the Philippines. He has a Master of Laws degree from the University of Michigan in Ann Arbor, Michigan, U.S.A. He is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.

MANUEL ALBERTO R. COLAYCO
Corporate Secretary

Mr. Manuel Alberto R. Colayco, 49 years old, Filipino, has been Corporate Secretary of AboitizPower since March 1, 2018. He is concurrently Chief Legal Officer of AEV, a publicly-listed company, since July 11, 2016, Corporate Secretary and AEV's Compliance Officer since March 1, 2018.

Mr. Colayco has practice in various areas of corporate law, including mergers and acquisitions, joint ventures, securities regulation, corporate and financial restructuring, and litigation. Prior to joining the Aboitiz Group, Mr. Colayco acted as independent legal consultant providing professional advice, representation, and transactional assistance to private companies and individuals. His previous work experience includes: General Counsel for AGP International Holdings Ltd. and Atlantic, Gulf & Pacific Company of Manila, Inc. from August 2013 to December 2014; Executive Director and Assistant General Counsel of J.P. Morgan Chase Bank N.A. from July 2010 to August 2013; and Vice President and Legal Counsel of DKR Oasis (Hong Kong) LLC, a private investment management firm, from August 2007 until March 2010. He was an Associate at Skadden, Arps, Slate, Meagher & Flom, LLP from 2000 to 2007, and at Romulo Mabanta Buenaventura Sayoc & De Los Angeles from 1996 to 2000.

Mr. Colayco earned his undergraduate and Juris Doctor degrees from the Ateneo de Manila University. He also has a Master of Laws degree from New York University School of Law in New York, U.S.A. He is not connected with any government agency or instrumentality. He is not a director of any publicly-listed company.

MAILENE M. DE LA TORRE
Assistant Corporate Secretary

Ms. Mailene M. de la Torre, 37 years old, Filipino, was appointed Assistant Corporate Secretary of

AboitizPower on November 24, 2016. She is concurrently Assistant Vice President - Governance and Compliance and Assistant Corporate Secretary of AEV, a publicly- listed company. She was previously Senior Associate General Counsel for Governance and Compliance of AEV since November 2016, and was Associate General Counsel for Legal and Corporate Services from May 2010 to October 2014. Ms. de la Torre is also the Corporate Secretary of various Subsidiaries of the Aboitiz Group.

Ms. de la Torre has practice in the areas of corporate structuring, acquisitions, joint ventures, compliance and corporate governance, corporate governance, corporate law, securities law, and litigation. Prior to joining the Aboitiz Group, she was an Associate at Esguerra & Blanco Law Office from 2007 to 2010. She graduated *cum laude* with a Bachelor of Arts Degree in Political Science from the University of the Philippines Diliman and earned her Bachelor of Laws degree from the same university. She is a graduate member of the Institute of Corporate Directors, after completing the Professional Director's Program. She is a member of good standing in the Integrated Bar of the Philippines. She is not connected with any government agency or instrumentality. She is not a director of a publicly-listed company.

JOANNE L. RANADA
Assistant Corporate Secretary

Ms. Joanne L. Ranada, 40 years old, Filipino, was appointed as Assistant Corporate Secretary of AboitizPower on October 3, 2018. She is concurrently Senior Associate General Counsel for the Governance and Compliance Team and Assistant Corporate Secretary of AEV, a publicly-listed company. Ms. Ranada also serves as Assistant Corporate Secretary of the SN Aboitiz Power Group ARI, Hedcor Bukidnon, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor, MORE, TSI, and TVI.

Ms. Ranada has over a decade of practice in the areas of regulatory compliance, corporate law, foreign investments, capital markets, securities, and corporate governance. Prior to joining the Aboitiz Group, she was the Legal Manager - Corporate Secretarial and Corporate Maintenance Services at Quisumbing Torres law firm from November 2015 to August 2018, and as Senior Corporate Lawyer at GWI Business Solutions, Inc. from November 2014 to October 2015. She was also a Chief Counsel at the Securities and Exchange Commission (SEC) from January 2006 to October 2014. While with the SEC, Ms. Ranada was a representative to the International Finance Corporation Accreditation Workshop conducted by the International Finance Corporation, the Asia Regional Funds Passport conducted by the Australian Department of Foreign Affairs, and the Credit Information Systems Training conducted by the Credit Information Corp. and the US Federal Trade Commission.

Ms. Ranada earned her Bachelor's Degree in International Studies from the College of the Holy Spirit and her Bachelor of Laws degree from Philippine Law School. She has also completed the Trust Operations and Investment Management course conducted by the Trust Institute Foundation of the Philippines, and the Corporate Governance Training conducted by the New York Institute of Finance. She is not connected with any government agency or instrumentality. She is also not a director of any publicly-listed company.

NOREEN MARIE N. VICENCIO
Data Privacy Officer

Ms. Noreen Marie N. Vicencio, 40 years old, Filipino, was appointed Data Privacy Officer of AboitizPower on November 23, 2017. She is also the Assistant Vice President for Risk Management of the Company since November 21, 2017.

Ms. Vicencio brings with her experience in risk management, quality management, and systems integration. Prior to joining AboitizPower, she held various positions in AboitizLand from 2005 to 2017, as Assistant Vice President for Risk Management and Corporate Social Responsibility, and Assistant Vice President for Corporate Planning, Risk Management and Quality Management System.

She obtained her Bachelor of Arts degree in Psychology from St. Theresa's College, Cebu City. She also earned units in Masters in Management from the University of the Philippines Cebu. Ms. Vicencio has met the requirements and passed the examination for Data Protection Officer (DPO) (TÜV) Training and

Certification Program. She is not connected with any government agency or instrumentality. She is not a director of a publicly-listed company.

SATURNINO E. NICANOR, JR.
Group Internal Audit Head

Mr. Saturnino E. Nicanor, Jr., 56 years old, Filipino, was appointed as Group Internal Audit Head of AboitizPower on July 26, 2018. He is concurrently the Assistant Vice President for Internal Audit since July 2016. He has extensive experience in internal audit and controllership in various industries. He also served as Internal Audit Head for the Company's Generation Group from August 2012 to July 2016, and held various audit-related positions in the Aboitiz Group from 1983 to 2005.

Mr. Nicanor earned his Bachelor of Science in Commerce, Major in Accounting (magna cum laude) degree from the University of San Jose Recoletos, Cebu City. He is an Accredited Training Facilitator of the Institute of Internal Auditors Philippines. He is not connected with any government agency or instrumentality. He is not a director of any publicly-listed company.

Period in which the Directors and Executive Officers Should Serve

The directors shall serve for a period of one year.

Term of Office of a Director

Pursuant to the Amended By-Laws of AboitizPower, the directors are elected at each annual stockholders' meeting by stockholders entitled to vote. Each director holds office until the next annual election or for a term of one year and until his successor is duly elected, unless he resigns, dies or is removed prior to such election.

Any vacancy in the Board, other than by removal or expiration of term, may be filled by a majority vote of the remaining members thereof at a meeting called for that purpose, if they still constitute a quorum. The director so chosen shall serve for the unexpired term of his/her predecessor in office.

(3) Significant Employees

AboitizPower considers the contribution of every employee important to the fulfillment of its goals.

(4) Family Relationships

Messrs. Jaime Jose and Luis Miguel Aboitiz are first cousins. Messrs. Erramon and Enrique Aboitiz are brothers. Mr. Enrique Aboitiz is the father of Mr. Danel Aboitiz. Other than these, no other officers or directors are related within the fourth degree of consanguinity.

(5) Involvement in Certain Legal Proceedings as of March 29, 2019

To the knowledge and/or information of AboitizPower, none of its nominees for election as directors, its present members of the Board, or its executive officers, is presently involved in any legal proceeding or bankruptcy petition or has been convicted by final judgment, or being subject to any order, judgment or decree or has violated the securities or commodities law in any court or government agency in the Philippines or elsewhere, for the past five years and the preceding years until March 29, 2019, which would put to question his/her ability and integrity to serve AboitizPower and its stockholders.

(6) Parent Company

AboitizPower's parent company is AEV. As of March 29, 2019, AEV owns 76.88% of the voting shares of AboitizPower. In turn, ACO owns, as of March 29, 2018, 48.57% of the voting shares of AEV.

(b) Resignation or Refusal to Stand for Re-election by Members of the Board of Directors

No director has resigned or declined to stand for re-election to the Board since the date of AboitizPower's last Annual Stockholders' Meeting because of a disagreement with AboitizPower on matters relating to its operations, policies and practices.

Item 10. Compensation of Directors and Executive Officers

(a) Summary of Compensation of Executive Officers

Information as to the aggregate compensation paid or accrued to AboitizPower's Chief Executive Officer and other highly compensated executive officers, as well as other officers and directors during the last two completed fiscal years and the ensuing fiscal year, is as follows:

Name of Officer and Principal Position*	Year	Salary (in Pesos)	Bonus (in Pesos)	Other Annual Compensation (in Pesos)
Chief Executive Officer and the Four Most Highly Compensated Officers: **1. ERRAMON I. ABOITIZ** - Chief Executive Officer **2. ANTONIO R. MORAZA**** **3. JUAN ANTONIO R. BERNAD** - Executive Vice President for Regulatory and Industry Affairs **4. EMMANUEL V. RUBIO** - Chief Operating Officer **5. JAIME JOSE Y. ABOITIZ** - Executive Vice President & Chief Operating Officer – Power Distribution Group **6. CHRISTOPHER B. SANGSTER***** -Executive Director - Business Development and Project Development and Execution				
All above named officers as a group	**Actual 2018**	**₱203,300,000.00**	**₱9,370,000.00**	**₱17,730,000.00**
	Actual 2017	₱166,030,000.00	₱5,740,000.00	₱18,140,000.00
	Projected 2019	₱201,140,000.00	₱9,193,360.00	₱15,200,000.00
All other officers and directors as a group	**Actual 2018**	**₱60,790,000.00**	**₱3,470,000.00**	**₱34,180,000.00**
	Actual 2017	₱122,710,000.00	₱5,910,000.00	₱39,660,000.00
	Projected 2019	₱89,360,000.00	₱4,930,000.00	₱41,900,000.00

**The four most highly compensated officers in 2017 were Messrs. Antonio R. Moraza, Emmanuel V. Rubio, Juan Antonio E. Bernad, and Jaime Jose Y. Aboitiz.*
***Mr. Moraza has retired as President & Chief Executive Officer of the Company effective August 31, 2018.*
****Mr. Sangster has qualified as one of the five most highly compensated officers in 2018.*

The 2014 Amended By-Laws of the Company, as approved by the Securities and Exchange Commision (SEC) on May 16, 2014, defined corporate officers as follows: the Chairman of the Board, the Vice Chairman, the Chief Executive Officer(s), the Chief Operating Officer(s), the Treasurer, the Corporate Secretary, the Assistant Corporate Secretary, and such other officers as may be appointed by the Board of Directors. For the year 2018, the Company's Summary of Compensation covers the compensation of officers as reported under Item 5 (a)(1) of the Information Statement.

Except for the regular company retirement plan, which by its very nature will be received by the officers concerned only upon retirement from the Company, the above-mentioned officers do not receive any other compensation in the form of warrants, options, and/or profit-sharing.

There is no compensatory plan or arrangement between the Company and any executive in case of resignation or any other termination of employment or from a change-in-control of the Company.

(b) Compensation of Directors

(1) Standard Arrangements

Following the May 18, 2015 annual stockholders' meeting, the directors receive a monthly allowance of ₱120,000.00, while the Chairman of the Board's monthly allowance has been ₱180,000.00.

In addition, each director/member and the Chairmen of the Board and the Board Committees receive a per diem for every Board or Committee meeting attended as follows:

Type of Meeting	Directors	Chairman of the Board
Board Meeting	₱100,000.00	₱150,000.00

Type of Meeting	Membersy	Chairman of the Committee
Committee Meeting	₱80,000.00	₱100,000.00

During its February 18, 2019 meeting, the Board Corporate Governance Committee, which performs the function of the Nomination and Compensation Committee, proposed to increase the directors' monthly allowance from ₱180,000.00 to ₱200,000.00 for the Chairman of the Board, and from ₱120,000.00 to ₱150,000.00 for other directors. The committee also proposed to increase the per diem for every meeting attended as follows:

Type of Meeting	Directors	Chairman of the Board
Board Meeting	₱150,000.00	₱200,000.00

Type of Meeting	Membersy	Chairman of the Committee
Committee Meeting	₱100,000.00	₱130,000.00

During its March 7, 2019 meeting, the Board of Directors approved the proposed increase in the monthly allowance and per diem, and endorsed the same for the stockholders' approval.

A resolution approving the proposed increase in monthly allowance and per diem will be presented to the stockholders for approval at the 2019 Annual Stockholders' Meeting.

(2) Other Arrangements

Other than payment of a director's allowance and the per diem as stated above, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

(c) Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There is no compensatory plan or arrangement between AboitizPower and any executive officer in case of resignation or any other termination of employment or from a change in the management or control of AboitizPower.

(d) Warrants and Options Outstanding

To date, AboitizPower has not granted any stock option to its directors or officers

Item 11. Security Ownership of Certain Record and Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners (more than 5%) as of March 29, 2019

Title of Class	Name, Address of Record Owner, and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held and Nature of Ownership (Record and/or Beneficial)	Percentage of Class Owned
Common	**1. Aboitiz Equity Ventures, Inc.**[5] 32nd Street, Bonifacio Global City, Taguig City (Stockholder)	Aboitiz Equity Ventures, Inc.[6]	Filipino	5,657,530,774 (Record and Beneficial)	76.88%
Common	**2. PCD Nominee Corporation (Filipino)**[7] 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City, 1226 Metro Manila (Stockholder)	PCD participants acting for themselves or for their customers[8]	Filipino	957,568,900 (Record)	13.01%
Common	**3. PCD Nominee Corporation (Foreign)**[9] 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City, 1226 Metro Manila (Stockholder)	PCD participants acting for themselves or for their customers[10]	Non- Filipino	463,209,725 (Record)	6.29%

Aboitiz Equity Ventures, Inc. (AEV) is the public holding and management company of the Aboitiz Group, one of the largest conglomerates in the Philippines. As of March 29, 2019, the following entities own five per centum (5%) or more of AEV:

Title of Class	Name, Address of Stockholder and Beneficial Owner	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares and Nature of Ownership (Record and/ or Beneficial)	Percentage of Class Owned
Common	**1. Aboitiz & Company, Inc.** Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City (Stockholder)	Aboitiz & Company, Inc.	Filipino	2,735,600,915 (Record and Beneficial)	48.57%
Common	**2. PCD Nominee Corporation (Filipino)** 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City, 1226 Metro Manila (Stockholder)	PCD participants acting for themselves or for their customers	Filipino	796,786,377 (Record)	14.15%

[5] Aboitiz Equity Ventures, Inc. is the parent company of AboitizPower.
[6] Mr. Erramon I. Aboitiz, President and Chief Executive Officer of AEV, will vote the shares of AEV in AboitizPower in accordance with the directive of the AEV Board of Directors.
[7] The PCD Nominee Corporation (Filipino and Foreign) is not related to the Company.
[8] Each beneficial owner of shares, through a PCD participant, is the beneficial owner of such number of shares he owns in his account with the PCD participant. AboitizPower has no record relating to the power to decide how the shares held by PCD are to be voted. As advised to the Company, none of the beneficial owners under a PCD participant owns more than 5% of the Company's common shares.
[9] *Supra note 3*
[10] *Supra note 4*.

Title of Class	Name, Address of Stockholder and Beneficial Owner	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares and Nature of Ownership (Record and/ or Beneficial)	Percentage of Class Owned
Common	**3. PCD Nominee Corporation (Foreign)** 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City, 1226 Metro Manila (Stockholder)	PCD participants acting for themselves or for their customers	Non-Filipino	514,506,563 (Record)	9.13%
Common	**4. Ramon Aboitiz Foundation, Inc.** 35 Lopez Jaena St., Cebu City (Stockholder)	Ramon Aboitiz Foundation, Inc.	Filipino	426,804,093 (Record and Beneficial)	7.58%

(2) Security Ownership of Management as of March 29, 2019 (Record and Beneficial)

Title of Class of Shares	Name of Owner and Position	No. of Shares and Nature of Ownership (Direct and/or Indirect)		Citizenship	Percentage of Ownership
Common	**Mikel A. Aboitiz** Chairman of the Board	1	Direct	Filipino	0.00%
		21,381,059	Indirect		0.29%
Common	**Enrique M. Aboitiz** Vice Chairman of the Board	758	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Erramon I. Aboitiz** Director/President and Chief Executive Officer	1,300,001	Direct	Filipino	0.02%
		83,776,414	Indirect		1.14%
Common	**Luis Miguel O. Aboitiz** Director/Chief Strategy Officer	11,167,081	Direct	Filipino	0.15%
		2,500,000	Indirect		0.03%
Common	**Jaime Jose Y. Aboitiz** Director/Executive Vice President and Chief Operating Officer – Power Distribution	5,367,397	Direct	Filipino	0.07%
		4,719,302	Indirect		0.06%
Common	**Danel C. Aboitiz** Director	4,081,636	Direct	Filipino	0.06%
		0	Indirect		0.00%
Common	**Romeo L. Bernardo** Lead Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Carlos C. Ejercito** Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Eric Ramon O. Recto** Independent Director	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Emmanuel V. Rubio** Chief Operating Officer	89,130	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Felino M. Bernardo** Chief Operating Officer – Power Generation Group	2,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Juan Antonio E. Bernad** Executive Vice President for Regulatory and Industry Affairs	520,001	Direct	Filipino	0.01%
		488,734	Indirect		0.01%

Title of Class of Shares	Name of Owner and Position	No. of Shares and Nature of Ownership (Direct and/or Indirect)		Citizenship	Percentage of Ownership
Common	**Gabriel T. Mañalac** Senior Vice President and Group Treasurer	111,139	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Susan V. Valdez** Senior Vice President and Chief Reputation and Risk Management Officer	754,862	Direct	Filipino	0.01%
		0	Indirect		0.00%
Common	**Liza Luv T. Montelibano** Senior Vice President/Chief Financial Officer/Corporate Information Officer	500	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Robert McGregor** Executive Director – Chief Investment Officer	0	Direct	British	0.00%
		5,000	Indirect		0.00%
Common	**Christopher B. Sangster** Executive Director – Business Development and Project Development and Execution	109,936	Direct	Australian	0.00%
		0	Indirect		0.00%
Common	**Joseph Trillana T. Gonzales** General Counsel and Compliance Officer	62,527	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Manuel Alberto R. Colayco** Corporate Secretary	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Mailene M. de la Torre** Assistant Corporate Secretary	0	Direct	Filipino	0.00%
		5,000	Indirect		0.00%
Common	**Joanne L. Ranada** Assistant Corporate Secretary	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Noreen Marie N. Vicencio** Data Privacy Officer	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Saturnino E. Nicanor, Jr** Group Internal Audit Head	26,896	Direct	Filipino	0.00%
		0	Indirect		0.00%
	TOTAL	**136,471,374**			**1.85%**

(3) Voting Trust Holders of Five Per Centum (5%) or More of Common Equity

No person holds under a voting trust or similar agreement more than five per centum (5%) of AboitizPower's common equity.

(4) Changes in Control

There are no arrangements that may result in a change in control of AboitizPower during the period covered by this report.

Item 12. Certain Relationships and Related Transactions

AboitizPower and its Subsidiaries (the "Group"), in their regular conduct of business, have entered into related party transactions consisting of professional fees, advances, various guarantees, construction contracts, and rental fees. These are made on an arm's length basis as of the time of the transactions.

AboitizPower ("Parent") has provided support services to its Business Units, such as marketing, trading, billing and other technical services, necessary for the effective and efficient management and operations among and between the Subsidiaries and Associates.

The Group has existing Service Level Agreements (SLAs) with its parent company, AEV, for corporate center services, such as human resources, internal audit, legal, information technology, treasury and corporate finance, among others. These services are obtained from AEV to enable the Group to realize cost synergies and optimize expertise at the corporate center. AEV maintains a pool of highly qualified professionals with business expertise specific to the businesses of the Group. Transaction costs are always benchmarked on third party rates to ensure competitive pricing and consistency with prevailing industry standards. SLAs are in place to ensure quality of service.

Material and significant related party transactions are reviewed and approved by the Related Party Transactions Committee of the Board.

No other transactions, without proper disclosure, were undertaken by the Company in which any director or executive officer, any nominee for election as director, any beneficial owner (direct or indirect) or any member of his immediate family was involved or had a direct or indirect material interest.

AboitizPower employees are required to promptly disclose any business and family-related transactions with the Company to ensure that potential conflicts of interest are brought to the attention of the management.
For detailed discussion on related party transactions, please refer to Note 32 of the Consolidated Financial Statements.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Pursuant to Memorandum Circular No. 15, Series of 2017 issued by the Securities and Exchange Commission (SEC), the Company's 2018 Integrated Annual Corporate Governance Report (IACGR) will be filed with the SEC on or before May 30, 2019. The 2018 IACGR will also available in the Company's website at www.aboitizpower.com. Other reports such as the Company's Annual Corporate Governance Reports and the 2017 IACGR are also available at the Company's website.

PART V – EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits. None

(b) Reports on SEC Form 17-C

Reports filed by AboitizPower on SEC Form 17-C from April 2018 to March 2019 are as follows:

Date Reported	Disclosure Details
April 2, 2018	Press Release: AboitizPower launches rooftop solar venture
May 2, 2018	First Quarter 2018 Financial and Operating Results
May 3, 2018	Press Release: AboitizPower ends first quarter 2018 with P4 billion profit
May 21, 2018	Matters Approved by the Board on May 21, 2018
May 21, 2018	Results of the 2018 Annual Stockholders' Meeting
May 21, 2018	Results of the 2018 Organizational Meeting
May 24, 2018	Press Release: PSALM issues Certificate of Effectivity on AboitizPower subsidiary's purchase of Naga power plant complex
July 16, 2018	Press Release: AboitizPower subsidiary takes over Naga power plant complex
July 26, 2018	Approval of Issuance of fixed-rate retail bonds from the remaining amount of ₱27 bn bonds, out of the ₱30 bn Shelf Registered Bonds
July 26, 2018	Resignation of Director and Officer, and Appointment of Officer
July 31, 2018	Second Quarter 2018 Financial and Operating Results
August 24, 2018	Press Release: APRI, PGPC sign Geothermal Resources Supply and Services Agreement
August 29, 2018	Filing of Second Tranche of 30 bn Bonds with the Securities and Exchange Commission and Reciept of "PRS Aaa" Rating from the Philippine Rating Services Corporation
September 1, 2018	Appointment of Director, Officer and Committee Members
September 26, 2018	Acquisition of AA Thermal, Inc.
September 26, 2018	Press Release: AboitizPower invests in AC Energy's thermal power company
October 3, 2018	Appointment of Assistant Corporate Secretary
October 11, 2018	Receipt of the Certificate of Permit to Offer Securities for Sale from the SEC in relation to the Company's Application for the Issuance of the Second Tranche of the ₱30 bn Fixed-Rate Retail Bonds
October 25, 2018	Listing with the Philippine Dealing and Exchange Corporation of the Series "B" and Series "C" Bonds equivalent to ₱10 bn out of the ₱30 bn Shelf Registered Bonds
November 6, 2018	Third Quarter 2018 Financial and Operating Results
December 3, 2018	Demise of the Vice Chairman of the Board
December 11, 2018	Re-organization of the Company
January 4, 2019	Mothballing of Therma Mobile, Inc.'s Bunker C-Fired Diesel Power Plant
January 29, 2019	Approval of Issuance of fixed-rate retail bonds from the remaining amount of ₱16.8 bn bonds, out of the ₱30 bn Shelf Registered Bonds
February 18, 2019	Nominees to the Board of Directors for 2019-2020

Date Reported	Disclosure Details
March 1, 2019	Receipt of Approval from the Philippine Competition Commission of the Company's Acquisition of AA Thermal, Inc.
March 7, 2019	Matters Approved by the Board during its March 7, 2019 Board Meeting
March 7, 2019	Declaration of Regular Cash Dividends
March 7, 2019	Notice and Agenda of AboitizPower's Annual Stockholders' Meeting on April 22, 2019
March 8, 2019	Press Release: AboitizPower posts 6% income growth to P21.7 billion in 2018

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 177 of the Revised Corporation Code, AboitizPower has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Taguig on APR 0 4 2019.

By:

ERRAMON I. ABOITIZ
Principal Executive Officer

EMMANUEL V. RUBIO
Principal Operating Officer

LIZA LUV T. MONTELIBANO
Principal Financial Officer

MANUEL ALBERTO R. COLAYCO
Corporate Secretary

TIMOTHY P. ABAY
Controller/Principal Accounting Officer

Before me, a notary public in and for the city named above, personally appeared:

NAME	GOVT ISSUED ID	DATE / PLACE OF ISSUE	CTC NO.	DATE / PLACE OF ISSUE
ERRAMON I. ABOITIZ	Passport No. P2251997A	March 11, 2017 DFA Cebu	12179232	January 29, 2019 Cebu City
EMMANUEL V. RUBIO	Passport No. P0652888A	October 17, 2016 DFA Manila	14975271	January 10, 2019 Manila
LIZA LUV T. MONTELIBANO	Passport No. P7070135A	May 7, 2018 DFA Manila	29715455	January 10, 2019 Taguig City
MANUEL ALBERTO R. COLAYCO	PhilHealth ID No. 01-052187303-0	-	29689098	January 8, 2019 Taguig City
TIMOTHY JOSEPH P. ABAY	Passport No. EC39056764	April 11, 2015 DFA Cebu	01202493	January 19, 2019 Mandaue City

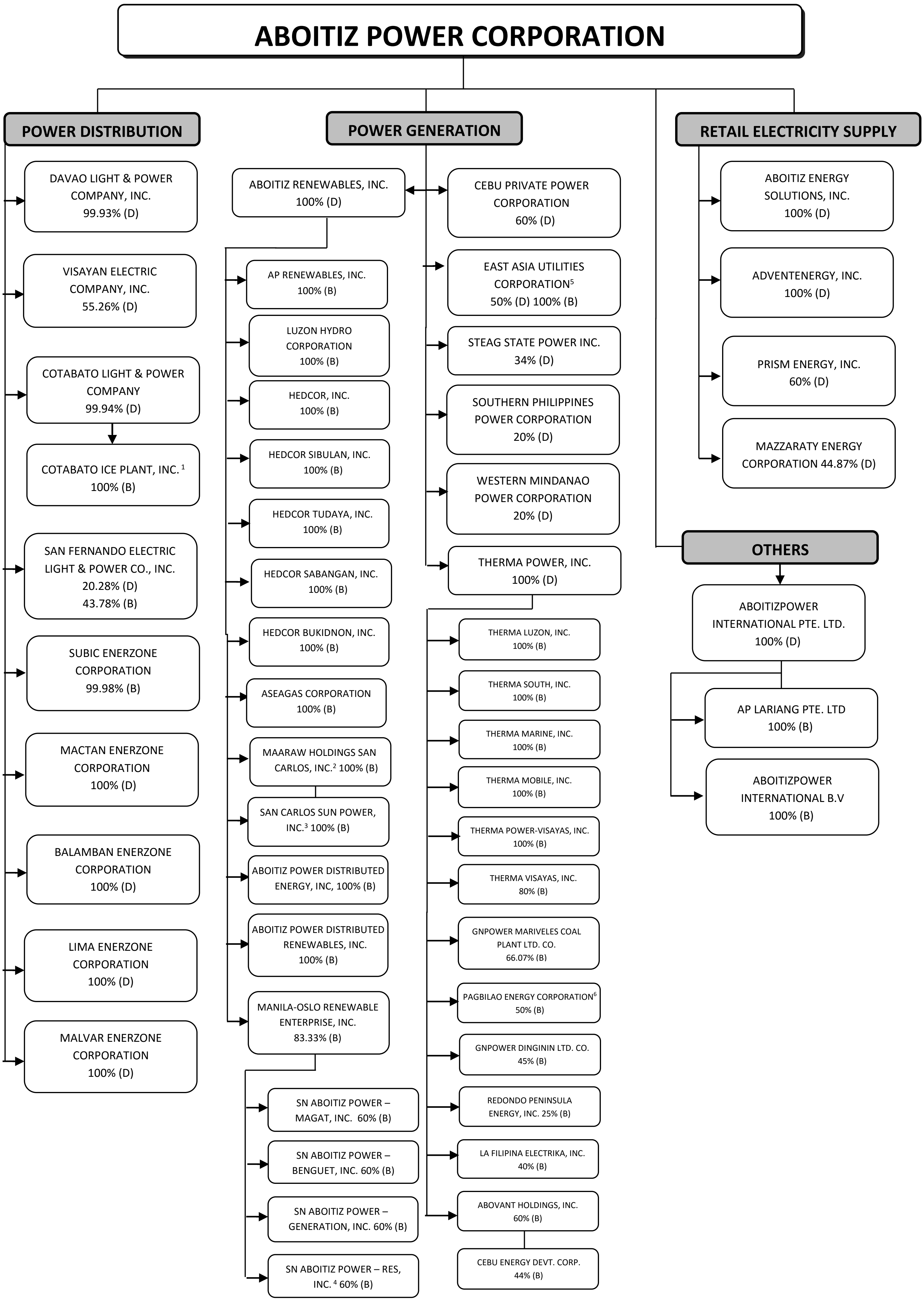
who were identified by me through competent evidence of identity to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath/affirmation before me as to such instrument.

Witness my hand and seal this April 4, 2019

Doc. No. 327;
Page No. 67;
Book No. I;
Series of 2019.

ATTY. ADRIANNE MARIE C. ALAZAS
ROLL NO. 588449
NOTARY PUBLIC
TAGUIG CITY, PHILS.

Atty. Adrianne Marie C. Alazas
Notary Public for Taguig City
Notarial Commission No 650
Until December 31 2019
NAC Tower. 32nd St Bonifacio Global City. Taguig City
PTR No. A-4208014. January 07 2019 Taguig City
IBP O.R. No 061325 Taguig City January 08, 2019
Roll No 58449
MCLE No VI-0015882, December 13, 2018



Legend:
B – Beneficial Ownership
D – Direct Ownership

[1] *Other services*
[2] *ARI has a 60% direct ownership in Maaraw San Carlos; AboitizPower International has a 40% indirect ownership in Maaraw San Carlos*
[3] *ARI has a 35% direct ownership (50% indirect ownership) in Sacasun; AboitizPower International has 50% indirect ownership in Sacasun*
[4] *Engages in Retail Electricity Supply Business*
[5] *TPI has a 50% ownership in EAUC*
[6] *Joint operations*

AS OF DECEMBER 31, 2018

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C 1 9 9 8 0 0 1 3 4

COMPANY NAME

ABOITIZ POWER CORPORATION

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

32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines

Form Type	Department requiring the report	Secondary License Type, If Applicable
APFS	CFD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
ap_investor@aboitiz.com	(02) 886-2800	Not Available

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
629	April 22	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Liza Luv T. Montelibano	liza.montelibano@aboitiz.com	(02) 886-2800	Not Available

CONTACT PERSON's ADDRESS

32nd Street, Bonifacio Global City, Taguig City, Metro Manila 1634

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

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

Cebu Extension Office

APR 10 2019

By:

RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

AboitizPower

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of Aboitiz Power Corporation is responsible for the preparation and fair presentation of the Parent financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

MIKEL A. ABOITIZ
Chairman of the Board

ERRAMON I. ABOITIZ
President & Chief Executive Officer

LIZA LUV T. MONTELIBANO
SVP & Chief Financial Officer/Corporate Information Officer

Signed this 7th day of March 2019

Republic of the Philippines)
City of Taguig) S.S.

Before me, a notary public in and for the city named above, personally appeared:

Name	Passport/CTC No.	Date/Place Issued
MIKEL A. ABOITIZ	P3931084A 12172821	August 5,2017, Cebu January 18, 2019, Cebu City
ERRAMON I. ABOITIZ	P2251997A 12179232	March 11, 2017; DFA Manila January 29, 2019, Cebu City
LIZA LUV T. MONTELIBANO	P7070135A 29715455	May 7, 2018, DFA Manila January 10 2019, City of Taguig

who are personally known to me and to me known to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

Witness my hand and seal this MAR 07 2019.

Doc. No. 011;

Page No. 4;

Book No. 1;

Series of 2019

Atty. Leon Miguel E. Sagayadan
Notary Public for Taguig City
Notarial Commission No. 121
Until December 31, 2019
NAC Tower, 32nd Street, Bonifacio Global City, Taguig City
PTR No. A-4207122; Taguig City; January 3, 2019
IBP OR No.061327; January 8, 2019
Roll No. 61441
MCLE Compliance No. VI-0004627

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Aboitiz Power Corporation (the Company), which comprise the parent company balance sheets as at December 31, 2018 and 2017, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

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

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

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
APR 10 2019
DPQA SECTION INITIAL:

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 22 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Company. The information has been subjected to the auditing procedures applied in our audit of the parent company financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Maria Veronica Andresa R. Pore

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-3 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 164-533-282
BIR Accreditation No. 08-001998-71-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332597, January 3, 2019, Makati City

March 7, 2019

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
APR 10 2019
DPQA SECTION INITIAL

ABOITIZ POWER CORPORATION

PARENT COMPANY BALANCE SHEETS

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱11,875,188,311**	₱7,826,169,148
Trade and other receivables (Note 5)	**981,463,758**	519,646,158
Derivative asset (Note 18)	**855,000**	42,510,000
Other current assets (Note 6)	**941,778,180**	797,032,600
Total Current Assets	**13,799,285,249**	9,185,357,906
Noncurrent Assets		
Investments and advances (Note 7)	**88,931,823,265**	80,038,264,024
Project development costs (Note 10)	**388,468,001**	262,559,144
Deferred income tax assets (Note 16)	**101,466,266**	71,384,885
Financial assets at fair value through profit or loss (FVTPL)	**97,535,436**	–
Available-for-sale (AFS) investments	**–**	99,374,831
Property and equipment (Note 8)	**65,585,230**	80,296,724
Pension asset (Note 15)	**38,061,504**	16,196,106
Other noncurrent assets (Note 9)	**89,121,203**	14,919,730
Total Noncurrent Assets	**89,712,060,905**	80,582,995,444
TOTAL ASSETS	**₱103,511,346,154**	₱89,768,353,350
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 11)	**₱356,110,573**	₱193,939,364
Bank loans (Note 12)	**4,700,000,000**	–
Total Current Liabilities	**5,056,110,573**	₱193,939,364
Noncurrent Liability		
Long-term debts - net of deferred financing cost (Note 12)	**22,997,821,292**	12,901,981,643
Total Liabilities	**28,053,931,865**	13,095,921,007
Equity		
Capital stock (Note 13a)	**7,358,604,307**	7,358,604,307
Additional paid-in capital (Note 13a)	**12,588,894,332**	12,588,894,332
Actuarial losses on defined benefit plan (Note 15)	**(208,521,187)**	(226,655,991)
Unrealized valuation loss on AFS investment	**–**	(625,169)
Retained earnings (Note 13b)		
Appropriated	**34,060,000,000**	34,060,000,000
Unappropriated	**21,658,436,837**	22,892,214,864
Total Equity	**75,457,414,289**	76,672,432,343
TOTAL LIABILITIES AND EQUITY	**₱103,511,346,154**	₱89,768,353,350

See accompanying Notes to Parent Company Financial Statements.

ABOITIZ POWER CORPORATION

PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31		
	2018	2017	2016
REVENUE			
Dividends	**₱9,736,042,939**	₱9,792,258,034	₱26,807,702,580
Technical, management and other service fees (Note 17)	**1,679,158,424**	1,403,850,375	1,287,351,539
Interest income (Notes 4 and 17e)	**137,277,764**	147,551,430	329,471,455
	11,552,479,127	11,343,659,839	28,424,525,574
GENERAL AND ADMINISTRATIVE EXPENSES			
Interest and other financing charges (Note 12)	**1,042,597,749**	674,025,682	620,131,545
Personnel (Note 14)	**955,955,320**	890,915,629	785,891,676
Taxes and licenses	**111,156,568**	19,038,303	16,976,074
Professional fees (Note 17)	**87,132,534**	100,474,104	96,502,870
Service fees (Note 17)	**63,850,939**	82,072,061	104,581,971
Project and bidding expenses (Note 10)	**51,122,382**	76,839,564	323,240,970
Transportation and travel (Note 17)	**49,791,744**	50,593,806	59,564,834
Training	**35,117,465**	17,750,495	28,301,772
Rent (Note 17)	**27,559,033**	28,159,917	25,054,795
Depreciation and amortization (Notes 8 and 9)	**23,345,806**	22,220,782	21,256,849
Advertising and sponsorships	**17,017,558**	22,272,248	9,835,050
Entertainment, amusement and recreation	**10,734,116**	8,212,799	8,612,605
Repairs and maintenance	**6,518,422**	6,839,603	6,625,413
Office supplies	**3,515,178**	5,013,861	4,133,728
Communication	**2,647,639**	2,982,031	2,787,762
Light and water	**1,406,312**	1,304,803	1,268,933
Others	**7,770,467**	8,917,061	9,355,041
	2,497,239,232	2,017,632,749	2,124,121,888
OTHER INCOME (CHARGES) - net			
Provision for impairment of investment in a subsidiary (Note 7)	**(45,933,000)**	(169,469,408)	(120,733,027)
Foreign exchange gains (loss) - net (Note 18)	**(16,965,185)**	69,842,921	545,056,530
Gain on redemption of preferred shares (Note 7)	**–**	19,558,250	16,050,518
Others	**4,338,316**	2,767,574	8,547,746
	(58,559,869)	(77,300,663)	448,921,767
INCOME BEFORE INCOME TAX	**8,996,680,026**	9,248,726,427	26,749,325,453
PROVISION FOR INCOME TAX (Note 16)	**1,372,898**	36,452,711	72,627,378
NET INCOME	**₱8,995,307,128**	₱9,212,273,716	₱26,676,698,075

See accompanying Notes to Parent Company Financial Statements.

BUREAU OF INTERNAL REVENUE
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ABOITIZ POWER CORPORATION

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
NET INCOME	**₱8,995,307,128**	₱9,212,273,716	₱26,676,698,075
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains on defined benefit plans (Note 15)	**25,906,863**	44,705,980	20,313,413
Income tax effect (Note 16)	**(7,772,059)**	(13,411,794)	(6,094,024)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**18,134,804**	31,294,186	14,219,389
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:			
Unrealized gain (loss) on AFS investments	**–**	2,685,599	(3,310,768)
Total other comprehensive income for the year, net of tax	**18,134,804**	33,979,785	10,908,621
TOTAL COMPREHENSIVE INCOME	**₱9,013,441,932**	₱9,246,253,501	₱26,687,606,696

See accompanying Notes to Parent Company Financial Statements.

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ABOITIZ POWER CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Capital Stock (Note 13a)	Additional Paid-In Capital	Unrealized Valuation on AFS Investments	Actuarial Losses on Defined Benefit Plan	Retained Earnings (Note 13b) Appropriated	Retained Earnings (Note 13b) Unappropriated	Total
Balances at January 1, 2018	**₱7,358,604,307**	**₱12,588,894,332**	**(₱625,169)**	**(₱226,655,991)**	**₱34,060,000,000**	**₱22,892,214,864**	**₱76,672,432,343**
Effect of adoption - PFRS 9 (Note 3)	**–**	**–**	**625,169**	**–**	**–**	**(625,169)**	**–**
Balances at January 1, 2018 as restated	**7,358,604,307**	**12,588,894,332**	**–**	**(226,655,991)**	**34,060,000,000**	**22,891,589,695**	**76,672,432,343**
Net income for the year	**–**	**–**	**–**	**–**	**–**	**8,995,307,128**	**8,995,307,128**
Other comprehensive income	**–**	**–**	**–**	**18,134,804**	**–**	**–**	**18,134,804**
Total comprehensive income	**–**	**–**	**–**	**18,134,804**	**–**	**8,995,307,128**	**9,013,441,932**
Cash dividends (Note 13b)	**–**	**–**	**–**	**–**	**–**	**(10,228,459,986)**	**(10,228,459,986)**
Balances at December 31, 2018	**₱7,358,604,307**	**₱12,588,894,332**	**₱–**	**(₱208,521,187)**	**₱34,060,000,000**	**₱21,658,436,837**	**₱75,457,414,289**

	Capital Stock (Note 13a)	Additional Paid-In Capital	Unrealized Valuation on AFS Investments	Actuarial Losses on Defined Benefit Plan	Retained Earnings (Note 13b) Appropriated	Retained Earnings (Note 13b) Unappropriated	Total
Balances at January 1, 2017	₱7,358,604,307	₱12,588,894,332	(₱3,310,768)	(₱257,950,177)	₱34,060,000,000	₱23,687,643,006	₱77,433,880,700
Net income for the year	–	–	–	–	–	9,212,273,716	9,212,273,716
Other comprehensive income	–	–	2,685,599	31,294,186	–	–	33,979,785
Total comprehensive income	–	–	2,685,599	31,294,186	–	9,212,273,716	9,246,253,501
Cash dividends (Note 13b)	–	–	–	–	–	(10,007,701,858)	(10,007,701,858)
Balances at December 31, 2017	₱7,358,604,307	₱12,588,894,332	(₱625,169)	(₱226,655,991)	₱34,060,000,000	₱22,892,214,864	₱76,672,432,343

	Capital Stock (Note 13a)	Additional Paid-In Capital	Unrealized Valuation on AFS Investments	Actuarial Losses on Defined Benefit Plan	Retained Earnings (Note 13b) Appropriated	Retained Earnings (Note 13b) Unappropriated	Total
Balances at January 1, 2016	₱7,358,604,307	₱12,588,894,332	₱–	(₱272,169,566)	₱20,900,000,000	₱22,386,228,081	₱62,961,557,154
Net income for the year	–	–	–	–	–	26,676,698,075	26,676,698,075
Other comprehensive income (loss)	–	–	(3,310,768)	14,219,389	–	–	10,908,621
Total comprehensive income (loss)	–	–	(3,310,768)	14,219,389	–	26,676,698,075	26,687,606,696
Cash dividends (Note 13b)	–	–	–	–	–	(12,215,283,150)	(12,215,283,150)
Appropriation during the year (Note 13b)	–	–	–	–	13,160,000,000	(13,160,000,000)	–
Balances at December 31, 2016	₱7,358,604,307	₱12,588,894,332	(₱3,310,768)	(₱257,950,177)	₱34,060,000,000	₱23,687,643,006	₱77,433,880,700

ABOITIZ POWER CORPORATION

PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱8,996,680,026**	₱9,248,726,427	₱26,749,325,453
Adjustments for:			
Interest and other financing charges (Note 12)	**1,042,597,749**	674,025,682	620,131,545
Unrealized foreign exchange losses	**162,355,812**	8,809,781	54,174,161
Project and bidding expenses (Note 10)	**51,122,382**	76,839,564	80,379,837
Provision for impairment of investment in a subsidiary (Note 7)	**45,933,000**	169,469,408	120,733,027
Depreciation and amortization (Notes 8 and 9)	**23,345,806**	22,220,782	21,256,849
Unrealized fair valuation loss on financial assets at FVTPL	**1,839,395**	–	–
Losses on disposal of assets (Note 8)	**1,253,111**	418,659	103,750
Gain on redemption of preferred shares (Notes 7)	**–**	(19,558,250)	(16,050,518)
Interest income (Notes 4 and 17e)	**(137,277,764)**	(147,551,430)	(329,471,455)
Operating income before working capital changes	**10,187,849,517**	10,033,400,623	27,300,582,649
Decrease (increase) in:			
Trade and other receivables	**(428,309,647)**	293,236,492	(477,330,607)
Pension asset	**(3,730,594)**	(16,196,106)	–
Other current assets	**(2,764,943)**	(145,859,575)	1,813,749
Increase (decrease) in:			
Trade and other payables	**16,275,537**	(171,627,870)	241,198,537
Pension liability	**–**	24,052,095	(198,138,608)
Net cash generated from operations	**9,769,319,870**	10,017,005,659	26,868,125,720
Income taxes paid	**(173,434,916)**	(159,547,151)	(165,584,323)
Net cash flows from operating activities	**9,595,884,954**	9,857,458,508	26,702,541,397
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	**103,769,811**	260,454,071	372,600,692
Decrease (increase) in recoverable deposits	**(75,710,456)**	340,990	–
Proceeds from:			
Redemption on preferred shares (Note 7)	**2,122,216,000**	9,784,493,862	57,076,000
Disposal of property and equipment (Note 8)	**5,998,846**	1,966,529	3,592,738
Additions to:			
Investments and advances (Note 7)	**(11,061,708,241)**	(6,897,269,177)	(12,864,053,304)
Project development costs - net of transfers (Note 10)	**(177,031,239)**	(65,673,997)	(86,515,646)
Property and equipment (Note 8)	**(14,283,786)**	(39,018,488)	(28,644,578)
Computer software license (Note 9)	**(93,500)**	(20,982)	(4,062,937)
AFS investments	**–**	–	(100,000,000)
Net cash flows from (used in) investing activities	**(9,096,842,565)**	3,045,272,808	(12,650,007,035)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of bank loans	**4,700,000,000**	–	–
Long-term debts (Note 12)	**10,200,000,000**	3,000,000,000	–
Payments of:			
Cash dividends (Note 13b)	**(10,228,459,986)**	(10,007,701,858)	(12,215,283,150)
Interest and other financing charges	**(878,938,176)**	(699,256,650)	(609,202,229)
Transaction costs from availment of long-term debt	**(121,924,252)**	(32,938,058)	–
Amounts owed to related parties	**–**	–	(12,300,000,000)
Net cash flows from (used in) financing activities	**3,670,677,586**	(7,739,896,566)	(25,124,485,379)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,169,719,975**	5,162,834,750	(11,071,951,017)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(120,700,812)**	(51,319,781)	(54,174,161)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**7,826,169,148**	2,714,654,179	13,840,779,357
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱11,875,188,311**	₱7,826,169,148	₱2,714,654,179

See accompanying Notes to Parent Company Financial Statements.

1. Corporate Information

Aboitiz Power Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1998. The Company is a publicly-listed holding company of the entities engaged in power generation, retail electricity supply and power distribution in the Aboitiz Group. As of December 31, 2018, Aboitiz Equity Ventures, Inc. (AEV, also incorporated in the Philippines) owns 76.98% of the Company. The ultimate parent of the Company is Aboitiz & Company, Inc. (ACO, also incorporated in the Philippines).

The Company's registered office address is 32nd Street, Bonifacio Global City, Taguig City, Metro Manila.

The parent company financial statements of the Company were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) of the Company on March 7, 2019.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Financial Statement Preparation
The accompanying parent company financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial assets at FVTPL which are measured at fair value. The parent company financial statements are presented in Philippine peso which is the Company's functional currency.

Statement of Compliance
The parent company financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the new and revised standards and Philippine Interpretations which were applied starting January 1, 2018. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

These new and revised standards and interpretations did not have any significant impact on the Company's parent company financial statements:

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company has adopted this new standard without restating comparative information.

As of January 1, 2018, the Company has reviewed and assessed all of its existing financial instruments. The table below illustrates the classification and measurement of financial instruments under PFRS 9 and PAS 39 at the date of initial application.

The measurement category and the carrying amount of financial instruments in accordance with PAS 39 and PFRS 9 as of January 1, 2018 are compared as follows:

Financial Assets	Classification under PAS 39	Amounts under PAS 39	Classification under PFRS 9	Amount under PFRS 9
Cash on hand and in banks	Loans and receivables	₱278,899,148	Financial assets at amortized cost	₱278,899,148
Cash equivalents	Loans and receivables	7,547,270,000	Financial assets at amortized cost	7,547,270,000
Investment in equity securities not held for trading	AFS investments	99,374,831	Financial assets at FVTPL	99,374,831
Trade and other receivables:				
Trade receivables	Loans and receivables	383,208,109	Financial assets at amortized cost	383,208,109
Interest receivable	Loans and receivables	10,269,728	Financial assets at amortized cost	10,269,728
Other receivables	Loans and receivables	126,168,321	Financial assets at amortized cost	126,168,321
Derivative assets	Financial assets at fair value through profit of loss (FVPL)	42,510,000	Financial assets at FVTPL	42,510,000

As of December 31, 2018 and 2017, the Company does not hold financial liabilities designated at fair value through profit or loss.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with PAS 39 to their new measurement categories upon transition to PFRS 9 on January 1, 2018:

Financial assets	Ref	PAS 39 measurement Category	PAS 39 measurement Amount	*Reclass*[3]	PFRS 9 Amount	PFRS 9 Category
Cash and cash equivalents		L&R[1]	₱7,826,169,148	₱7,826,169,148	₱7,826,169,148	AC[2]
Trade and other receivables		L&R	519,646,158	519,646,158	519,646,158	AC
		L&R	**₱8,345,815,306**	**₱8,345,815,306**	**₱8,345,815,306**	AC
AFS investments			₱99,374,831	(99,374,831)	₱–	
To: *Financial assets at FVTPL*	A		–	(99,374,831)	–	
		AFS	**₱99,374,831**	**(₱99,374,831)**	**₱–**	
Derivative assets		FVPL	₱42,510,000	₱42,510,000	₱42,510,000	FVTPL
Financial assets at FVTPL		FVPL	99,374,831	99,374,831	99,374,831	FVTPL
From: *AFS investments*	A		–	99,374,831	–	
		FVPL	**₱141,884,831**	**₱141,884,831**	**₱141,884,831**	FVTPL

[1]L&R: Loans and receivables
[2]AC: Amortized cost
[3]Reclassification

The Company does not have financial assets and financial liabilities which had previously been designated at FVPL to reduce an accounting mismatch in accordance with PAS 39 which had been reclassified to amortized cost or FVOCI upon transition to PFRS 9.

The effects of adoption on parent company financial statements are as follows:

	As at January 1, 2018
Increase (decrease) in the parent company balance sheet:	
AFS investments	(₱99,374,831)
Financial assets at FVTPL	99,374,831
Total Assets	₱–
Unrealized valuation loss on AFS investments	₱625,169
Retained earnings	(625,169)
Total Liabilities and Equity	₱–

The new hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting.

We determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under PFRS 9. As PFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of PFRS 9 did not have a significant impact on the parent company financial statements.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. The new standard establishes a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with the customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company adopted PFRS 15 using the modified retrospective method, effective January 1, 2018. The Company elected to apply the method to only those contracts that were not completed at the date of initial recognition.

The adoption of PFRS 15 has no impact to the parent company balance sheets, statements of income, statements of comprehensive income and statements of cash flows.

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

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

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

  These amendments are not applicable to the Company since it has no share-based payment arrangements.

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

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

  The amendments are not applicable to the Company since it has no activities that are predominantly connected with insurance or issue insurance contracts.

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

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

These amendments to PAS 28 are not applicable to the Company since it is not a venture capital organization or an investment entity, nor does the Company apply the equity method in accounting for its investments in associates.

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

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

  These amendments are not applicable to the Company since it has no investment properties.

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

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

  Since the Company's current practice is in line with the clarifications issued, this interpretation does not have any effect on its parent company financial statements.

<u>New Standards and Interpretation Issued and Effective after December 31, 2018</u>

The Company will adopt the standards enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRSs, PAS and Philippine Interpretations to have significant impact on its parent company financial statements.

Effective January 1, 2019

- PFRS 16, *Leases*

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

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

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

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

  The Company plans to adopt PFRS 16 on the required effective date using the modified retrospective method. The Company will elect to apply the standard to contracts that were previously identified as leases applying PAS 17. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17.

  The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

  In 2018, the Company performed a preliminary impact assessment of PFRS 16. Based on the initial assessment, the standard may have an impact on the Company's parent company balance sheets, statements of income, statements of comprehensive income and statements of cash flows.

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

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

The Company expects that adoption of these amendments will not have any impact on its parent company financial statements.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its parent company financial statements upon adoption.

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, Investments in Associates and Joint Ventures.

  Since the Company does not have such long-term interests in its associates, the amendments will not have an impact on its parent company financial statements.

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

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

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

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

  This interpretation is not relevant to the Company because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  These amendments are not applicable to the Company since it has no borrowing costs eligible for capitalization.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, Insurance Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

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

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

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

Summary of Significant Accounting Policies

Current versus Noncurrent Classification
The Company presents assets and liabilities in the parent company balance sheet based on current/noncurrent classification. An asset as current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

All other liabilities are classified as noncurrent.

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

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to the Company.

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

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the parent company financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

Foreign Currency Translation

The Company's financial statements are presented in Philippine Peso, which is the Company's functional currency. Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at balance sheet date. Exchange gains and losses arising from foreign currency transactions and translations of foreign currency denominated monetary assets and liabilities are credited to or charged against current operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions

Cash and Cash Equivalents

Cash and cash equivalents in the parent company balance sheet consist of cash on hand and with banks, and short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. They are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purpose of the parent company statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial Instruments - Initial Recognition and Subsequent Measurement (prior to adoption of PFRS 9)

Date of recognition
The Company recognizes a financial asset or a financial liability in the parent company balance sheet on the date when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

Initial recognition of financial instruments
All financial assets and financial liabilities are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS investments. For financial liabilities, the Company also classifies them into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every balance sheet date.

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

(a) Financial assets of financial liabilities at FVPL
Financial assets and liabilities at FVPL include financial assets and liabilities held for trading purposes and financial assets and liabilities designated upon initial recognition as at FVPL. Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated and considered as hedging instruments in an effective hedge.

Financial assets and liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities, or recognizing gains or losses on them on a different basis; (ii) the assets and liabilities are part of a group of financial assets, liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk managing strategy; or (iii) the financial instruments contains an embedded derivative that would need to be recorded separately, unless the embedded derivative does not significantly modify the cash flow or it is clear, with little or no analysis, that it would not be separately recorded.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as financial asset or financial liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

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

The Company's derivative assets are classified as financial assets at FVPL as of December 31, 2017 (see Note 19). The Company does not have any financial liabilities at FVPL as of December 31, 2017.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS investments or financial assets at FVPL. Loans and receivables are carried at amortized cost less allowance for impairment. Amortization is determined using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Gains and losses are recognized in the parent company statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Included under this category as of December 31, 2017 are the Company's cash and cash equivalents and trade and other receivables (see Note 18).

(c) HTM investments

HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Company has the positive intention and ability to hold to maturity. After initial measurement, HTM investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. Gains and losses are recognized in the parent company statement of income when the investments are derecognized or impaired, as well as through the amortization process.

The Company does not have any HTM investment as of December 31, 2017.

(d) AFS investments
AFS investments are non-derivative financial assets that are either designated as AFS or not classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Quoted AFS investments are measured at fair value with gains or losses being recognized as other comprehensive income, until the investments are derecognized or until the investments are determined to be impaired at which time, the accumulated gains or losses previously reported in other comprehensive income are included in the parent company statement of income. Unquoted AFS investments are carried at cost, net of impairment. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the parent company statement of income when the right of payment has been established.

The Company's AFS investments as of December 31, 2017 include investments in unquoted shares of stock (see Note 18).

(e) Other financial liabilities
This category pertains to issued financial liabilities or their components that are neither held for trading nor designated as at FVPL upon the inception of the liability and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Other financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable financing costs. Deferred financing costs are amortized, using the effective interest rate method, over the term of the related long-term liability. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortized cost using the effective interest rate method.

Gains and losses are recognized in the parent company statement of income when liabilities are derecognized, as well as through amortization process.

Included under this category as of December 31, 2017 are the Company's trade and other payables and long-term debts (see Note 18).

Financial Instruments - Classification and Measurement (upon adoption of PFRS 9)

Classification of financial assets
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Company's business model for managing the financial assets. The Company classifies its financial assets into the following measurement categories:

- financial assets measured at amortized cost
- financial assets measured at fair value through profit or loss

- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Financial assets at amortized cost
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest method. The amortization is included in 'Interest income' in the statement of income and is calculated by applying the effective interest method to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the effective interest method is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the parent company statement of income.

The Company's financial assets at amortized cost as of December 31, 2018 consist of cash in banks, cash equivalents and trade and other receivables (see Note 18). The Company assessed that the contractual cash flows of these financial assets are SPPI and are expected to be held to collect all contractual cash flows until their maturity. As a result, the Company concluded these financial assets are to be measured at amortized cost.

Financial assets at FVOCI
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

The Company may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Company may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:

- the Company's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Company; and
- the amount of the dividend can be measured reliably.

The Company does not have any financial asset at FVOCI as of December 31, 2018.

Financial assets at FVTPL
Financial assets at FVTPL are measured as at unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent SPPI. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the parent company statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the parent company statement of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Company may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Company, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

The Company's investments in unquoted equity shares previously carried at cost under PAS 39 and classified as AFS investments are measured at FVTPL under PFRS 9 as of December 31, 2018 (see Note 18).

Classification of financial liabilities
Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Company retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a Company of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

The Company's financial liabilities measured at amortized cost as of December 31, 2018 include trade and other payables, bank loans and long-term debts (see Note 18).

Reclassifications of financial instruments (upon adoption of PFRS 9)
The Company reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. The Company does not reclassify its financial liabilities.

The Company does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at fair value through profit or loss.

<u>Derivative financial instruments</u>
Initial recognition and subsequent measurement
Derivative financial instruments, including embedded derivatives, are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at FVTPL, unless designated as effective hedge. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. An embedded derivative is separated from the host financial or non-financial contract and accounted for as a separate derivative if all of the following conditions are met:

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

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

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. The Company uses derivative financial instruments, such as short-term forward contracts to hedge its foreign currency risks.

As of December 31, 2018, the Company has derivative assets classified as financial asset at FVTPL (see Note 19)

Derecognition of Financial Assets and Liabilities (prior to and upon adoption of PFRS 9)

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is derecognized when, and only when:

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

When the Company retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Company treats the transaction as a transfer of a financial asset if the Company:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it retains control over the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. The extent of the Company's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Company's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Company's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Company could be required to repay ('the guarantee amount'). When the Company's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Company's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the Company's continuing involvement is measured in the same way as that which results from non-cash settled options.

Modification of contractual cash flows
When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest method (or credit-adjusted effective interest method for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the parent company statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

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

Impairment of Financial Assets (prior to adoption of PFRS 9)
The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the parent company statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the financial asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the parent company statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS investments
For AFS investments, the Company assesses at each balance sheet date whether there is objective evidence that an investment or group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the parent company statement of income) is removed from the other comprehensive income and recognized in the parent company statement of income. Impairment losses on equity investments are not reversed through the parent company statement of income. Increases in fair value after impairment are recognized directly in the other comprehensive income.

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

<u>Impairment of Financial Assets (upon adoption of PFRS 9)</u>
PFRS 9 introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Company recognizes expected credit losses (ECL) for the following financial assets that are not measured at FVTPL:

- debt instruments that are measured at amortized cost and FVOCI;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the balance sheet date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL
For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the balance sheet date are recognized.

Stage 2: Lifetime ECL - not credit-impaired
For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL - credit-impaired
Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

A financial asset is considered to have low credit risk if

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Determining the stage for impairment
At each balance sheet date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the balance sheet date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to 'Trade receivables'. The Company has established a provision matrix for customer segments that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the parent company balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements whereby the related assets and liabilities are presented gross in the parent company balance sheet.

Classification of financial instruments between liability and equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

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

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

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

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

Redeemable Preferred Shares (RPS)
The component of the RPS that exhibits characteristics of a liability is recognized as a liability in the parent company balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in the parent company statement of income. On issuance of

the RPS, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortized cost basis until extinguished on redemption.

Investments in Subsidiaries and Associates
A subsidiary is an entity over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decision of the investee, but is not control or joint control over those policies.

Investments in subsidiaries and associates are carried at cost, less impairment in value, in the parent company financial statements.

The Company recognizes income from the investments only to the extent that the Company receives distributions or establishes a right to receive distributions from accumulated profits of the subsidiaries and associates arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Property and Equipment
Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value, if any. The initial cost of property and equipment compromises its purchase price, including import duties, if any, nonrefundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing parts of such property and equipment when that costs is incurred if the recognition criteria are met. Repairs and maintenance costs are recognized in the parent company statement of income as incurred.

Depreciation is computed using the straight-line method over the useful lives of the assets as follows:

Category	Number of Years
Transportation equipment	5
Office equipment	3
Communication equipment	3
Leasehold improvements	10

Leasehold improvements are amortized over the shorter of the lease terms and the lives of the improvements.

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

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses, if any, are removed from the accounts, and any resulting gain or loss is credited or charged to current operations. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 parent company statement of income in the year the asset is derecognized.

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the parent company statement of income in the year in which the expenditure is incurred.

Computer software license
Computer software license is initially recognized at cost. Following initial recognition, the computer software license cost is carried at cost less accumulated amortization and any accumulated impairment in value, if any.

The computer software license is amortized on a straight-line basis over its estimated useful economic life of three to five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the computer software license is available for use. The amortization period and the amortization method for the license are reviewed at each financial year end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treating them as changes in accounting estimates. The amortization expense is recognized in the parent company statement of income in the expense category consistent with the function of the computer software license.

Project Development Costs
Project development costs include power plant projects in the development phase which meet the "identifiability" requirement under PAS 38, *Intangible Assets*, as they are separable and susceptible to individual sale and are carried at acquisition cost. These assets are transferred to "Property and equipment" when construction of each power plant commences. During the period of development, the asset is tested for impairment annually.

Research and Development Expenditure
The Company's policy is to record research expenses in the parent company statement of income in the period when they are incurred.

Development costs are recognized as an intangible asset on the parent company balance sheet if the Company can identify them separately and show the technical viability of the asset, its intention and capacity to use or sell it, and how it will generate probable future economic benefits.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Impairment of Nonfinancial Assets

Other current assets, investments and advances, project development costs, property and equipment and other noncurrent assets

The Company assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the parent company statement of income in those expense categories consistent with the function of the impaired asset.

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

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Capital stock includes common stock and preferred stock.

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

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are debited to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against an equity reserve account.

Retained Earnings
The amount included in retained earnings includes accumulated earnings of the Company and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the BOD. Dividends for the year that are approved after the financial balance sheet date are dealt with as an event after the financial balance sheet date. Retained earnings may also include effect of changes in accounting policy as may be required by the transition provisions of new and amended standards.

Revenue Recognition
Revenue from contracts with customers under PFRS 15 is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Under PAS 18, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent.

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

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

Technical, management and service fees
Technical, management and other fees are recognized when the related services are rendered.

Interest income
Interest is recognized as it accrues taking into account the effective interest method.

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

Pension benefits
The Company has defined benefit pension plans which require contributions to be made to separately administered funds. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in the parent company statement of comprehensive income and not in the parent company statement of income.

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

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused net operating loss carryover (NOLCO) and excess minimum corporate income tax (MCIT), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused NOLCO and excess MCIT can be utilized in the future.

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

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

Income tax relating to items recognized directly in other comprehensive income is also recognized in other comprehensive income and not in the parent company statement of income.

Value-added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the parent company balance sheet. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the parent company balance sheet to the extent of the recoverable amount.

Provisions
Provisions are recognized when the Company 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 will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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

Events After the Reporting Period
Post year-end events that provide additional information about the Company's position at balance sheet date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the parent company financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosures of contingent liabilities. However, uncertainty about these assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company based its assumptions and estimates on parameters available when the parent company financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Judgments, key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are consistent with those applied in the most recent annual financial statements, except for those that relate to the adoption of PFRS 9 and PFRS 15.

Judgments
In the process of applying the Company's accounting policies, management has made judgments, apart from those involving estimations which have the most significant effect on the amounts recognized in the Company's financial statements.

Classification of financial instruments
The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the parent company balance sheet.

Contractual cash flows characteristics
If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Company assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Company determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI on the principal amount outstanding.

Evaluation of business model in managing financial instruments (upon adoption of PFRS 9)
The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Identifying performance obligations
The Company identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Company's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

The Company assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if i) each distinct good or services in the series are transferred over time and ii) the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation.

Revenue recognition
The Company recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The Company determines, at contract inception, whether it will transfer control of a promised good or service over time. If the Company does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The Company will continue to recognize revenue from rendering of services over time, since customers simultaneously receives and consumes the benefits as the Company provides the services.

Identifying methods for measuring progress of revenue recognized over time
The Company determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

<u>Estimation Uncertainty</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating useful lives of property and equipment
The Company estimates the useful lives of property and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors and circumstances mentioned above. As of December 31, 2018 and 2017, the net book values of property and equipment amounted to ₱65.6 million and ₱80.3 million, respectively (see Note 8).

Estimating residual value of property and equipment
The residual value of the Company's property and equipment is estimated based on the amount that would be obtained from disposal of the asset, after deducting estimated costs of disposal, if the asset is already of the age and in the condition expected at the end of its useful life. Such estimation is based on the prevailing price of property and equipment of similar age and condition. The estimated residual value of each asset is reviewed periodically and updated if expectations differ from previous estimates due to changes in the prevailing price of a property and equipment of similar age and condition. As of December 31, 2018 and 2017, the aggregate net book values of property and equipment amounted to ₱65.6 million and ₱80.3 million, respectively (see Note 8).

Estimating impairment of project development costs
Impairment is determined for development costs by assessing the recoverable amount of each projects. Where the recoverable amount of the project is less than the carrying amount, an impairment loss is recognized. When calculating recoverable amount, the future cash flow is discounted by a discount factor that takes into consideration risk free interest and the risk associated with the specific project.

The Company did not recognize impairment loss on project development costs in 2018 and 2017. The carrying amount of the Company's project development costs amounted to ₱388.5 million and ₱262.6 million as of December 31, 2018 and 2017, respectively (see Note 10).

Estimating allowance for impairment of losses on investment in and advances to subsidiaries and associates
Investments in and advances to subsidiaries and associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In 2017, it was determined that the carrying value of the investment in Mactan Enerzone Corporation exceeded its recoverable amount. As a result, an impairment loss amounting to ₱169.5 million was recognized. The aggregate carrying amount of the investments in and advances to subsidiaries and associates amounted to ₱88.93 billion and ₱80.04 billion as of December 31, 2018 and 2017, respectively (see Note 7).

Assessing impairment of nonfinancial assets
The Company assesses whether there are any indicators of impairment for nonfinancial assets at each balance sheet date. These nonfinancial assets (property and equipment and other current and noncurrent assets) are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Determining the recoverable amount of the assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect its financial statements. Future events could cause the Company to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

As of December 31, 2018, the carrying values of property and equipment and other current and noncurrent assets amounted to ₱65.6 million, ₱941.8 million, and ₱89.1 million, respectively. As of December 31, 2017, the carrying values of property and equipment and other current and noncurrent assets amounted to ₱80.3 million, ₱797.0 million, and ₱14.9 million, respectively (see Notes 6, 8, and 9).

Estimating allowance for impairment of trade and other receivables (prior to adoption of PFRS 9)
The Company maintains allowance for impairment of receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectability of the accounts. These factors include, but are not limited to, the Company's relationship with its debtors, debtor's current credit status and other known market factors. The Company reviews the age and status of receivables and identifies accounts that are to be provided with allowance either individually or collectively. The amount and timing of recorded expenses for any period would differ if the Company made different judgment or utilized different estimates. An increase in the Company's allowance for impairment of receivables will increase the Company's recorded expenses and decrease current assets. No allowance for impairment of receivables was recognized as of December 31, 2017. As of December 31, 2017, the Company's receivables amounted to ₱519.6 million (see Note 5).

Measurement of expected credit losses (upon adoption of PFRS 9)
ECLs are derived from unbiased and probability-weighted estimates of expected loss. Financial assets that are not credit-impaired at the balance sheet date are measured as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive.

The Company leverages existing risk management indicators (e.g., internal credit risk classification and restructuring triggers), credit risk rating changes and reasonable and supportable information which allows the Company to identify whether the credit risk of financial assets has significantly increased.

No allowance for expected credit losses was recognized in 2018. Trade and other receivables amounted to ₱981.5 million as of December 31, 2018 (see Note 5).

Inputs, assumptions and estimation techniques (upon adoption of PFRS 9)
The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), defined as follows:

- *PD*
  The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining life of the obligation. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures. The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

- *LGD*
  Loss Given Default represents the Company's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD.

- *EAD*
  EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

The ECL is determined by projecting the PD, LGD, and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the balance sheet date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by counterparty.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies.

The assumptions underlying the ECL calculation such as how the maturity profile of the PDs change are monitored and reviewed on a quarterly basis.

Simplified approach for trade receivables (upon adoption of PFRS 9)
The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for various customer segments that have similar loss patterns.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the industrial segment, the historical default rates are adjusted. At every balance sheet date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Incorporation of forward-looking information (upon adoption of PFRS 9)
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Company has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Company has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

Pension benefits
The cost of defined benefit pension plans, as well as the present value of the pension obligation, are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 15.

Net benefit expense amounted to ₱41.9 million in 2018, ₱50.0 million in 2017 and ₱58.3 million in 2016. The net pension asset amounted to ₱38.1 million and ₱16.2 million as of December 31, 2018 and 2017, respectively.

Recognition of deferred income tax assets
The Company reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. As of December 31, 2018 and 2017, deferred income tax assets amounted to ₱202.3 million

and ₱173.4 million, respectively. No deferred income tax assets were recognized for deductible temporary difference amounting to ₱1.07 billion and ₱1.03 billion, MCIT amounting to ₱48.7 million and ₱44.4 million and NOLCO amounting to ₱1.03 billion and ₱647.7 million as of December 31, 2018 and 2017, respectively (see Note 16).

Legal contingencies
The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsels handling the Company's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized in the Company's parent company financial statements for the years ended December 31, 2018 and 2017.

4. Cash and Cash Equivalents

	2018	2017
Cash on hand and in banks	**₱33,107,511**	₱278,899,148
Short-term deposits	**11,842,080,800**	7,547,270,000
	₱11,875,188,311	₱7,826,169,148

Cash in banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposits rates.

Interest income earned from cash in banks and short-term deposits amounted to ₱137.3 million, ₱147.6 million and ₱329.5 million in 2018, 2017 and 2016, respectively.

5. Trade and Other Receivables

	2018	2017
Trade (see Note 17)	**₱617,445,732**	₱383,208,109
Dividends	**288,579,777**	94,300,000
Interest	**43,777,681**	10,269,728
Nontrade	**18,406,566**	18,094,904
Others	**13,254,002**	13,773,417
	₱981,463,758	₱519,646,158

Trade receivables are non-interest bearing and generally have a term of 30 days.

For terms and conditions relating to related party receivables, refer to Note 17.

6. Other Current Assets

	2018	2017
Prepaid tax	**₱926,898,393**	₱784,917,756
Others	**14,879,787**	12,114,844
	₱941,778,180	₱797,032,600

7. Investments and Advances

The details of the Company's investments and advances are as follows:

	2018	2017
Investments in Subsidiaries:		
Therma Power, Inc. (TPI)	**₱30,116,058,873**	₱30,116,058,873
Aboitiz Renewables, Inc. (ARI)	**25,172,988,814**	27,172,988,814
Therma Visayas, Inc. (TVI)	**7,118,681,570**	1,736,791,329
Hedcor Bukidnon, Inc. (Hedcor Bukidnon)	**2,794,460,000**	2,794,460,000
Hedcor Sabangan, Inc. (Hedcor Sabangan)	**1,732,643,142**	1,732,643,142
Lima Enerzone Corporation (LEZC)	**1,329,696,667**	1,329,696,667
Therma South, Inc. (Therma South)	**877,892,679**	877,892,679
Therma Mobile, Inc. (Therma Mobile)	**742,400,000**	742,400,000
Davao Light & Power Co., Inc. (DLPC)	**738,472,506**	738,472,506
Visayan Electric Co., Inc. (VECO)	**665,438,202**	665,388,202
Hedcor Tudaya, Inc. (HTI)	**656,250,000**	656,250,000
Mactan Enerzone Corporation (MEZC)	**609,532,287**	609,532,287
Hedcor, Inc. (HI)	**605,125,000**	245,000,000
Balamban Enerzone Corporation (BEZC)	**444,869,161**	486,869,161
Subic Enerzone Corporation (SEZC)	**227,000,000**	227,000,000
Cotabato Light & Power Co. (CLPC)	**214,047,443**	214,047,443
Retensol, Inc. (RI)	**135,000,000**	–
AboitizPower International Pte. Ltd. (AP Int)	**120,733,027**	120,733,027
East Asia Utilities Corporation (EAUC)	**100,914,275**	100,914,275
AP Renewable Energy Corporation (APREC)	**25,000,000**	–
Aboitiz Energy Solutions, Inc. (AESI)	**21,000,000**	21,000,000
Malvar Enerzone Corporation (Malvez)	**17,900,000**	100,000
Cebu Private Power Corporation (CPPC)	**17,806,608**	17,806,608
Prism Energy, Inc. (PEI)	**12,648,600**	750,000
AdventEnergy, Inc. (AI)	**812,500**	812,500
	74,497,371,354	70,607,607,513

(Forward)

	2018	2017
Investments in Associates:		
STEAG State Power, Inc. (STEAG)	**₱4,400,611,465**	₱4,400,611,465
Hijos de F. Escaño, Inc. (Hijos)	**858,069,586**	858,069,586
Pampanga Energy Ventures, Inc. (PEVI)	**209,465,106**	209,465,106
San Fernando Electric Light & Power Co., Inc. (SFELAPCO)	**180,863,801**	180,863,801
AEV Aviation, Inc. (AAI)	**169,275,000**	249,491,000
Western Mindanao Power Corporation (WMPC)	**79,099,377**	79,099,377
Southern Philippines Power Corporation (SPPC)	**45,776,067**	45,776,067
	5,943,160,402	6,023,376,402
Less allowance for impairment loss	**1,071,358,480**	1,025,425,480
	79,369,173,276	75,605,558,435
Advances	**9,562,649,989**	4,432,705,589
	₱88,931,823,265	₱80,038,264,024

Investment in RI
In 2018, the Company subscribed 135.0 million RPS for ₱135.0 million.

Investment in BEZC
In 2018, BEZC redeemed shares attributable to the Company at 42.0 million RPS for ₱42.0 million at ₱1 per share.

In 2018, it was determined that the carrying value of the investment in BEZC exceeded its recoverable amount. The recoverable amount of the investment has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period.

The discount rates applied to cash flow projections are from 10.63% to 14.80% in 2018 and cash flows beyond the five-year period are extrapolated using a zero percent growth rate. As a result, an impairment loss amounting to ₱45.9 million was recognized.

Investment in APREC
In 2018, the Company subscribed 25.0 million RPS for ₱25.0 million.

Investment in PEI
In 2018, PEI advances were reclassed to investment amounting to ₱11.9 million.

Investment in VECO
In 2018, the Company subscribed 0.0005 million RPS for ₱0.05 million.

Investment in HI
The Company subscribed additional 360.1 million RPS for ₱360.1 million and 245.0 million RPS for ₱245.0 million in 2018 and 2017, respectively.

Investment in AAI
AAI redeemed shares attributable to the Company at 80,216 RPS for ₱80.2 million and 8,809 RPS for ₱8.8 million in 2018 and 2017, respectively, at ₱1,000 per share.

Investment in Malvez
The Company subscribed additional 17.8 million RPS for ₱17.8 million and 0.1 million common shares for ₱0.1 million in 2018 and 2017, respectively.

Investment in TVI
The Company subscribed additional 8.8 million RPS for ₱5.38 billion and 2.56 million RPS for ₱1.56 billion in 2018 and 2017, respectively.

Investment in EAUC
In April 2017, EAUC redeemed 21,690 RPS at a redemption price of ₱63.3 million or ₱2,920 per share attributable to the Company. The book value of the redeemed shares amounted to ₱43.8 million. As a result, the Company recognized a "Gain on redemption of preferred shares" amounting to ₱19.6 million.

Investment in ARI
In 2018 and 2017, ARI redeemed shares attributable to the Company at 200.0 million and 948.1 million RPS for ₱2.00 billion and ₱9.48 billion, respectively, at ₱10 per share.

Investment in Hedcor Bukidnon
The Company subscribed additional 871.0 million RPS for ₱871.0 million in 2017.

Investment in Hedcor Sibulan
Hedcor Sibulan redeemed shares attributable to the Company at 231.0 million RPS for ₱231.0 million in 2017 at ₱1 per share.

Investment in MEZC
In 2017, it was determined that the carrying value of the investment in MEZC exceeded its recoverable amount. The recoverable amount of the investment has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period.

The discount rates applied to cash flow projections are from 11.18% to 14.93% in 2017 and cash flows beyond the five-year period are extrapolated using a zero percent growth rate. As a result, an impairment loss amounting to ₱169.5 million was recognized.

Investment in AP Int
In 2017, it was determined that the carrying value of the investment in AP Int exceeded its recoverable amount. As a result, an impairment loss amounting to ₱120.7 million was recognized.

<u>Advances</u>
These advances include advances to subsidiaries that will be applied against future subscriptions of the Company to the shares of stock of the subsidiaries.

In 2018, the Company has additional advances to TPI amounting to ₱5.14 billion.

In 2017, the Company has advances to TPI amounting to ₱4.2 billion, AP Int amounting to ₱50.7 million and PEI amounting to ₱9.6 million.

The Company's subsidiaries, all incorporated in the Philippines except for AP Int which was incorporated in Singapore, and the corresponding percentage equity ownership are as follows:

		2018		2017	
Name of Company	Nature of Business	**Direct**	**Indirect**	Direct	Indirect
ARI	Holding company	**100.00%**	–	100.00%	–
TPI	Holding company	**100.00%**	–	100.00%	–
AP Int	Holding company	**100.00%**	–	100.00%	–
LEZ	Power distribution	**100.00%**	–	100.00%	–
Hedcor Sabangan	Power generation	–	**100.00%**	–	100.00%
HI	Power generation	–	**100.00%**	–	100.00%
Therma Mobile	Power generation	–	**100.00%**	–	100.00%
RI*	Power generation	–	**100.00%**	–	100.00%
APREC*	Power generation	–	**100.00%**	–	100.00%
DLPC	Power distribution	**99.93%**	–	99.93%	–
VECO	Power distribution	**55.26%**	–	55.26%	–
HTI	Power generation	–	**100.00%**	–	–
MEZC	Power distribution	**100.00%**	–	100.00%	–
BEZC	Power distribution	**100.00%**	–	100.00%	–
Hedcor Bukidnon	Power generation	–	**100.00%**	–	100.00%
SEZC	Power distribution	**65.00%**	**34.98%**	65.00%	65.00%
CLPC	Power distribution	**99.94%**	–	99.94%	–
TVI*	Power generation	–	**80.00%**	–	80.00%
Therma South	Power generation	–	**100.00%**	–	100.00%
AESI	Retail electricity supplier	**100.00%**	–	100.00%	–
CPPC	Power generation	**60.00%**	–	60.00%	–
EAUC	Power generation	**50.00%**	**50.00%**	50.00%	50.00%
Malvez*	Power distribution	**100.00%**	–	100.00%	–
AI	Retail electricity supplier	**100.00%**	–	100.00%	–
PEI	Retail electricity supplier	**60.00%**	–	60.00%	–

**No commercial operations as of December 31, 2018.*

The percentage of the Company's ownership in associates is as follows:

		Percentage of Ownership	
Name of Company	Nature of Business	**2018**	2017
AAI	Service	**49.25%**	49.25%
Hijos	Holding company	**46.73%**	46.73%
PEVI*	Holding company	**42.84%**	42.84%
STEAG	Power generation	**34.00%**	34.00%
SFELAPCO*	Power distribution	**20.29%**	20.29%
SPPC	Power generation	**20.00%**	20.00%
WMPC	Power generation	**20.00%**	20.00%

**PEVI has direct ownership in SFELAPCO of 54.83% while the Company's direct ownership in SFELAPCO is 20.29% resulting to the Company's effective ownership in SFELAPCO of 43.78%.*

8. Property and Equipment

December 31, 2018

	Transportation Equipment	Office Equipment	Communication Equipment	Leasehold Improvements	Total
Cost:					
Balances at beginning of year	₱81,552,753	₱34,833,791	₱752,009	₱38,766,658	₱155,905,211
Additions	9,979,554	3,566,737	–	737,495	14,283,786
Disposals	(20,970,108)	(280,973)	–	–	(21,251,081)
Balances at end of year	70,562,199	38,119,555	752,009	39,504,153	148,937,916
Accumulated Depreciation:					
Balances at beginning of year	33,706,486	28,268,718	752,009	12,881,274	75,608,487
Depreciation and amortization	13,407,483	4,555,106	–	3,780,734	21,743,323
Disposals	(13,786,741)	(212,383)	–	–	(13,999,124)
Balances at end of year	33,327,228	32,611,441	752,009	16,662,008	83,352,686
Net book values	₱37,234,971	₱5,508,114	₱–	₱22,842,145	₱65,585,230

December 31, 2017

	Transportation Equipment	Office Equipment	Communication Equipment	Leasehold Improvements	Total
Cost:					
Balances at beginning of year	₱54,382,169	₱30,697,894	₱752,009	₱38,667,172	₱124,499,244
Additions	33,757,861	5,161,141	–	99,486	39,018,488
Disposals	(6,587,277)	(1,025,244)	–	–	(7,612,521)
Balances at end of year	81,552,753	34,833,791	752,009	38,766,658	155,905,211
Accumulated Depreciation:					
Balances at beginning of year	25,905,676	24,465,565	726,089	9,114,587	60,211,917
Depreciation and amortization	12,053,571	4,777,725	25,920	3,766,687	20,623,903
Disposals	(4,252,761)	(974,572)	–	–	(5,227,333)
Balances at end of year	33,706,486	28,268,718	752,009	12,881,274	75,608,487
Net book values	₱47,846,267	₱6,565,073	₱–	₱25,885,384	₱80,296,724

The Company recognized losses of ₱1.3 million and ₱0.4 million on disposal of property and equipment in 2018 and 2017, respectively.

There are no restrictions on the title and no property and equipment are pledged as security for liabilities.

Fully depreciated property and equipment with cost amounting to ₱50.1 million and ₱44.5 million as of December 31, 2018 and 2017, respectively, are still carried in the books of the Company and still in use.

9. Other Noncurrent Assets

	2018	2017
Recoverable deposits	₱81,206,176	₱5,495,720
Computer software licenses	7,915,027	9,424,010
	₱89,121,203	₱14,919,730

The rollforward analysis of computer software licenses is presented below:

	2018	2017
Cost:		
Balances at beginning of year	**₱16,598,165**	₱16,577,183
Additions	**93,500**	20,982
Balances at end of year	**16,691,665**	16,598,165
Accumulated amortization:		
Balances at beginning of year	**7,174,155**	5,577,276
Amortization	**1,602,483**	1,596,879
Balances at end of year	**8,776,638**	7,174,155
Net book values	**₱7,915,027**	₱9,424,010

10. Project Development Costs

	2018	2017
Balances at beginning of year	**₱262,559,144**	₱273,724,711
Additions	**177,031,239**	65,673,997
Write-offs	**(51,122,382)**	(76,839,564)
Balances at end of year	**₱388,468,001**	₱262,559,144

Project development costs consist of rights, titles and interests for various power plant development projects.

11. Trade and Other Payables

	2018	2017
Trade payables (see Note 18)	**₱55,903,519**	₱39,132,317
Accrued interest (see Note 12)	**212,180,900**	66,285,228
Accrued taxes and fees	**43,272,258**	25,611,103
Output VAT	**38,456,614**	55,122,268
Nontrade payables	**5,609,030**	7,264,277
Others	**688,252**	524,171
	₱356,110,573	₱193,939,364

Trade payables are noninterest-bearing and generally have a term of 30 days.

Accrued taxes and fees represent taxes withheld on compensation, benefits and other fees.

12. Bank Loans and Long-term Debts

Bank Loans

The Company obtained unsecured bank loans from financial institutions with a total principal amount of ₱4.70 billion at an annual interest rate ranging from 3.25% to 5.20% for working capital purposes in 2018. These loans are covered by the respective borrower's existing credit lines with the banks and are not subject to any significant covenants and warranties.

Interest expense on bank loans amounted to ₱140.9 million in 2018.

Long-Term Debts

	Interest Rate	2018	2017
Financial and non-financial institutions - unsecured			
2014 7-year retail bonds	5.21%	**₱6,600,000,000**	₱6,600,000,000
2014 12-year retail bonds	6.10%	**3,400,000,000**	3,400,000,000
2017 10-year retail bonds	5.34%	**3,000,000,000**	3,000,000,000
2018 5.25-year retail bonds	7.51%	**7,700,000,000**	–
2018 10-year retail bonds	8.51%	**2,500,000,000**	–
		23,200,000,000	13,000,000,000
Less deferred financing costs		**202,178,708**	98,018,357
		₱22,997,821,292	₱12,901,981,643

Retail Bonds - ₱10.2 billion

In October 2018, the Company issued a total of ₱10.2 billion bonds, broken down into a ₱7.7 billion 5.25-year bond due 2024 at a fixed rate equivalent to 7.51% p.a. and a ₱2.5 billion 10-year bond due 2028 at a fixed rate equivalent to 8.51% p.a. The bonds have been rated PRS Aaa by PhilRatings.

Retail Bonds - ₱3.0 billion

In July 2017, the Company issued ₱3.0 billion 10-year bond due 2027 at an annual fixed rate of 5.34% p.a. The bonds have been rated PRS Aaa by PhilRatings.

Retail Bonds - ₱10.0 billion

In September 2014, the Company issued a total of ₱10.0 billion bonds, broken down into a ₱6.6 billion 7-year bond due 2021 at a fixed rate equivalent to 5.21% p.a. and a ₱3.4 billion 12-year bond due 2026 at a fixed rate equivalent to 6.10% p.a. The bonds have been rated PRS Aaa by PhilRatings.

The principal amount of these bonds shall be payable on a lump sum basis on the respective maturity date at its face value. These bonds may be redeemed in advance by the Company based on stipulated early redemption option dates and on agreed early redemption price.

Under the bond trust agreements, the Company shall not permit its debt-to-equity ratio to exceed 3:1 calculated based on the year-end debt and consolidated equity. The Company is in compliance with the debt covenants as of December 31, 2018.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱202.2 million and ₱98.0 million as of December 31, 2018 and 2017, respectively.

Total interest expense recognized amounted to ₱858.2 million, ₱630.5 million and ₱550.9 million in 2018, 2017 and 2016, respectively.

13. Equity

a. Paid-in Capital

	2018	2017
Capital Stock		
Authorized - ₱1 par value		
Common shares - 16,000,000,000 shares		
Preferred shares - 1,000,000,000 shares		
Issued		
Common shares - 7,358,604,307 shares	**₱7,358,604,307**	₱7,358,604,307
Additional Paid-in Capital	**12,588,894,332**	12,588,894,332
	₱19,947,498,639	₱19,947,498,639

On May 25, 2007, the Company listed with the Philippine Stocks Exchange its 7,187,664,000 common shares with a par value of ₱1.00 to cover the initial public offering (IPO) of 1,787,664,000 common shares at an issue price of ₱5.80 per share. On March 17, 2008, the Company listed an additional 170,940,307 common shares, which it issued pursuant to a share swap agreement at the IPO price of ₱5.80 per share. The total proceeds from the issuance of new shares amounted to ₱10.37 billion. The Company incurred transaction costs incidental to the initial public offering amounting to ₱412.4 million, which is charged against "Additional paid-in capital" in the parent company balance sheet.

As of December 31, 2018, 2017 and 2016, the Company has 629, 629 and 628 shareholders, respectively.

Preferred shares are non-voting, non-participating, non-convertible, redeemable, cumulative, and may be issued from time to time by the BOD in one or more series. The BOD is authorized to issue from time to time before issuance thereof, the number of shares in each series, and all the designations, relative rights, preferences, privileges and limitations of the shares of each series. Preferred shares redeemed by the Company may be reissued. Holders thereof are entitled to receive dividends payable out of the unrestricted retained earnings of the Company at a rate based on the offer price that is either fixed or floating from the date of the issuance to final redemption. In either case, the rate of dividend, whether fixed or floating, shall be referenced, or be a discount or premium, to market-determined benchmark as the BOD may determine at the time of issuance with due notice to the SEC.

In the event of any liquidation or dissolution or winding up of the Company, the holders of the preferred stock shall be entitled to be paid in full the offer price of their shares before any payment in liquidation is made upon the common stock.

There are no preferred shares issued and outstanding as of December 31, 2018 and 2017.

b. Retained Earnings

On November 24, 2016, the BOD approved additional appropriation of ₱13.16 billion retained earnings for the following projects:

Projects	Full Commercial Operations by	Appropriation
300 MW Cebu Coal	1st half of 2018	₱8,160,000,000
2x300 MW Coal-fired	End of 4th quarter 2021	5,000,000,000
Total		₱13,160,000,000

On November 27, 2014, the BOD approved the appropriation of ₱20.90 billion retained earnings for the following projects:

Projects	Full Commercial Operations by	Appropriation
68 MW Manolo Fortich Hydro	End of 4th quarter 2016	₱2,600,000,000
300 MW Davao Coal	End of 1st half 2015	9,500,000,000
14 MW Sabangan Hydro	End of 1st half 2015	2,800,000,000
400 MW Coal Fired Pagbilao Unit3	End of 4th quarter 2017	6,000,000,000
Total		₱20,900,000,000

On March 8, 2016, the BOD approved the declaration of regular cash dividends of ₱1.20 a share (₱8.83 billion) and special cash dividends of ₱0.46 a share (₱3.38 billion) to all stockholders of record as of March 22, 2016. These dividends were paid on April 19, 2016.

On March 7, 2017, the BOD approved the declaration of regular cash dividends of ₱1.36 per share (₱10.01 billion) to all stockholders of record as of March 21, 2017. These dividends were paid on April 10, 2017.

On March 8, 2018, the BOD approved the declaration of regular cash dividends of ₱1.39 per share (₱10.23 billion) to all stockholders of record as of March 22, 2018. These dividends were paid on April 12, 2018.

To comply with the requirements of Section 43 of the Corporation Code, on March 7, 2019, the BOD approved the declaration of regular cash dividends of ₱1.47 a share (₱10.85 billion) to all stockholders of record as of March 21, 2019. The cash dividends are payable on April 5, 2019.

On March 7, 2019, the BOD also approved the following:

- Appropriation of ₱11.90 billion retained earnings for the equity infusions into GNPower Dinginin Ltd. Co. (GNPD) to fund the construction of GNPD units 1 & 2, which is expected to have full commercial operations by end of 2020.
- Reversal of ₱12.30 billion retained earnings appropriation that was set up in 2014 for the equity requirements of the 300 MW Davao Coal and 14 MW Sabangan Hydro projects.

14. Personnel Costs

	2018	2017	2016
Salaries and wages	**₱562,610,627**	₱533,005,712	₱454,007,818
Employee benefits	**351,449,279**	307,935,888	273,559,833
Retirement benefit costs (see Note 15)	**41,895,414**	49,974,029	58,324,025
	₱955,955,320	₱890,915,629	₱785,891,676

15. Retirement Costs

The Company has a funded, noncontributory, defined benefit pension plan (the "Plan") covering all regular and full-time employees and requiring contributions to be made to separately administered fund. This retirement benefit fund (the "Fund") is in the form of a trust being maintained and managed by AEV, under the supervision of the Board of Trustees (BOT) of the Plan. The BOT, whose members are also officers of AEV, is responsible for the investment of the Fund assets. Taking into account the Plan's objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of net benefit expense recognized in the parent company statements of income and the funded status and amounts recognized in the parent company balance sheets for the plan.

Net benefit expense (recognized as part of personnel costs):

	2018	2017	2016
Retirement expense to be recognized in the parent company statements of income:			
Current service cost	**₱42,726,275**	₱48,922,746	₱46,153,534
Net interest cost (income)	**(830,861)**	1,051,283	12,170,491
	₱41,895,414	₱49,974,029	₱58,324,025

Remeasurement effect to be recognized in other comprehensive income:

	2018	2017	2016
Actuarial gains due to:			
Changes in financial assumptions	**₱44,542,333**	₱1,172,525	₱–
Actual return excluding amount included in net interest cost	**(13,774,100)**	9,300,494	20,313,413
Experience adjustments	**(4,861,370)**	(43,972,045)	–
Changes in demographic assumptions	**–**	78,205,006	–
	₱25,906,863	₱44,705,980	₱20,313,413

Pension asset

	2018	2017
Fair value of plan assets	**₱440,263,429**	₱649,655,975
Present value of obligation	**(402,201,925)**	(633,459,869)
	₱38,061,504	₱16,196,106

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

	2018	2017
At January 1	**₱633,459,869**	₱570,175,589
Net benefit expense:		
Current service cost	**42,726,275**	48,922,746
Interest cost	**32,496,491**	29,021,938
	75,222,766	77,944,684
Benefits paid	**(252,616,884)**	(1,621,043)
Employee transfers	**(14,182,863)**	22,366,125
Remeasurements in other comprehensive income:		
Actuarial gain (loss) due to:		
Experience adjustments	**4,861,370**	43,972,045
Changes in financial assumptions	**(44,542,333)**	(1,172,525)
Changes in demographic assumptions	**–**	(78,205,006)
	(39,680,963)	(35,405,486)
At December 31	**₱402,201,925**	₱633,459,869

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

	2018	2017
At January 1	**₱649,655,975**	₱549,521,704
Actual contributions	**37,853,949**	42,118,040
Interest income included in net interest cost	**33,327,352**	27,970,655
Benefits paid	**(252,616,884)**	(1,621,043)
Transfers	**(14,182,863)**	22,366,125
Actual return excluding amount included in net interest cost	**(13,774,100)**	9,300,494
At December 31	**₱440,263,429**	₱649,655,975

Changes in pension liability recognized in the parent company balance sheets are as follows:

	2018	2017
At January 1	**₱16,196,106**	(₱20,653,885)
Actual contributions	**37,853,949**	42,118,040
Actuarial gain recognized for the year	**25,906,863**	44,705,980
Retirement expense for the year	**(41,895,414)**	(49,974,029)
At December 31	**₱38,061,504**	₱16,196,106

The fair value of plan assets by each class at the end of the reporting period are as follows:

	2018	2017
Assets:		
Cash and fixed income investments	**₱–**	₱235,140,145
Financial assets at FVOCI	**278,119,312**	–
Equity instruments - financial institution:		
Financial assets at amortized cost	**79,558,475**	–
Holding	**56,066,878**	–
Power	**49,415,685**	–
Financial institution	**12,686,517**	–
Others	**195,487,284**	419,347,451
	671,334,151	654,487,596
Liability:		
Financial liability	**(231,070,722)**	(4,831,620)
Fair value of plan assets	**₱440,263,429**	₱649,655,976

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse investments and do not have any concentration risk.

The principal assumptions used as of December 31, 2018, 2017 and 2016 in determining net pension liability for the Company's Plan is shown below:

	2018	2017	2016
Discount rate	**8.18%**	5.13%	5.09%
Salary increase rate	**7.00%**	6.00%	6.00%

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as of December 31, 2018 and 2017, respectively, assuming all other assumptions were held constant:

	Increase (decrease) in basis points	Effect on defined benefit obligation **2018**	2017
Discount rates	100	**(18,442,461)**	(24,886,826)
	(100)	**21,068,425**	28,579,547
Future salary increases	100	**23,118,029**	31,793,587
	(100)	**(20,609,365)**	(28,398,059)

The Company's defined benefit pension plan is funded by the Company.

The Company expects to contribute ₱31.0 million to the defined benefit plans in 2019. The average duration of the defined benefit obligation as of December 31, 2018 and 2017 is 12.94 years.

The BOT reviews the performance of the plans on a regular basis. It assesses whether the retirement plans will achieve investment returns which, together with contributions, will be sufficient to pay retirement benefits as they fall due. The Company also reviews the solvency position of the different member companies on an annual basis and estimates, through the actuary, the expected contribution to the Plan in the subsequent year.

16. Income Tax

The provision for income tax account consists of:

	2018	2017	2016
Current:			
Final	**₱23,267,247**	₱18,946,168	₱59,664,111
Corporate income tax	**15,959,091**	10,440,532	22,262,045
	39,226,338	29,386,700	81,926,156
Deferred	**(37,853,440)**	7,066,011	(9,298,778)
	₱1,372,898	₱36,452,711	₱72,627,378

The provision for corporate income tax represents MCIT in 2018, 2017 and 2016.

Reconciliation between the statutory income tax rate and the Company's effective income tax rates follows:

	2018	2017	2016
At statutory rate of 30%	**₱2,699,004,008**	₱2,774,617,928	₱8,024,797,636
Additions to (reductions in) income tax resulting from:			
Unrecognized deferred income tax asset on:			
NOLCO	**181,865,467**	125,884,718	–
MCIT	**15,959,091**	10,440,532	22,262,045
Provision for impairment loss of investment in subsidiaries	**13,779,900**	50,840,822	36,219,908
Final tax on interest income	**23,267,247**	18,946,168	59,664,111
Nondeductible expenses:			
Project and bidding expenses	**15,336,715**	23,051,869	96,972,291
Others	**14,363**	5,921	3,885,333

(Forward)

	2018	2017	2016
Nondeductible interest expense	**₱13,590,499**	₱14,607,592	₱32,617,674
Unrealized valuation loss on financial assets at FVTPL	**551,819**	–	–
Dividend income	**(2,920,812,882)**	(2,937,677,410)	(8,042,310,774)
Interest income already subjected to final tax at a lower rate	**(41,183,329)**	(44,265,429)	(98,841,437)
Applied NOLCO	**–**	–	(62,639,409)
	₱1,372,898	₱36,452,711	₱72,627,378

The components of the Company's net deferred income tax assets (liability) are as follows:

	2018	2017
Deferred income taxes recognized in the parent company statements of income:		
Deferred income tax assets:		
Unamortized past service cost	**₱61,464,468**	₱73,530,211
Unrealized foreign exchange losses	**51,420,259**	2,713,515
	112,884,727	76,243,726
Deferred income tax liability on pension liability	**(100,784,684)**	(101,997,123)
Deferred income tax asset related to remeasurement effects in the parent company statements of comprehensive income	**89,366,223**	97,138,282
	₱101,466,266	₱71,384,885

As of December 31, 2018, the Company has MCIT that can be claimed as deduction from regular income tax liability as follows:

Period of Recognition	Availment Period	Amount	Applied	Expired	Balance
2015	2016-2018	₱11,707,926	₱–	₱11,707,926	₱–
2016	2017-2019	22,262,045	–	–	22,262,045
2017	2018-2020	10,440,532	–	–	10,440,532
2018	2019-2021	15,959,089	–	–	15,959,089
		₱60,369,592	₱–	₱11,707,926	₱48,661,666

As of December 31, 2018, the Company has NOLCO which can be claimed as deduction against the regular taxable income as follows:

Period of Recognition	Availment Period	Amount	Applied	Expired	Balance
2015	2016-2018	₱290,022,557	₱61,947,637	₱228,074,920	₱–
2017	2018-2020	419,615,728	–	–	419,615,728
2018	2019-2021	606,218,323	–	–	606,218,323
		₱1,315,856,608	₱61,947,637	₱228,074,920	₱1,025,834,051

No deferred income tax assets have been recognized in 2018 and 2017 on the following temporary differences as it is probable that no sufficient taxable income will be available to allow the benefit of the deferred income tax assets to be utilized:

	2018	2017
Provision for impairment loss on investment in subsidiaries	**₱1,071,358,480**	₱1,025,425,480
NOLCO	**1,025,834,051**	647,690,648
MCIT	**48,661,666**	44,410,503

17. Related Party Disclosures

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

The Company, in its normal course of business, has transactions with its related parties, which principally consist of the following:

a. The Company has management agreements with each of the following subsidiaries: CLPC, Cotabato Ice Plant, Inc. (CIPI), DLPC, and CPPC for which it is entitled to management fees.

b. The Company renders various services to related parties such as technical and legal assistance for various projects, trainings and other services, for which it bills technical and service fees.

c. The Company obtained standby letters of credit (SBLC) and is acting as surety for the benefit of certain subsidiaries, associates and joint ventures in connection with certain loans and credit accommodations. As at December 31, 2018, the Company provided SBLCs for AP Renewables, Inc. (APRI), Cebu Energy Development Corporation (CEDC), Luzon Hydro Corporation (LHC), SN Aboitiz Power-Benguet, Inc. (SNAP B), Therma South, STEAG, and TVI in the amount of ₱4.51 billion. As at December 31, 2017, the Company provided SBLCs for APRI, CEDC, LHC, SNAP B, Therma South, STEAG, and TVI in the amount of ₱8.87 billion.

d. AEV provides human resources, internal audit, legal, treasury and corporate finance services, among others, to the Company and shares with the member companies the business expertise of its highly qualified professionals. Transactions are priced based on agreed rates, and billed costs are always benchmarked to third party rates to ensure competitive pricing. Service Level Agreements are in place to ensure quality of service. This arrangement enables the Company to maximize efficiencies and realize cost synergies.

e. Cash deposits and money market placements with UBP. At prevailing rates, these fixed-rate investments earned interest income amounting to ₱64.34 million and ₱52.09 million in 2018 and 2017, respectively. Outstanding balances amounted ₱6.11 billion and ₱1.40 billion as of December 31, 2018, and 2017, respectively.

f. Rentals paid at current market rates to Cebu Praedia Development Corporation (CPDC) for the use of CPDC's properties by the Company's officers and employees.

g. Aviation service fees paid at arm's length basis to AAI for the use of aircraft during travel of the Company's officers and employees.

The above transactions are expected to be settled in cash.

The parent company balance sheets and parent company statements of income include the following accounts resulting from the above transactions with related parties:

Technical, Management and other Service Fees

	Revenue			Receivable			
	2018	2017	2016	**2018**	2017	Terms	Conditions
Subsidiaries:							
DLPC	**₱454,474,211**	₱413,733,737	₱358,114,403	**₱105,496,183**	₱75,075,707	30-day, non-interest bearing	Unsecured, no impairment
VECO	**279,315,539**	268,615,438	208,372,134	**58,537,920**	67,124,127	30-day, non-interest bearing	Unsecured, no impairment
CPPC	**58,728,956**	20,812,863	18,499,199	**62,872,942**	18,322,609	30-day, non-interest bearing	Unsecured, no impairment
AESI	**57,622,636**	96,872,719	33,615,751	**5,378,113**	–	30-day, non-interest bearing	Unsecured, no impairment
CLPC	**45,559,907**	39,639,944	26,539,922	**10,240,732**	7,585,989	30-day, non-interest bearing	Unsecured, no impairment
GNPower Mariveles Coal Plant Ltd. Co.	**43,111,345**	50,813,063	–	**4,030,213**	40,510,605	30-day, non-interest bearing	Unsecured, no impairment
Therma Luzon, Inc. (TLI)	**42,601,204**	30,354,526	34,050,850	**3,976,112**	2,529,544	30-day, non-interest bearing	Unsecured, no impairment
AI	**26,306,785**	39,233,874	12,769,617	**2,455,300**	–	30-day, non-interest bearing	Unsecured, no impairment
Therma South	**11,064,511**	11,209,783	125,932,286	**2,065,375**	934,149	30-day, non-interest bearing	Unsecured, no impairment
APRI	**10,991,418**	9,103,675	21,087,671	**2,051,731**	758,640	30-day, non-interest bearing	Unsecured, no impairment
SEZC	**7,147,207**	8,071,653	6,001,481	**931,499**	1,366,644	30-day, non-interest bearing	Unsecured, no impairment
HI	**5,169,208**	7,630,879	1,469,009	**482,459**	1,907,720	30-day, non-interest bearing	Unsecured, no impairment
MEZC	**4,671,093**	3,986,055	2,469,917	**1,051,731**	208,781	30-day, non-interest bearing	Unsecured, no impairment
BEZC	**4,599,602**	4,512,723	2,487,401	**1,134,132**	208,781	30-day, non-interest bearing	Unsecured, no impairment
LEZC	**4,463,298**	6,242,089	2,326,220	**1,095,361**	91,809	30-day, non-interest bearing	Unsecured, no impairment
Therma Marine, Inc.	**3,560,921**	6,330,215	24,930,741	**2,228,408**	5,758,338	30-day, non-interest bearing	Unsecured, no impairment
PEI	**2,657,033**	209,822	–	**805,171**	209,822	30-day, non-interest bearing	Unsecured, no impairment
EAUC	**1,878,478**	2,320,980	882,500	**318,510**	195,128	30-day, non-interest bearing	Unsecured, no impairment
TVI	**1,364,303**	2,059,983	6,487,934	**254,670**	–	30-day, non-interest bearing	Unsecured, no impairment
CIPI	**746,357**	896,063	875,618	**277,306**	159,487	30-day, non-interest bearing	Unsecured, no impairment
Therma Mobile	**467,973**	2,142,810	2,883,717	**87,355**	216,014	30-day, non-interest bearing	Unsecured, no impairment
ARI	**–**	7,300,000	–	**–**	7,300,000	30-day, non-interest bearing	Unsecured, no impairment
Associates:							
SFELAPCO	**132,622,875**	72,157,562	58,119,233	**36,765,356**	41,265,932	30-day, non-interest bearing	Unsecured, no impairment
CEDC	**71,880,000**	101,367,000	103,944,750	**–**	7,977,900	30-day, non-interest bearing	Unsecured, no impairment
GNPD	**42,360,271**	40,556,253	–	**3,960,000**	40,556,253	30-day, non-interest bearing	Unsecured, no impairment
Redondo Peninsula Energy, Inc.	**–**	–	5,882,353	**–**	–	30-day, non-interest bearing	Unsecured, no impairment
Other Related Parties:							
Pagbilao Energy Corporation	**300,000,000**	–	–	**300,000,000**	–	30-day, non-interest bearing	Unsecured, no impairment
AboitizLand, Inc.	**321,429**	–	–	**–**	–	30-day, non-interest bearing	Unsecured, no impairment
Pilmico Foods Corporation	**133,929**	–	–	**–**	–	30-day, non-interest bearing	Unsecured, no impairment
SN Aboitiz Power-Magat, Inc.	**30,000**	–	–	**–**	–	30-day, non-interest bearing	Unsecured, no impairment
	₱1,613,850,489	₱1,246,173,709	₱1,057,742,707	**₱606,496,579**	₱320,263,979		

Transportation and Travel

	Expense			Payable		Terms	Conditions
	2018	2017	2016	**2018**	2017		
Parent:							
AEV	**₱–**	₱4,097	₱143,493	**₱–**	₱–	30-day, non-interest bearing	Unsecured
Associate:							
AAI	**18,142,687**	22,170,057	22,948,461	**–**	–	30-day, non-interest bearing	Unsecured
	₱18,142,687	₱22,174,154	₱23,091,954	**₱–**	₱–		

Rent

	Expense			Payable		Terms	Conditions
	2018	2017	2016	**2018**	2017		
Parent:							
AEV	**₱3,206,807**	₱1,326,732	₱4,242,384	**₱3,206,807**	₱–	30-day, non-interest bearing	Unsecured
Other Related Party:							
CPDC	**600,434**	842,044	724,593	**68,500**	–	30-day, non-interest bearing	Unsecured
	₱3,807,241	₱2,168,776	₱4,966,977	**₱3,275,307**	₱–		

Professional, Legal and Service Fees

	Expense			Payable		Terms	Conditions
	2018	2017	2016	**2018**	2017		
Parents:							
ACO	**₱955,452**	₱7,634,588	₱8,679,181	**₱955,452**	₱2,674,588	30-day, non-interest bearing	Unsecured
AEV	**65,141,015**	37,966,014	93,927,125	**3,375,449**	–	30-day, non-interest bearing	Unsecured
	₱66,096,467	₱45,600,602	₱102,606,306	**₱4,330,901**	₱2,674,588		

The Company obtained interest free temporary advances from TLI amounting to ₱12.3 billion in 2013. This shall be payable either one time or on a staggered basis, or such other receivables as may be due or demandable from TLI. In 2016, the advances were paid in full.

The Company's Fund is in the form of a trust being maintained and managed by AEV under the supervision of the BOT of the plan. In 2018 and 2017, other than contributions to the Fund, no transactions occurred between the Company or any of its subsidiaries and the Fund.

Total compensation and benefits of key management personnel of the Company are as follows:

	2018	2017	2016
Short-term benefits (see Note 15)	**₱286,022,170**	₱308,010,884	₱254,993,884
Post-employment benefits (see Note 15)	**13,737,830**	16,499,116	12,036,116
	₱299,760,000	₱324,510,000	₱267,030,000

18. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash and cash equivalents and long-term debts. The main purpose of these financial instruments is to raise financing for the Company's operations. The Company has various other financial instruments such as trade and other receivables, AFS investment and trade and other payables which arise directly from its operations.

The Company also enters into derivative transactions, particularly foreign currency forwards, to economically hedge its foreign currency risk from foreign currency denominated liabilities and purchases (see Note 19).

Risk Management Structure

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Company.

Financial risk committee

The Financial Risk Committee has the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Company's approach to risk issues in order to make relevant decisions.

Treasury service group

The Treasury Service Group is responsible for the comprehensive monitoring, evaluating and analyzing of the Company's risks in line with the policies and limits.

The main risks arising from the Company's financial instruments are credit risk involving possible exposure to counter party default on its cash and cash equivalents, and trade and other receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company's credit risk on cash in banks and cash equivalents and trade and other receivables pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these assets. With respect to cash in banks and cash equivalents, the risk is mitigated by the short-term and/or liquid nature of its short-term deposits mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. With respect to trade and other receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Company's policy that all debtors who wish to trade on credit terms are subject to credit procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company has no significant concentration risk to a counterparty or group of counterparties. The credit quality per class of financial assets as of December 31 is as follows (amounts in thousands):

2018

	Neither past due nor impaired			Past due but not impaired	
	High Grade	**Standard**	**Sub-standard**	**impaired**	**Total**
Cash and cash equivalents*	**₱11,874,257**	**₱–**	**₱–**	**₱–**	**₱11,874,257**
Trade and other receivables	**660,535**	**–**	**–**	**320,929**	**981,464**
Derivative asset	**855**	**–**	**–**	**–**	**855**
Financial assets at FVTPL	**97,535**	**–**	**–**	**–**	**97,535**
Total	**₱12,633,182**	**₱–**	**₱–**	**₱320,929**	**₱12,954,111**

**Excluding cash on hand*

2017

	Neither past due nor impaired			Past due but not impaired	
	High Grade	Standard	Sub-standard	impaired	Total
Cash and cash equivalents*	₱7,825,333	₱–	₱–	₱–	₱7,825,333
Trade and other receivables	111,978	–	–	407,668	519,646
Derivative asset	42,510	–	–	–	42,510
AFS investment	99,375	–	–	–	99,375
Total	₱8,079,196	₱–	₱–	₱407,668	₱8,486,864

**Excluding cash on hand*

High grade pertain to receivables from customers with good favorable credit standing and have no history of default.

Standard grade pertain to those customers with history of sliding beyond the credit terms but pay a week after being past due.

Sub-standard grade pertain to those customers with payment habits that normally extend beyond the approved credit terms, and has high probability of being impaired.

The aging analyses of financial assets as of December 31 are as follows (amounts in thousands):

2018

	Total	Neither past due nor impaired	Past due but not impaired 30 days	30 - 60 days	More than 60 days
Cash and cash equivalents*	₱11,874,257	₱11,874,257	₱–	₱–	₱–
Trade and other receivables	981,464	660,535	183,003	99,809	38,117
Derivative asset	855	855	–	–	–
Financial assets at FVTPL	97,535	97,535	–	–	–
Total	₱12,954,111	₱12,633,182	₱183,003	₱99,809	₱38,117

**Excluding cash on hand*

2017

	Total	Neither past due nor impaired	Past due but not impaired 30 days	30 - 60 days	More than 60 days
Cash and cash equivalents*	₱7,825,333	₱7,825,333	₱–	₱–	₱–
Trade and other receivables	519,646	111,978	229,479	152,262	25,927
Derivative asset	42,510	42,510	–	–	–
AFS investment	99,375	99,375	–	–	–
Total	₱8,486,864	₱8,079,196	₱229,479	₱152,262	₱25,927

**Excluding cash on hand*

Liquidity risk

Liquidity risk is the potential of not meeting obligations as they come due because of an inability to liquidate assets or obtain adequate funding. The Company maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations.

In managing its short-term fund requirements, the Company's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term borrowings. With regard to its long-term financing requirements, the Company's policy is that not more than 25% of long-term borrowings should mature in any 12-month period.

The following tables summarize the maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of December 31 (amounts in thousands):

2018

	Total Carrying Value	Contractual undiscounted payments Total	On Demand	Less than 1 year	1 to 5 years	More than 5 years
Financial liabilities:						
Trade and other payables*	₱298,774	₱298,774	₱–	₱298,774	₱–	₱–
Bank loans	4,700,000	4,700,000	–	4,700,000	–	–
Long-term debts	22,997,821	31,438,550	–	1,292,049	19,829,593	10,316,908
Total	₱27,996,595	₱36,437,324	₱–	₱6,290,823	₱19,829,593	₱10,316,908

**Excluding output VAT, withholding tax and other statutory liabilities*

2017

		Contractual undiscounted payments				
	Total Carrying Value	Total	On Demand	Less than 1 year	1 to 5 years	More than 5 years
Financial liabilities:						
Trade and other payables*	₱167,804	₱167,804	₱–	₱167,804	₱–	₱–
Long-term debts	12,901,982	17,706,453	–	711,031	9,384,396	7,611,026
Total	₱13,069,786	₱17,874,257	₱–	₱878,835	₱9,384,396	₱7,611,026

**Excluding output VAT, withholding tax and other statutory liabilities*

Market Risk

The risk of loss, immediate or over time, due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Company's overall portfolio (whether on or off-balance sheet) is market risk. These are influenced by foreign and domestic interest rates, foreign exchange rates and gross domestic product growth.

Foreign exchange risk

The foreign exchange risk of the Company pertains to its foreign currency-denominated cash and cash equivalents.

	2018		2017	
	US Dollar	**Philippine Peso equivalent**	US Dollar	Philippine Peso equivalent
Financial asset:				
Cash and cash equivalents	**$214,821,624**	**₱11,295,320,990**	$40,158,320	₱2,005,104,918

The exchange rate for December 31, 2018 and 2017 is ₱52.58:US$1 and ₱49.93:US$1, respectively. As a result of the translation of these foreign currency denominated assets, the Company reported net unrealized foreign exchange loss of ₱162.4 million and ₱8.8 million in 2018 and 2017, respectively.

The following tables demonstrate the sensitivity to a reasonable possible change in the US dollar exchange rates, with all other variables held constant, of the Company's income before income tax as of December 31, 2018 and 2017 (amounts in thousands).

	Increase (decrease) in US dollar	Effect on income before tax
2018		
US dollar-denominated accounts	**5%**	**₱564,766**
US dollar-denominated accounts	**(5%)**	**(564,766)**
2017		
US dollar-denominated accounts	5%	₱100,255
US dollar-denominated accounts	(5%)	(100,255)

There is no other impact on the Company's equity other than those already affecting the parent company statements of income.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company considers equity as its capital.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Its policy is to keep the gearing ratio at 70% or below. The Company determines net debt as the sum of interest-bearing short-term and long-term loans less cash and short-term deposits.

	2018	2017
Bank loans	**₱4,700,000,000**	₱–
Long-term debts	**22,997,821,292**	12,901,981,643
Cash and cash equivalents	**(11,875,188,311)**	(7,826,169,148)
Net debt (a)	**15,822,632,981**	5,075,812,495
Equity	**75,457,414,289**	76,672,432,343
Equity and net debt (b)	**₱91,280,047,270**	₱81,748,244,838
Gearing ratio (a/b)	**17.33%**	6.21%

Part of the Company's capital management is to ensure that it meets financial covenants attached to long-term borrowings. Breaches in meeting the financial covenants would permit the banks to immediately call loans and borrowings. The Company is in compliance with the financial covenants attached to its long-term debts as of December 31, 2018 and 2017 (see Note 12).

No changes were made in the objectives, policies or processes during the years ended December 31, 2018 and 2017.

19. Financial Instruments

Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be sold in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with no active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price (amounts in thousands).

Set out below is a comparison by category of carrying amounts and fair values of the Company's financial instruments whose fair values are different from their carrying amounts.

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liability:				
Long-term debts	**₱22,997,821**	**₱20,671,106**	₱12,901,982	₱12,389,478

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

Cash and cash equivalents, trade and other receivables, trade and other payables and bank loans
The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate fair values due to the relatively short-term maturity of these financial instruments.

AFS investments in 2017
These are carried at cost less impairment because fair value cannot be determined reliably due to the unpredictable nature of cash flows and lack of suitable methods of arriving at reliable fair value.

Financial assets at FVTPL in 2018
These equity securities are carried at fair value.

Long-term debts
The fair value of long-term debt is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 8.45% to 8.56% in 2018 and 6.23% to 7.13% in 2017.

Derivative Financial Instruments
The Company enters into short-term forward contracts with counterparty banks to manage foreign currency risks associated with foreign currency-denominated liabilities and purchases.

The aggregate notional amount of the par forward contract is US$50.0 million (₱2.63 billion) and US$39.0 million (₱1.95 billion) as of December 31, 2018 and 2017, respectively.

The Company recognized a loss from the net fair value changes relating to the forward contracts amounting to ₱11.5 million in 2018 and a gain of ₱31.0 million in 2017 under the "Foreign exchange gain" in the parent company statements of income.

Fair Value Hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements were made.

20. Electric Power Industry Reform Act (EPIRA) of 2001

RA No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. The law provides for the privatization of National Power Corporation (NPC) and the restructuring of the electric power industry. The Implementing Rules and Regulations (IRR) were approved by the Joint Congressional Power Commission on February 27, 2002.

R.A. No. 9136 and the IRR impact the industry as a whole. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

R.A. Act No. 9136, the EPIRA, and the covering IRR provides for significant changes in the power sector, which include among others:

i. The unbundling of the generation, transmission, distribution and supply and other disposable assets of a company, including its contracts with independent power producers and electricity rates;
ii. Creation of a Wholesale Electricity Spot Market; and
iii. Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effectivity date of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

21. Note to Statements of Cash Flows

The following are the cash flow movements of the Company's financing liabilities in 2018 and 2017:

			Non-cash Changes			
	January 1, 2018	Net cash flows	Amortized deferred financing costs	Interest expense	Others	December 31, 2018
Current interest-bearing loans and borrowings, excluding obligations under finance leases	₱–	₱4,700,000,000	₱–	₱–	₱–	₱4,700,000,000
Non-current interest-bearing loans and borrowings	12,901,981,643	10,078,075,748	17,763,901	–	–	22,997,821,292
Interest on loans and borrowings	66,285,228	(878,938,176)	–	999,180,246	25,653,602	212,180,900
Total liabilities from financing activities	₱12,968,266,871	₱13,899,137,572	₱17,763,901	₱999,180,246	₱25,653,602	₱27,910,002,192

			Non-cash Changes			
	January 1, 2017	Net cash flows	Amortized deferred financing costs	Interest expense	Others	December 31, 2017
Non-current interest-bearing loans and borrowings	₱9,922,153,365	₱2,967,061,942	₱12,766,336	₱–	₱–	₱12,901,981,643
Interest on loans and borrowings	28,287,924	(699,256,650)	–	630,535,775	106,718,179	66,285,228
Total liabilities from financing activities	₱9,950,441,289	₱2,267,805,292	₱12,766,336	₱630,535,775	₱106,718,179	₱12,968,266,871

22. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

The Company also reported and/or paid the following types of taxes for the year:

VAT

The Company's sales are subject to output value added tax (VAT) while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12.0%.

a. Net Receipts and Output VAT declared in the Company's VAT returns in 2018

	Net Sales/ Receipts	Output VAT
Taxable Sale:		
Sales of services	₱14,412,016,156	₱172,944,739

The Company's sales that are subject to VAT are reported under the following accounts:

Service Income - Management fees
Service Income - Professional fees
Service Income - Technical fees
Miscellaneous Income - Operating
Miscellaneous Income - Non-operating

The Company's sales of services are based on actual collections received, hence, may not be the same as amounts accrued in the parent company statement of income.

b. Input VAT for 2018

Balance at January 1	₱12,304,726
Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	2,183,023
Capital goods subject to amortization	1,192,831
Capital goods not subject to amortization	139,137
Services lodged under the other accounts	38,514,236
	54,333,953
Claims for tax credit/refund and other adjustments	(43,748,569)
Balance at December 31	₱10,585,384

Other Taxes and Licenses

Taxes and licenses, local and national, include real estate taxes, licenses and permit fees for 2018:

Documentary stamp tax	₱94,988,242
License and permit fees	13,051,531
Fringe benefit taxes	3,069,015
Others	47,780
	₱111,156,568

Withholding taxes

Final withholding taxes	₱39,484,674
Withholding taxes on compensation and benefits	14,354,874
Expanded withholding taxes	2,584,329
	₱56,423,877

Tax Assessment and Cases

The Company has no pending tax cases outside of the administration of the Bureau of Internal Revenue as of December 31, 2018.

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C 1 9 9 8 0 0 1 3 4

COMPANY NAME

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

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

32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines 1634

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS	CFD	-NA-

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
www.aboitizpower.com	(02) 886-2800	None

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
629	April 22	December/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Liza Luv T. Montelibano	Liza.montelibano@aboitiz.com	(02) 886-2813	Not Available

CONTACT PERSON's ADDRESS

32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines 1634

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

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

SEC
Cebu Extension Office
APR 10 2019
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

AboitizPower

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of Aboitiz Power Corporation is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

MIKEL A. ABOITIZ
Chairman of the Board

ERRAMON I. ABOITIZ
President & Chief Executive Officer

LIZA LUV T. MONTELIBANO
SVP & Chief Financial Officer/Corporate Information Officer

Signed this 7th day of March 2019

Republic of the Philippines)
City of Taguig) S.S.

Before me, a notary public in and for the city named above, personally appeared:

Name	Passport/CTC No.	Date/Place Issued
MIKEL A. ABOITIZ	P3931084A 12172821	August 5,2017, Cebu January 18, 2019, Cebu City
ERRAMON I. ABOITIZ	P2251997A 12179232	March 11, 2017; DFA Manila January 29, 2019, Cebu City
LIZA LUV T. MONTELIBANO	P7070135A 29715455	May 7, 2018, DFA Manila January 10 2019, City of Taguig

who are personally known to me and to me known to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

Witness my hand and seal this MAR 07 2019.

Doc. No. 010;

Page No. 3;

Book No. 1;

Series of 2019

Atty. Leon Miguel E. Sagayadan
Notary Public for Taguig City
Notarial Commission No. 121
Until December 31, 2019
NAC Tower, 32nd Street, Bonifacio Global City, Taguig City
PTR No. A-4207122; Taguig City; January 3, 2019
IBP OR No.061327; January 8, 2019
Roll No. 61441
MCLE Compliance No. VI-0004627

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines

Opinion

We have audited the consolidated financial statements of Aboitiz Power Corporation and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Recoverability of Goodwill

As of December 31, 2018, the goodwill amounted to ₱40.22 billion, which is attributable to several cash-generating units, which is considered significant to the consolidated financial statements. We consider the recoverability of goodwill as a key audit matter due to the materiality of the amount involved and the significant management assumptions and judgment involved, which includes cash-generating unit identification, discount and growth rate, revenue assumptions and material price inflation.

The Group's disclosures about goodwill are included in Note 13 to the consolidated financial statements.

Audit Response
We involved our internal specialist in assessing the methodology and assumptions used by the Group in estimating value-in-use. We compared significant assumptions, such as growth rate, revenue assumptions and material price inflation, against historical data and industry outlook. Our internal specialist reviewed the discount rates by performing an independent testing on the derivation of the discount rates using market-based parameters. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment testing is most sensitive.

Revenue Recognition of Distribution Utilities

The Group's revenue from the sale of electricity accounts for 34% of the Group's consolidated revenue and is material to the Group. This matter is significant to the audit because the revenue recognized depends on the electric consumption captured, the rates applied across different customers, and the systems involved in the billing process. Electric consumption captured is based on the meter readings taken on various dates for the different types of customers (i.e., industrial, commercial, and residential customers) within the franchise areas of operations of the distribution utilities. In addition, the Group adopted PFRS 15, *Revenue from Contracts with Customers*, effective January 1, 2018, which involves the accounting for the sale of electricity which qualifies as a series of distinct services which is accounted for as one performance obligation that will be satisfied over the period when the services are expected to be provided.

The Group's disclosures related to this matter are provided in Notes 3 and 21 to the consolidated financial statements.

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Audit Response
We obtained an understanding and evaluated the design and tested the controls over the billing and revenue process which includes the capture and accumulation of meter data in the billing system and calculation of billed amounts, and uploading of billed amounts from the billing system to the financial reporting system. We performed a test calculation of the rates using the Energy Regulatory Commission-approved rates and formulae, then compared them with the rates used in billing statements.

On PFRS 15 adoption, we obtained understanding of the Group's implementation process and tested the relevant controls. We reviewed the PFRS 15 adoption documentation and the updated accounting policies as prepared by management, including revenue streams identification and scoping, and contract analysis. We obtained sample contracts and reviewed the performance obligation identified to be provided by the Group, the determination of transaction price, and the timing of the revenue recognition based on the period when services are to be rendered. We also reviewed the notes disclosure on the adoption of PFRS 15.

Recoverability of Certain Segments of Property, Plant and Equipment

Based on the assessment of the Group as of December 31, 2018, certain segments of property, plant and equipment totaling ₱5.44 billion, may be impaired. We considered the recoverability of certain segments of property, plant and equipment as a key audit matter because of the amount involved and significant management assumptions and judgment involved which include future electricity generation levels and costs as well as external inputs such as fuel prices, electricity prices and discount rates.

The disclosure about the recoverability of certain segments of property, plant and equipment are included in Note 12 to the consolidated financial statements.

Audit Response
We involved our internal specialist in assessing the methodology and the assumptions used by the Group in estimating value-in-use. We compared the significant assumptions, such as future electricity generation levels and costs, fuel prices and electricity prices against historical data and industry outlook. Our internal specialist reviewed the discount rates by performing an independent testing on the derivation of the discount rates using market-based parameters. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment testing is most sensitive.

Consolidation Process

Aboitiz Power Corporation owns a significant number of domestic and foreign entities at varying equity interests. We considered the consolidation process as a key audit matter because it required significant auditor attention, particularly on the following areas: (a) fair value adjustments arising from business combinations, (b) numerous intercompany transactions, (c) alignment of accounting policies of the investees with the Group's policy on property, plant and equipment and investment properties, (d) translation of investees' foreign-currency-denominated financial information to the Group's functional currency and (e) other equity adjustments.

The Group's disclosure on the basis of consolidation is in Note 3 to the consolidated financial statements.

Audit Response
We obtained an understanding of the consolidation process and the related controls, the Group's process for identifying related parties and related party transactions, as well as the reconciliation of intercompany balances. We also checked the entities included in the consolidation. We reviewed the eliminating entries recorded, including fair value adjustments. In addition, we reviewed the currency translation adjustments, as well as the alignment of accounting policies on property, plant and equipment and investment properties.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Maria Veronica Andresa R. Pore

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-3 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 164-533-282
BIR Accreditation No. 08-001998-71-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332597, January 3, 2019, Makati City

March 7, 2019

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱46,343,041**	₱35,699,631
Trade and other receivables (Note 6)	**21,721,776**	17,359,828
Derivative assets (Note 34)	**71,583**	228,644
Inventories (Note 7)	**6,690,453**	5,643,607
Property held for sale (Note 12)	**675,819**	–
Other current assets (Note 8)	**13,205,935**	9,029,886
Total Current Assets	**88,708,607**	67,961,596
Noncurrent Assets		
Investments and advances (Note 10)	**34,334,126**	31,248,595
Property, plant and equipment (Note 12)	**207,110,412**	204,025,303
Intangible assets (Note 13)	**46,165,494**	46,344,658
Derivative assets - net of current portion (Note 34)	**221,245**	113,297
Available-for-sale (AFS) investments	**–**	102,999
Financial assets at fair value through profit or loss (FVTPL)	**101,441**	–
Net pension assets (Note 27)	**126,977**	56,400
Deferred income tax assets (Note 29)	**2,233,695**	1,406,796
Other noncurrent assets (Note 14)	**10,660,179**	10,217,355
Total Noncurrent Assets	**300,953,569**	293,515,403
TOTAL ASSETS	**₱389,662,176**	₱361,476,999
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans (Note 16)	**₱11,546,560**	₱4,717,300
Current portions of:		
Long-term debts (Note 17)	**8,697,404**	20,692,751
Finance lease obligation (Note 35)	**4,131,059**	3,316,165
Long-term obligation on power distribution system (Note 13)	**40,000**	40,000
Derivative liabilities (Note 34)	**159,926**	47,577
Trade and other payables (Note 15)	**21,801,288**	19,852,383
Income tax payable (Note 29)	**438,783**	646,115
Total Current Liabilities	**46,815,020**	49,312,291

(Forward)

	December 31	
	2018	2017
Noncurrent Liabilities		
Noncurrent portions of:		
Long-term debts (Note 17)	**₱149,360,287**	₱131,360,749
Finance lease obligation (Note 35)	**42,763,296**	45,909,089
Long-term obligation on power distribution system (Note 13)	**173,496**	186,071
Customers' deposits (Note 18)	**6,008,364**	6,094,690
Asset retirement obligation (Note 19)	**3,678,810**	2,959,060
Deferred income tax liabilities (Note 29)	**858,290**	912,601
Net pension liabilities (Note 27)	**244,857**	361,228
Other noncurrent liabilities (Notes 11 and 40k)	**3,183,089**	402,756
Total Noncurrent Liabilities	**206,270,489**	188,186,244
Total Liabilities	**253,085,509**	237,498,535
Equity Attributable to Equity Holders of the Parent		
Paid-in capital (Note 20a)	**19,947,498**	19,947,498
Net unrealized loss on AFS investments	**–**	(625)
Share in net unrealized valuation gain on fair value through other comprehensive income (FVOCI)/AFS investments of an associate (Note 10)	**101,727**	124,121
Cumulative translation adjustments (Note 34)	**525,916**	113,637
Share in cumulative translation adjustments of associates and joint ventures (Note 10)	**321,139**	(144,507)
Actuarial losses on defined benefit plans (Note 27)	**(587,267)**	(601,461)
Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures (Note 10)	**29,729**	4,963
Acquisition of non-controlling interests	**(259,147)**	(259,147)
Excess of cost over net assets of investments (Note 9)	**(421,260)**	(421,260)
Loss on dilution (Note 2)	**(433,157)**	(433,157)
Retained earnings (Note 20b)		
Appropriated	**34,060,000**	34,060,000
Unappropriated (Notes 10 and 20c)	**74,427,738**	63,006,308
	127,712,916	115,396,370
Non-controlling Interests	**8,863,751**	8,582,094
Total Equity (Note 20c)	**136,576,667**	123,978,464
TOTAL LIABILITIES AND EQUITY	**₱389,662,176**	₱361,476,999

See accompanying Notes to Consolidated Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
APR 10 2019
DPQA SECTION INITIAL

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share Amounts)

	Years Ended December 31		
	2018	2017	2016
OPERATING REVENUES			
Sale of power (Notes 21 and 32):			
Generation	**₱61,854,685**	₱57,418,126	₱35,692,441
Distribution	**44,880,546**	43,532,403	44,585,832
Retail electricity supply	**24,216,767**	18,065,832	8,478,789
Technical, management and other fees (Note 32)	**620,086**	374,942	406,207
	131,572,084	119,391,303	89,163,269
OPERATING EXPENSES			
Cost of purchased power (Notes 22 and 32)	**36,006,080**	35,392,094	28,909,987
Cost of generated power (Note 23)	**35,674,218**	28,557,756	17,316,272
Depreciation and amortization (Notes 12 and 13)	**8,681,403**	7,596,268	6,043,527
General and administrative (Note 24)	**8,188,512**	7,222,268	6,613,876
Operations and maintenance (Note 25)	**6,525,189**	6,449,188	3,969,307
	95,075,402	85,217,574	62,852,969
FINANCIAL INCOME (EXPENSES)			
Interest income (Notes 5 and 32)	**880,085**	927,012	1,083,535
Interest expense and other financing costs (Notes 16, 17 and 33)	**(12,082,158)**	(11,247,780)	(7,704,011)
	(11,202,073)	(10,320,768)	(6,620,476)
OTHER INCOME (EXPENSES)			
Share in net earnings of associates and joint ventures (Note 10)	**4,356,825**	4,697,864	3,641,210
Other income (expenses) - net (Note 28)	**(1,292,311)**	(1,704,000)	1,669,212
	3,064,514	2,993,864	5,310,422
INCOME BEFORE INCOME TAX	**28,359,123**	26,846,825	25,000,246
PROVISION FOR INCOME TAX (Note 29)	**2,925,623**	3,858,398	3,496,140
NET INCOME	**₱25,433,500**	₱22,988,427	₱21,504,106
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱21,707,603**	₱20,416,442	₱20,002,582
Non-controlling interests	**3,725,897**	2,571,985	1,501,524
	₱25,433,500	₱22,988,427	₱21,504,106
EARNINGS PER COMMON SHARE (Note 30)			
Basic and diluted, for income for the year attributable to ordinary equity holders of the parent	**₱2.95**	₱2.77	₱2.72

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the parent	**₱21,707,603**	₱20,416,442	₱20,002,582
Non-controlling interests	**3,725,897**	2,571,985	1,501,524
	25,433,500	22,988,427	21,504,106
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:			
Share in net unrealized valuation gain (loss) on FVOCI/AFS investments of an associate (Note 10)	**(22,394)**	9,201	–
Movement in unrealized gain (loss) on AFS investments	**–**	2,686	(3,311)
Movement in cumulative translation adjustments	**584,087**	389,254	(55,357)
Share in movement in cumulative translation adjustment of associates and joint ventures (Note 10)	**465,646**	(16,304)	128,173
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**1,027,339**	384,837	69,505
Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:			
Actuarial gain (losses) on defined benefit plans, net of tax (Note 27)	**8,893**	(13,186)	1,221
Share in actuarial gains on defined benefit plans of associates and joint ventures, net of tax (Note 10)	**24,766**	6,841	496
Net other comprehensive gain (loss) not to be reclassified to profit or loss in subsequent periods	**33,659**	(6,345)	1,717
Total other comprehensive income for the year, net of tax	**1,060,998**	378,492	71,222
TOTAL COMPREHENSIVE INCOME	**₱26,494,498**	₱23,366,919	₱21,575,328
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱22,602,094**	₱20,617,187	₱20,124,770
Non-controlling interests	**3,892,404**	2,749,732	1,450,558
	₱26,494,498	₱23,366,919	₱21,575,328

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Thousands, Except Dividends Per Share Amounts)

	Attributable to Equity Holders of the Parent													
											Retained Earnings			
	Paid-in Capital (Note 20a)	Net Unrealized Loss on AFS Investments	Share in Net Unrealized Valuation Gain on FVOCI/AFS Investments of an Associate (Note 10)	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 10)	Actuarial Gains (Losses) on Defined Benefit Plans (Note 27)	Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures (Note 10)	Acquisition of Non-controlling Interests	Excess of cost over net assets of investment (Note 9)	Loss on Dilution	Appropriated (Note 20b)	Unappropriated (Note 20b)	Non-controlling Interests	Total
Balances at January 1, 2018, as previously reported	₱19,947,498	(₱625)	₱124,121	₱113,637	(₱144,507)	(₱601,461)	₱4,963	(₱259,147)	(₱421,260)	(₱433,157)	₱34,060,000	₱63,006,308	₱8,582,094	₱123,978,464
Effect of adoption - PFRS 9 (Note 3)	–	625	–	–	–	–	–	–	–	–	–	(57,713)	(3,767)	(60,855)
Balances at January 1, 2018, as restated	19,947,498	–	124,121	113,637	(144,507)	(601,461)	4,963	(259,147)	(421,260)	(433,157)	34,060,000	62,948,595	8,578,327	123,917,609
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	21,707,603	3,725,897	25,433,500
Other comprehensive income														
Movement in unrealized loss on AFS investments	–	–	(22,394)	–	–	–	–	–	–	–	–	–	–	(22,394)
Movement in cumulative translation adjustments	–	–	–	412,279	–	–	–	–	–	–	–	–	171,808	584,087
Share in movement in cumulative translation adjustment of associates and joint ventures	–	–	–	–	465,646	–	–	–	–	–	–	–	–	465,646
Actuarial gains (losses) on defined benefit plans, net of tax	–	–	–	–	–	14,194	–	–	–	–	–	–	(5,301)	8,893
Share in actuarial gains on defined benefit plans of associates and joint ventures	–	–	–	–	–	–	24,766	–	–	–	–	–	–	24,766
Total comprehensive income (loss) for the year	–	–	(22,394)	412,279	465,646	14,194	24,766	–	–	–	–	21,707,603	3,892,404	26,494,498
Cash dividends - ₱1.39 per share (Note 20b)	–	–	–	–	–	–	–	–	–	–	–	(10,228,460)	–	(10,228,460)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(4,768,596)	(4,768,596)
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	1,161,616	1,161,616
Balances at December 31, 2018	₱19,947,498	₱–	₱101,727	₱525,916	₱321,139	(₱587,267)	₱29,729	(₱259,147)	(₱421,260)	(₱433,157)	₱34,060,000	₱74,427,738	₱8,863,751	₱136,576,667

	Attributable to Equity Holders of the Parent													
											Retained Earnings			
	Paid-in Capital (Note 20a)	Net Unrealized Loss on AFS Investments	Share in Net Unrealized Valuation Gains on AFS Investments of an Associate (Note 10)	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 10)	Actuarial Gains (Losses) on Defined Benefit Plans (Note 27)	Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures (Note 10)	Acquisition of Non-controlling Interests	Excess of cost over net assets of investment (Note 9)	Loss on Dilution	Appropriated (Note 20b)	Unappropriated (Note 20b)	Non-controlling Interests	Total
Balances at January 1, 2017	₱19,947,498	(₱3,311)	₱114,920	(₱78,232)	(₱128,203)	(₱607,913)	(₱1,878)	(₱259,147)	(₱526,883)	₱–	₱34,060,000	₱52,597,568	₱7,094,801	₱112,209,220
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	20,416,442	2,571,985	22,988,427
Other comprehensive income														
Movement in unrealized loss on AFS investments	–	2,686	9,201	–	–	–	–	–	–	–	–	–	–	11,887
Movement in cumulative translation adjustments	–	–	–	191,869	–	–	–	–	–	–	–	–	197,385	389,254
Share in movement in cumulative translation adjustment of associates and joint ventures	–	–	–	–	(16,304)	–	–	–	–	–	–	–	–	(16,304)
Actuarial gains (losses) on defined benefit plans, net of tax	–	–	–	–	–	6,452	–	–	–	–	–	–	(19,638)	(13,186)
Share in actuarial gains on defined benefit plans of associates and joint ventures	–	–	–	–	–	–	6,841	–	–	–	–	–	–	6,841
Total comprehensive income (loss) for the year	–	2,686	9,201	191,869	(16,304)	6,452	6,841	–	–	–	–	20,416,442	2,749,732	23,366,919
Reversal of excess of cost over net assets of investments	–	–	–	–	–	–	–	–	105,623	–	–	–		105,623
Loss on dilution	–	–	–	–	–	–	–	–	–	(433,157)	–	–	–	(433,157)
Cash dividends - ₱1.36 a share (Note 20b)	–	–	–	–	–	–	–	–	–	–	–	(10,007,702)	–	(10,007,702)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(1,281,223)	(1,281,223)
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	18,784	18,784
Balances at December 31, 2017	₱19,947,498	(₱625)	₱124,121	₱113,637	(₱144,507)	(₱601,461)	₱4,963	(₱259,147)	(₱421,260)	(₱433,157)	₱34,060,000	₱63,006,308	₱8,582,094	₱123,978,464

	Attributable to Equity Holders of the Parent												
										Retained Earnings			
	Paid-in Capital (Note 20a)	Net Unrealized Loss on AFS Investments	Share in Net Unrealized Valuation Gains on AFS Investments of an Associate (Note 10)	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 10)	Actuarial Gains (Losses) on Defined Benefit Plans (Note 27)	Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures (Note 10)	Acquisition of Non-controlling Interests	Excess of cost over net assets of investment (Note 9)	Appropriated (Note 20b)	Unappropriated (Note 20b)	Non-controlling Interests (As Restated; Note 9)	Total
Balances at January 1, 2016	₱19,947,498	₱–	₱114,920	₱185,431	(₱256,376)	(₱609,066)	(₱3,748)	(₱259,147)	(₱421,260)	₱20,900,000	₱57,970,269	₱4,045,046	₱101,613,567
Net income for the year	–	–	–	–	–	–	–	–	–	–	20,002,582	1,501,524	21,504,106
Other comprehensive income													
Movement in unrealized loss on AFS investments	–	(3,311)	–	–	–	–	–	–	–	–	–	–	(3,311)
Movement in cumulative translation adjustments	–	–	–	(5,697)	–	–	–	–	–	–	–	(49,660)	(55,357)
Share in movement in cumulative translation adjustment of associates and joint ventures	–	–	–	–	128,173	–	–	–	–	–	–	–	128,173
Actuarial gains (losses) on defined benefit plans, net of tax	–	–	–	–	–	2,527	–	–	–	–	–	(1,306)	1,221
Share in actuarial gains on defined benefit plans of associates and joint ventures	–	–	–	–	–	–	496	–	–	–	–	–	496
Total comprehensive income (loss) for the year	–	(3,311)	–	(5,697)	128,173	2,527	496	–	–	–	20,002,582	1,450,558	21,575,328
Acquisition of subsidiaries (As Restated; Note 9)	–	–	–	(257,966)	–	(1,374)	1,374	–	(105,623)	–	–	3,164,230	2,800,641
Appropriation during the year	–	–	–	–	–	–	–	–	–	13,160,000	(13,160,000)	–	–
Cash dividends - ₱1.66 a share (Note 20b)	–	–	–	–	–	–	–	–	–	–	(12,215,283)	–	(12,215,283)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(1,614,684)	(1,614,684)
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	49,651	49,651
Balances at December 31, 2016	₱19,947,498	(₱3,311)	₱114,920	(₱78,232)	(₱128,203)	(₱607,913)	(₱1,878)	(₱259,147)	(₱526,883)	₱34,060,000	₱52,597,568	₱7,094,801	₱112,209,220

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱28,359,123**	₱26,846,825	₱25,000,246
Adjustments for:			
Interest expense and other financing costs (Note 33)	**12,082,158**	11,247,780	7,704,011
Depreciation and amortization (Notes 12 and 13)	**8,681,403**	7,596,268	6,043,527
Net unrealized foreign exchange losses	**997,010**	333,868	1,505,671
Impairment loss on property, plant and equipment, goodwill and other assets (Notes 4, 12, 13 and 14)	**847,619**	3,233,036	169,469
Loss (gain) on disposal of property, plant and equipment	**292,799**	86,913	(70,252)
Unrealized fair valuation loss (gains) on derivatives (Note 34)	**194,458**	(451,270)	3,316
Write-off of project costs and other assets (Note 13)	**50,922**	79,881	249,176
Unrealized market valuation loss on financial assets at FVTPL	**1,839**	–	–
Share in net earnings of associates and joint ventures (Note 10)	**(4,356,825)**	(4,697,864)	(3,641,210)
Interest income (Notes 5 and 32)	**(880,085)**	(927,012)	(1,083,535)
Gain on redemption of shares (Note 28)	**–**	–	(16,051)
Gain on remeasurement in step acquisition (Note 9)	**–**	(310,198)	(350,939)
Operating income before working capital changes	**46,270,421**	43,038,227	35,513,429
Decrease (increase) in:			
Trade and other receivables	**(3,449,871)**	(3,062,564)	401,465
Inventories	**(1,057,730)**	(1,190,795)	(996,007)
Other current assets	**(3,401,458)**	(2,263,317)	(1,831,918)
Increase (decrease) in:			
Trade and other payables	**2,687,675**	(1,834,708)	464,167
Long-term obligation on power distribution system	**(40,000)**	(40,000)	(40,000)
Customers' deposits	**(86,326)**	(736,552)	447,964
Net cash generated from operations	**40,922,711**	33,910,291	33,959,100
Income and final taxes paid	**(3,634,811)**	(3,674,360)	(4,071,120)
Net cash flows from operating activities	**37,287,900**	30,235,931	29,887,980
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash dividends received (Note 10)	**4,346,071**	5,070,559	7,847,263
Proceeds from redemption of shares (Note 10)	**80,216**	8,809	57,076
Interest received	**919,255**	1,135,069	1,132,366
Net collection of advances (Note 10)	**2,054**	7,443	–
Proceeds from sale of property, plant and equipment	**18,388**	10,846	162,190

(Forward)

	Years Ended December 31		
	2018	2017	2016
Additional AFS investments	**₱–**	₱–	(₱100,000)
Acquisitions through business combinations, net of cash acquired (Note 9)	**–**	894,655	(44,353,542)
Additions to:			
Property, plant and equipment (Note 12)	**(8,607,781)**	(16,068,050)	(28,203,291)
Intangible assets - service concession rights (Note 13)	**(52,343)**	(86,159)	(45,875)
Additional investments (Note 10)	**(2,498,905)**	(1,499,569)	(11,821,307)
Decrease (increase) in other noncurrent assets	**(1,450,074)**	1,073,472	(6,055,228)
Net cash flows used in investing activities	**(7,243,119)**	(9,452,925)	(81,380,348)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of long-term debt - net of transaction costs (Note 17)	**24,494,810**	43,957,187	73,474,514
Net availments of short-term loans (Note 16)	**6,829,260**	561,700	1,587,600
Payments of:			
Long-term debt (Note 17)	**(20,626,654)**	(50,967,235)	(3,085,581)
Finance lease obligation (Note 35)	**(7,804,460)**	(7,877,292)	(7,517,917)
Cash dividends paid (Note 20b)	**(10,228,460)**	(10,007,702)	(12,215,283)
Interest paid	**(8,432,523)**	(7,032,286)	(3,145,421)
Changes in non-controlling interests	**(3,387,726)**	(757,071)	(1,614,684)
Net cash flows from (used in) financing activities	**(19,155,753)**	(32,122,699)	47,483,228
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**10,889,028**	(11,339,693)	(4,009,140)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(245,618)**	(55,417)	5,612
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**35,699,631**	47,094,741	51,098,269
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱46,343,041**	₱35,699,631	₱47,094,741

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Earnings per Share and Exchange Rate Data and When Otherwise Indicated)

1. Corporate Information

Aboitiz Power Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1998. The Company is a publicly-listed holding company of the entities engaged in power generation, retail electricity supply and power distribution in the Aboitiz Group. As of December 31, 2018, Aboitiz Equity Ventures, Inc. (AEV, also incorporated in the Philippines) owns 76.98% of the Company. The ultimate parent of the Company is Aboitiz & Company, Inc. (ACO).

The Company's registered office address is 32nd Street, Bonifacio Global City, Taguig City, Metro Manila.

The consolidated financial statements of the Group were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) of the Company on March 7, 2019.

2. Group Information

The consolidated financial statements comprise the financial statements of the Company, subsidiaries controlled by the Company and a joint operation, that is subject to joint control, (collectively referred to as "the Group"; see Note 11). The following are the subsidiaries as of December 31 of each year:

	Nature of Business	Percentage of Ownership 2018 Direct	2018 Indirect	2017 Direct	2017 Indirect	2016 Direct	2016 Indirect
Aboitiz Renewables, Inc. (ARI) and Subsidiaries	Power generation	100.00	–	100.00	–	100.00	–
AP Renewables, Inc. (APRI)	Power generation	–	100.00	–	100.00	–	100.00
Aboitiz Power Distributed Energy, Inc.	Power generation	–	100.00	–	100.00	–	–
Aboitiz Power Distributed Renewables, Inc.	Power generation	–	100.00	–	100.00	–	100.00
Hedcor, Inc. (HI)	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Sibulan, Inc. (HSI)	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Tudaya, Inc. (Hedcor Tudaya)	Power generation	–	100.00	–	100.00	–	100.00
Luzon Hydro Corporation (LHC)	Power generation	–	100.00	–	100.00	–	100.00
AP Solar Tiwi, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Retensol, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
AP Renewable Energy Corporation*	Power generation	–	100.00	–	100.00	–	100.00
Aseagas Corporation (Aseagas)*	Power generation	–	100.00	–	100.00	–	100.00
Bakun Power Line Corporation*	Power generation	–	100.00	–	100.00	–	100.00
Cleanergy, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Cordillera Hydro Corporation*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Benguet, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Bukidnon, Inc. (Hedcor Bukidnon)	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Kabayan, Inc. *	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Ifugao, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Kalinga, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Itogon Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Manolo Fortich, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Mt. Province, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Sabangan, Inc. (Hedcor Sabangan)	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Tamugan, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Mt. Apo Geopower, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Negron Cuadrado Geopower, Inc. (NCGI)*	Power generation	–	100.00	–	100.00	–	100.00
Tagoloan Hydro Corporation*	Power generation	–	100.00	–	100.00	–	100.00
Luzon Hydro Company Limited*	Power generation	–	100.00	–	100.00	–	100.00
Hydro Electric Development Corporation*	Power generation	–	99.97	–	99.97	–	99.97

(Forward)

	Nature of Business	Percentage of Ownership 2018 Direct	2018 Indirect	2017 Direct	2017 Indirect	2016 Direct	2016 Indirect
Therma Power, Inc. (TPI) and Subsidiaries	Power generation	100.00	–	100.00	–	100.00	–
Mindanao Sustainable Solutions, Inc.*	Services	–	100.00	–	100.00	–	–
Therma Luzon, Inc. (TLI)	Power generation	–	100.00	–	100.00	–	100.00
Therma Marine, Inc. (Therma Marine)	Power generation	–	100.00	–	100.00	–	100.00
Therma Mobile, Inc. (Therma Mobile)	Power generation	–	100.00	–	100.00	–	100.00
Therma South, Inc. (TSI)	Power generation	–	100.00	–	100.00	–	100.00
Therma Power-Visayas, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Therma Central Visayas, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Therma Subic, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Therma Mariveles Holdings L.P. *(A,D)*	Holding company	–	–	–	–	–	100.00
Therma Mariveles, LLC *(A,D)*	Holding company	–	–	–	–	–	100.00
Therma Mariveles Consulting Services, LLC *(A,D)*	Holding company	–	–	–	–	–	100.00
Therma Mariveles Holding Cooperatief U.A. *(A,E)*	Holding company	–	–	–	100.00	–	100.00
Therma Mariveles B.V. *(A,E)*	Holding company	–	–	–	100.00	–	100.00
Therma Mariveles Holdings, Inc. *(A)*	Holding company	–	100.00	–	100.00	–	100.00
GNPower Mariveles Coal Plant Ltd. Co. (GMCP) *(A,C)*	Power generation	–	66.07	–	66.07	–	82.82
Therma Dinginin L.P. *(B,D)*	Holding company	–	–	–	–	–	100.00
Therma Dinginin, LLC *(B,D)*	Holding company	–	–	–	–	–	100.00
Therma Dinginin Offshore Services Inc. *(B,D)*	Holding company	–	–	–	–	–	100.00
Therma Dinginin Holding Cooperatief U.A. *(B)*	Holding company	–	100.00	–	100.00	–	100.00
Therma Dinginin B.V. *(B)*	Holding company	–	100.00	–	100.00	–	100.00
Therma Dinginin Holdings, Inc. *(B)*	Holding company	–	100.00	–	100.00	–	100.00
Therma Visayas, Inc. (TVI)*	Power generation	–	80.00	–	80.00	–	80.00
Abovant Holdings, Inc.	Holding company	–	60.00	–	60.00	–	60.00
AboitizPower International Pte. Ltd. (API)	Holding company	100.00	–	100.00	–	100.00	–
Aboitiz Energy Solutions, Inc. (AESI)	Retail electricity supplier	100.00	–	100.00	–	100.00	–
Adventenergy, Inc. (AI)	Retail electricity supplier	100.00	–	100.00	–	100.00	–
Balamban Enerzone Corporation (BEZ)	Power distribution	100.00	–	100.00	–	100.00	–
Lima Enerzone Corporation (LEZ)	Power distribution	100.00	–	100.00	–	100.00	–
Mactan Enerzone Corporation (MEZ)	Power distribution	100.00	–	100.00	–	100.00	–
Malvar Enerzone Corporation (MVEZ)[1]	Power distribution	100.00	–	100.00	–	–	–
East Asia Utilities Corporation (EAUC)	Power generation	50.00	50.00	50.00	50.00	50.00	50.00
Cotabato Light and Power Company (CLP)	Power distribution	99.94	–	99.94	–	99.94	–
Cotabato Ice Plant, Inc.	Manufacturing	–	100.00	–	100.00	–	100.00
Davao Light & Power Company, Inc. (DLP)	Power distribution	99.93	–	99.93	–	99.93	–
Maaraw Holdings San Carlos, Inc. (MHSCI, see Note 9)	Holding company	–	100.00	–	100.00	–	60.00
San Carlos Sun Power, Inc. (Sacasun, see Note 9)	Power generation	–	100.00	–	100.00	–	50.00
AboitizPower International B.V. (APIBV, see Note 9)	Holding company	–	100.00	–	100.00	–	–
Subic Enerzone Corporation (SEZ)	Power distribution	65.00	34.98	65.00	34.98	65.00	34.98
Cebu Private Power Corporation (CPPC)	Power generation	60.00	–	60.00	–	60.00	–
Prism Energy, Inc. (PEI)	Retail electricity supplier	60.00	–	60.00	–	60.00	–
Visayan Electric Company (VECO)	Power distribution	55.26	–	55.26	–	55.26	–

[1] Malvar Enerzone Corporation was incorporated in 2017.

A) Part of Therma Mariveles Group
B) Part of Therma Dinginin Group
C) In 2017, per Partnership Agreement, TPI's indirectly held Partnership interest in GMCP reduced to 66.07% following the return of capital to the Partners.
D) Dissolved and liquidated in 2017 as part of TPI's restructuring of its offshore intermediary companies acquired as part of the GNPower acquisition
E) Dissolved and liquidated in 2018 as part of TPI's restructuring of its offshore intermediary companies acquired as part of the GNPower acquisition
** No commercial operations as of December 31, 2018.*

All of the foregoing subsidiaries are incorporated and registered with the Philippine SEC and operate in the Philippines except for the following:

Subsidiary	Country of Incorporation
AboitizPower International Pte. Ltd.	Singapore
AboitizPower International B.V.	Netherlands
Therma Mariveles Holdings L.P.	Cayman Islands
Therma Mariveles, LLC	United States
Therma Mariveles Consulting Services, LLC	United States
Therma Mariveles Holding Cooperatief U.A.	Netherlands
Therma Mariveles Camaya B.V.	Netherlands
Therma Dinginin L.P.	Cayman Islands
Therma Dinginin, LLC	United States
Therma Dinginin Offshore Services Inc.	United States
Therma Dinginin Holding Cooperatief U.A.	Netherlands
Therma Dinginin B.V.	Netherlands

Material partly-owned subsidiary

Information of subsidiaries that have material non-controlling interests is provided below:

	2018 GMCP	2017 GMCP	**2018 VECO**	2017 VECO
Summarized balance sheet information				
Current assets	**₱13,319,702**	₱8,651,514	**₱5,490,252**	₱2,991,399
Noncurrent assets	**34,003,425**	33,933,609	**11,577,649**	11,383,609
Current liabilities	**5,490,602**	3,155,175	**7,945,148**	4,941,197
Noncurrent liabilities	**37,651,754**	28,879,142	**3,748,561**	4,079,627
Non-controlling interests	**1,793,715**	3,862,520	**2,155,912**	2,151,399
Summarized comprehensive income information				
Profit for the year	**₱6,656,926**	₱3,176,397	**₱2,282,626**	₱2,161,403
Total comprehensive income	**7,470,424**	3,543,125	**2,268,931**	2,114,727
Summarized other financial information				
Profit attributable to non-controlling interests	**₱2,258,695**	₱731,560	**₱993,505**	₱939,279
Dividends paid to non-controlling interests	**3,348,883**	–	**979,147**	829,245
Summarized cash flow information				
Operating	**₱8,392,378**	₱6,654,877	**₱2,520,603**	₱2,558,506
Investing	**(856,220)**	(1,117,258)	**(922,612)**	(980,638)
Financing	**(6,258,128)**	(7,571,198)	**(1,632,733)**	(1,703,531)
Net increase (decrease) in cash and cash equivalents	**1,154,253**	(2,055,404)	**(34,742)**	(125,662)

3. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets at FVTPL and investment properties which are measured at fair value. The consolidated financial statements are presented in Philippine peso which is the Company's functional currency and all values are rounded to the nearest thousand except for earnings per share and exchange rates and as otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous periods.

Statement of Compliance

The consolidated financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Company, its subsidiaries and joint operation that are subject to joint control as at December 31 of each year. The Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

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

The financial statements of the subsidiaries are prepared for the same reporting year as the Company using consistent accounting policies.

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

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Transactions with Non-controlling Interests
Non-controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the equity attributable to equity holders of the parent. Transactions with non-controlling interests are accounted for as equity transactions. On acquisitions of non-controlling interests, the difference between the consideration and the book value of the share of the net assets acquired is reflected as being a transaction between owners and recognized directly in equity. Gain or loss on disposals of non-controlling interest is also recognized directly in equity.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the new and revised standards and Philippine Interpretations which were applied starting January 1, 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

These new and revised standards and interpretations did not have any significant impact on the Group's consolidated financial statements:

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Group has adopted this new standard without restating comparative information.

  As of January 1, 2018, the Group has reviewed and assessed all of its existing financial instruments. The table below illustrates the classification and measurement of financial instruments under PFRS 9 and PAS 39 at the date of initial application.

  The measurement category and the carrying amount of financial instruments in accordance with PAS 39 and PFRS 9 as of January 1, 2018 are compared as follows:

Financial Assets	Original Measurement Category Under PAS 39	Original Carrying Amount under PAS 39	New Measurement Category Under PFRS 9	New Carrying Amount under PFRS 9
Cash on hand and in banks	Loans and receivables	₱10,219,777	Financial assets at amortized cost	₱10,219,777
Cash equivalents	Loans and receivables	25,479,854	Financial assets at amortized cost	25,479,854
Investment in equity securities not held for trading	AFS investments	102,999	Financial assets at FVTPL	102,999
Trade and other receivables:				
Trade receivables	Loans and receivables	14,604,984	Debt instruments at amortized cost	14,518,048
Interest receivable	Loans and receivables	29,534	Debt instruments at amortized cost	29,534
Other receivables	Loans and receivables	2,725,310	Debt instruments at amortized cost	2,725,310
Derivative assets	Financial assets at FVPL	341,941	Financial assets at FVTPL	341,941
Restricted cash	Loans and receivables	2,642,327	Financial assets at amortized cost	2,642,327

As of December 31, 2018 and 2017, the Group does not hold financial liabilities designated at fair value through profit or loss.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with PAS 39 to their new measurement categories upon transition to PFRS 9 on January 1, 2018, and prior period's closing impairment allowance measured in accordance with PAS 39 to the opening impairment allowance determined in accordance with PFRS 9 as of January 1, 2018:

		PAS 39 measurement		*Reclass*[3]	*Remeasure*[4]	PFRS 9	
Financial assets	Ref	Category	Amount		ECL	Amount	Category
Cash and cash equivalents		L&R[1]	₱35,699,631	₱35,699,631	₱–	₱35,699,631	AC[2]
Trade and other receivables		L&R	17,359,828	17,359,828	(86,936)	17,272,892	AC
Restricted cash		L&R	2,642,327	2,642,327		2,642,327	AC
		L&R	₱55,701,786	₱55,701,786	(₱86,936)	₱55,614,850	AC
Financial investments - AFS			₱102,999	(₱102,999)	₱–	₱–	
To: *FVTPL*	A		–	(102,999)	–	–	
		AFS	₱102,999	(₱102,999)	₱–	₱–	
Derivative assets		FVPL	₱341,941	₱341,941	₱–	₱341,941	FVTPL
Financial assets at fair value through profit or loss		FVPL	–	102,999	–	102,999	FVTPL
From: *Financial investments - AFS*	A		–	102,999	–	–	
		FVPL	₱341,941	₱444,940	₱–	₱444,940	FVTPL

[1]L&R: Loans and receivables
[2]AC: Amortized cost
[3]Reclassification
[4]Remeasurement

The Group does not have financial assets and financial liabilities which had previously been designated at FVPL to reduce an accounting mismatch in accordance with PAS 39 which had been reclassified to amortized cost or FVOCI upon transition to PFRS 9.

The effects of adoption on consolidated financial statements are as follows:

	As at January 1, 2018
Increase (decrease) in consolidated balance sheets:	
Trade and other receivables	(₱86,936)
AFS investments	(102,999)
Financial assets at FVTPL	102,999
Deferred income tax assets	22,508
Total Assets	(₱64,428)
Deferred income tax liabilities	(₱3,573)
Net unrealized losses on AFS investments	625
Retained earnings	(57,713)
Non-controlling interests	(3,767)
Total Liabilities and Equity	(₱64,428)

The new hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting.

We determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under PFRS 9. As PFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of PFRS 9 did not have a significant impact on the consolidated financial statements.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. The new standard establishes a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

  1. Identify the contract(s) with a customer
  2. Identify the performance obligations in the contract
  3. Determine the transaction price
  4. Allocate the transaction price to the performance obligations in the contract
  5. Recognize revenue when (or as) the entity satisfies a performance obligation.

  Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with the customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

  The Group adopted PFRS 15 using the modified retrospective method, effective January 1, 2018. The Group elected to apply the method to only those that were not completed at the date of initial recognition.

  The adoption of PFRS 15 has no impact to the consolidated balance sheets, statements of income, statements of comprehensive income and statements of cash flows.

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

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

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

  These amendments are not applicable to the Group since it has no share-based payment arrangements.

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

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

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

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

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

  These amendments are not applicable to the Group since none of the entities within the Group is a venture capital organization or an investment entity, nor does the Group have investment entity associates or joint ventures.

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

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

  Since the Group's current practice is in line with the clarifications issued, these amendments do not have an impact on its consolidated financial statements.

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

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

  Since the Group's current practice is in line with the clarifications issued, this interpretation does not have any effect on its consolidated financial statements.

New Standards and Interpretation Issued and Effective after December 31, 2018

The Group will adopt the standards enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRSs, PAS and Philippine Interpretations to have significant impact on its consolidated financial statements.

Effective January 1, 2019

- PFRS 16, *Leases*

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

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

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

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

The Group plans to adopt PFRS 16 on the required effective date using the modified retrospective method. The Group will elect to apply the standard to contracts that were previously identified as leases applying PAS 17. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

In 2018, the Group performed a preliminary impact assessment of PFRS 16. Based on the initial assessment, the standard may have an impact on the Group's consolidated balance sheets, statements of income, statements of comprehensive income and statements of cash flows.

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

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

  The Group expects that adoption of these amendments will not have any impact consolidated financial statements.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

  Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

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

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

  The interpretation specifically addresses the following:
    - Whether an entity considers uncertain tax treatments separately
    - The assumptions an entity makes about the examination of tax treatments by taxation authorities
    - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
    - How an entity considers changes in facts and circumstances

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

This interpretation is not relevant to the Group because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, Insurance Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

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

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

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

Summary of Significant Accounting Policies

Business Combination and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree pertaining to instruments that represent present ownership interests and entitle the holders to a proportionate share of the net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by PFRS. Acquisition-related costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized as "bargain purchase gain" in profit or loss.

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

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

Impairment of goodwill
Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized.

Common control business combination
Business combination of entities under common control is accounted for similar to pooling of interest method, which is scoped out of PFRS 3. Under the pooling of interest method, any excess of acquisition cost over the net asset value of the acquired entity is recorded in equity.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the balance sheet based on current/noncurrent classification. An asset as current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

All other liabilities are classified as noncurrent.

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

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible by the Group.

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

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

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

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

The Group's valuation team (the Team) determines the policies and procedures for fair value measurement of its investment properties. External valuers (the Valuers) are involved in the periodic valuation of these assets. The respective subsidiary's Team decides the selection of the external valuers after discussion with and approval by its Chief Financial Officer (CFO). Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Team also determines, after discussions with the chosen Valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Team analyses the movements in the values of the investment properties which are required to be re-measured or re-assessed in accordance with the subsidiaries' accounting policies. The team, in coordination with the Valuers, also compares each of the changes in the fair value of each property with relevant external sources to determine whether the change is reasonable.

On the re-appraisal year, the Team and Valuers present the valuation results and the major assumptions used in the valuation to its CFO.

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

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

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

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

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

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the loss in the consolidated statement of income.

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

Interest in Joint Operations

A joint arrangement is classified as a joint operation if the parties with joint control have rights to the assets and obligations for the liabilities of the arrangement. For interest in joint operations, the Group recognizes:

- assets, including its share of any assets held jointly;
- liabilities, including its share of any liabilities incurred jointly;
- revenue from the sale of its share of the output arising from the joint operation;
- share of the revenue from the sale of the output by the joint operation; and
- expenses, including its share of any expenses incurred jointly.

The accounting and measurement for each of these items is in accordance with the applicable PFRS.

Foreign Currency Translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of its subsidiaries; Therma Mariveles Group, Therma Dinginin Group, and LHC, and its associate; STEAG State Power, Inc. (STEAG), is the United States (US) Dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Group (the Philippine peso) at the rate of exchange ruling at the balance sheet date and their statement of income and statement of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income. Upon disposal of the subsidiary and associate, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in the consolidated statement of income.

Cash and Cash Equivalents

Cash and cash equivalents in the consolidated balance sheet consist of cash on hand and with banks, and short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. They are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Inventories

Materials and supplies are valued at the lower of cost and net realizable value (NRV). Cost is determined on weighted average method. NRV is the current replacement cost. An allowance for inventory obsolescence is provided for slow-moving, defective or damaged goods based on analyses and physical inspection.

Financial Instruments - Initial Recognition and Subsequent Measurement (prior to adoption of PFRS 9)

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet on the date when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS investments. For financial liabilities, the Group also classifies them into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

(a) Financial assets or financial liabilities at FVPL
Financial assets and liabilities at FVPL include financial assets and liabilities held for trading purposes and financial assets and liabilities designated upon initial recognition as at FVPL. Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated and considered as hedging instruments in an effective hedge.

Financial assets and liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities, or recognizing gains or losses on them on a different basis; (ii) the assets and liabilities are part of a group of financial assets, liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk managing strategy; or (iii) the financial instruments contains an embedded derivative that would need to be recorded separately, unless the embedded derivative does not significantly modify the cash flow or it is clear, with little or no analysis, that it would not be separately recorded.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as financial asset or financial liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

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

The Group's derivative assets and derivative liabilities are classified as financial assets and financial liabilities at FVPL, respectively (see Note 34).

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS investments or financial assets at FVPL. Loans and receivables are carried at amortized cost less allowance for impairment. Amortization is determined using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Included under this category as of December 31, 2017 are the Group's cash and cash equivalents and trade and other receivables (see Note 33).

(c) HTM investments
HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement, HTM investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

The Group does not have any HTM investment as of December 31, 2017.

(d) AFS investments
AFS investments are non-derivative financial assets that are either designated as AFS or not classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Quoted AFS investments are measured at fair value with gains or losses being recognized as other comprehensive income, until the investments are derecognized or until the investments are determined to be impaired at which time, the accumulated gains or losses previously reported in other comprehensive income are included in the consolidated statement of income. Unquoted AFS investments are carried at cost, net of impairment. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statement of income when the right of payment has been established.

The Group's AFS investments as of December 31, 2017 include investments in unquoted shares of stock (see Note 33).

(e) Other financial liabilities
This category pertains to issued financial liabilities or their components that are neither held for trading nor designated as at FVPL upon the inception of the liability and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Other financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable financing costs. Deferred financing costs are amortized, using the effective interest rate method, over the term of the related long-term liability. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortized cost using the effective interest rate method.

Gains and losses are recognized in the consolidated statement of income when liabilities are derecognized, as well as through amortization process.

Included under this category as of December 31, 2017 are the Group's trade and other payables, customers' deposits, short-term loans, finance lease obligation, long-term obligation on power distribution system and long-term debts (see Note 33).

Financial Instruments - Classification and Measurement (upon adoption of PFRS 9)

Classification of financial assets
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:
- financial assets measured at amortized cost
- financial assets measured at fair value through profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Contractual cash flows characteristics
If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model
The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument.

The Group's business model refers to how it manages its financial assets in order to generate cash flows. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial assets at amortized cost
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statement of income.

The Group's debt financial assets as of December 31, 2018 consist of cash in banks, including restricted cash, cash equivalents, trade and other receivables and the Power Sector Assets and Liabilities Management Corporation (PSALM) deferred adjustment - net of current portion included in "Other noncurrent assets" in the consolidated balance sheets. The Group assessed that the contractual cash flows of its debt financial assets are SPPI and are expected to be held to collect all contractual cash flows until their maturity. As a result, the Group concluded these debt financial assets to be measured at amortized cost.

Financial assets at FVOCI
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

The Group may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Group may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:
- the Group's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Group; and
- the amount of the dividend can be measured reliably.

The Group does not have any financial asset at FVOCI as of December 31, 2018.

Financial assets at FVTPL
Financial assets at FVTPL are measured as at unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the statement of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

The Group's investments in quoted equity securities and in unquoted equity shares previously carried at cost under PAS 39 and classified as AFS investments are measured at FVTPL under PFRS 9 as of December 31, 2018.

Classification of financial liabilities
Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Group retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

The Group's financial liabilities measured at amortized cost as of December 31, 2018 include trade and other payables, customers' deposits, short-term loans, finance lease obligation, long-term obligation on power distribution system, long-term debts and other noncurrent liabilities (see Note 33).

Reclassifications of financial instruments (upon adoption of PFRS 9)
The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

The Group does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at fair value through profit or loss.

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments, including embedded derivatives, are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at FVTPL, unless designated as effective hedge. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. An embedded derivative is separated from the host financial or non-financial contract and accounted for as a separate derivative if all of the following conditions are met:

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

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

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. The Group uses derivative financial instruments, such as foreign currency forward, interest rate swap (IRS) and commodity swap contracts to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively.

For the purpose of hedge accounting, the Group's hedges are classified as cash flow hedges. Hedges are classified as cash flow hedge when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Under PAS 39, the documentation includes identification of the hedging instrument, the hedge item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting period for which they were designated.

Under PFRS 9, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

The Group's hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognized in the cumulative translation adjustment, while any ineffective portion is recognized immediately in the consolidated statement of income. The cumulative translation adjustment is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses foreign currency forward contracts as hedges of its exposure to foreign currency risk in forecast transactions, IRS contracts to manage its floating interest rate exposure on its loans and commodity swap contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to these contracts are recognized in other operating income or expenses as realized gain or loss on derivative instruments.

The Group designated all of the foreign currency forward, IRS and commodity swap contracts as hedging instrument. The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive must be accounted for depending on the nature of the underlying transaction as described above.

Derecognition of Financial Assets and Liabilities (prior to and upon adoption of PFRS 9)

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

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

When the Group retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Group treats the transaction as a transfer of a financial asset if the Group:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it retains control over the financial asset, the financial asset is recognized to the extent of the Group's continuing involvement in the financial asset. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Group could be required to repay ('the guarantee amount'). When the Group's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Group's continuing involvement takes the form of a cash- settled option or similar provision on the transferred asset, the extent of the Group's continuing involvement is measured in the same way as that which results from non-cash settled options.

Modification of contractual cash flows
When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

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

Impairment of Financial Assets (prior to adoption of PFRS 9)
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the financial asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS investments
For AFS investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income) is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

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

Impairment of Financial Assets (upon adoption of PFRS 9)
PFRS 9 introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Group recognizes ECL for the following financial assets that are not measured at FVTPL:
- debt instruments that are measured at amortized cost and FVOCI;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL
For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL - not credit-impaired
For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL - credit-impaired
Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:
- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than 30 days past due.

Determining the stage for impairment
At each reporting date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to 'Trade and other receivables'. The Company has established a provision matrix for customer segments that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial Guarantees (prior to adoption of PFRS 9)
Financial guarantees are initially recognized in the financial statements at fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of the amortized amount and the present value of any expected payment (when a payment under the guaranty has become probable).

Financial Guarantee Contracts and Loan Commitments (upon adoption of PFRS 9)
Financial guarantees are contracts issued by the Group that require it to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are initially recognized in the financial statements at fair value. Subsequently, these are measured at the higher of:
- the amount of the loss allowance determined in accordance with the ECL model and
- the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of PFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans that can be settled net in cash or by delivering or issuing another financial instrument or that are issued at below-market interest rates.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for financial instruments that include both a loan and an undrawn commitment (i.e. loan commitment) component where the Group cannot separately identify the expected credit losses on the loan commitment component from those on the loan component, the expected credit losses on the loan commitment should be recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognized as a provision.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized

amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements whereby the related assets and liabilities are presented gross in the consolidated balance sheet.

Classification of financial instruments between liability and equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

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

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

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

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

Redeemable Preferred Shares (RPS)
The component of the RPS that exhibits characteristics of a liability is recognized as a liability in the consolidated balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in the consolidated statement of income. On issuance of the RPS, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortized cost basis until extinguished on redemption.

Property held for sale
The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Property, Plant and Equipment
Except for land, property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The initial cost of property, plant and equipment comprises its purchase price, including import duties, if any, and nonrefundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing parts of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Cost also include asset retirement obligation relating to the decommissioning of power plant equipment, if any. Repairs and maintenance costs are recognized in the consolidated statement of income as incurred.

Land is stated at cost less any accumulated impairment in value.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Category	Estimated Useful Life (in years)
Buildings, warehouses and improvements	10-50
Power plant equipment	2-50
Transmission, distribution and substation equipment:	
Power transformers	30
Poles and wires	20-40
Other components	12-30
Transportation equipment	5-10
Office furniture, fixtures and equipment	2-20
Electrical equipment	5-25
Meters and laboratory equipment	25
Steam field assets	20-25
Tools and others	2-20

Leasehold improvements are amortized over the shorter of the lease terms and the lives of the improvements.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.
Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts, and any resulting gain or loss is credited or charged to current operations. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 consolidated statement of income in the year the asset is derecognized.

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period.

Arrangement Containing a Lease
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:
(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless 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).

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

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are charged directly against income.

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

Operating lease
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

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

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

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

An entity recognizes and measures revenue in accordance with PFRS 15, for the services it performs. If an entity performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

When an entity provides construction or upgrades services, the consideration received or receivable by the entity is recognized at its fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PFRS 15. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the percentage of costs incurred to date to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PFRS 15.

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

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

Borrowing cost attributable to the construction of the asset if the consideration received or receivable is an intangible asset, is capitalized during the construction phase. In all other cases, borrowing costs are expensed as incurred.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Software and licenses
Software and licenses are initially recognized at cost. Following initial recognition, the software and licenses are carried at cost less accumulated amortization and any accumulated impairment in value.

The software and licenses is amortized on a straight-line basis over its estimated useful economic life of three to five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the software development costs is available for use. The amortization period and the amortization method for the software development costs are reviewed at each financial year-end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treating them as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the software development costs.

Service concession right
The Group's intangible asset - service concession right pertains mainly to its right to charge users of the public service in connection with the service concession and related arrangements. This is recognized initially at the fair value which consists of the cost of construction services and the fair value of future fixed fee payments in exchange for the license or right. Following initial recognition, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses.

The intangible asset - service concession right is amortized using the straight-line method over the estimated economic useful life which is the service concession period, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated economic useful life is ranging from 18 to 25 years. The amortization period and the amortization method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Franchise
The Group's franchise pertains to VECO's franchise to distribute electricity within an area granted by the Philippine Legislature, acquired in the business combination in 2013. The franchise is initially recognized at its fair value at the date of acquisition. Following initial recognition, the franchise is carried at cost less accumulated amortization and any accumulated impairment losses. The Group's franchise is amortized using the straight-line method over the estimated economic useful life, and assessed for impairment whenever there is an indication that the franchise may be impaired. The estimated economic useful life of the franchise is 40 years. The amortization period and amortization method for franchise are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the franchise are accounted for by changing the amortization period or method, as appropriate, and treated as a change in accounting estimates. The amortization expense on franchise is recognized in the consolidated statement of income in the expense category consistent with its function.

Intangible assets - customer contracts
The Group's intangible assets - customer contracts pertain to contracts entered by subsidiaries relating to the provision of utility services to locators within an industrial zone.

These are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The intangible assets - customer contracts are amortized using the straight-line method over the remaining life of the contract, and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and method are reviewed at least at each financial year end.

The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Project development costs
Project development costs include power plant projects in the development phase which meet the "identifiability" requirement under PAS 38, *Intangible Assets*, as they are separable and susceptible to individual sale and are carried at acquisition cost. These assets are transferred to "Property, plant and equipment" when construction of each power plant commences. During the period of development, the asset is tested for impairment annually.

<u>Research and Development Expenditure</u>
The Group's policy is to record research expenses in the consolidated statement of income in the period when they are incurred.

Development costs are recognized as an intangible asset on the consolidated balance sheet if the Group can identify them separately and show the technical viability of the asset, its intention and capacity to use or sell it, and how it will generate probable future economic benefits.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Investment Properties

Investment properties, which pertain to land and buildings, are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are carried at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in fair values of investment properties are included in the consolidated statement of income in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development with a view to sale. For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income.

Impairment of Non-financial Assets

Property, plant and equipment, intangible assets, investment and advances and other current and noncurrent assets excluding restricted cash and PSALM deferred adjustment

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

Asset Retirement Obligation

The asset retirement obligation arose from the Group's obligation, under their contracts, to decommission, abandon and perform surface rehabilitation at the end of the useful lives of the steam field assets, or the end of the lease term, or upon abandonment of the plant. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the asset retirement obligation. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income under "Interest expense" account. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively.

Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of property, plant and equipment. The amount deducted from the cost of property, plant and equipment, shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the property, plant and equipment, the excess shall be recognized immediately in the consolidated statement of income.

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Capital stock includes common stock and preferred stock.

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

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are debited to the "Paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against equity.

Retained Earnings

The amount included in retained earnings includes accumulated earnings of the Company and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the BOD. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the transition provisions of new and amended standards.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent.

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

Sale of power

For power generation and ancillary services where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone without the corresponding energy and the buyer cannot obtain energy without contracting a capacity. The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer.

Revenue from power generation and ancillary services is recognized in the period actual capacity is delivered. Revenue is recognized over time since the customer simultaneously receives and consumes the benefits as the seller supplies power.

Under PAS 18, revenue from power generation is recognized in the period actual capacity is generated. Under PFRS 15, the Group has concluded that revenue should be recognized over time since the customer simultaneously receives and consumes the benefit as the seller supplies power.

In contracts with fixed capacity payments which are determined at contract inception, the fixed capacity payments for the entire contract period is determined at day 1 and is recognized over time. Specifically, on contracts where capacity payments are fixed but escalates throughout the contract period without any reference to market indices, the fixed escalation is recognized on a straight-line basis over the contract period.

Some contracts with customers provide unspecified quantity of energy, includes provisional Energy Regulatory Commission (ERC) rates, and volume and prompt payment discounts that give rise to variable consideration. Under PFRS 15, the variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of constraint on variable consideration resulted in the same revenue recognition under PAS 18.

Power distribution and retail supply also qualify as a series of distinct goods or services that are substantially the same and have the same pattern of transfer accounted for as one performance obligation. Revenue is recognized over time and based on amounts billed.

Dividend income

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

Technical, management and other fees

Technical, management and other fees are recognized when the related services are rendered.

Interest income
Interest is recognized as it accrues taking into account the effective interest method.

Other income
Revenue is recognized when non-utility operating income and surcharges are earned.

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

Pension Benefits
The Group has defined benefit pension plans which require contributions to be made to separately administered funds. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

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

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

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in the consolidated statement of comprehensive income and not in the consolidated statement of income.

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

Deferred income tax

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

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

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

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and unused tax losses can be utilized except:

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

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

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

Income tax relating to items recognized directly in other comprehensive income is also recognized in other comprehensive income and not in the consolidated statement of income.

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

Input Value-Added Tax (VAT)
Input VAT represents VAT imposed on the Group by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations.

Input VAT, which is presented as part of "Other current assets" and/or "Other noncurrent assets" in the consolidated balance sheets, is recognized as an asset and will be used to offset the Group's current output VAT liabilities and/or applied for claim for tax credit certificates. Input VAT is stated at its estimated NRV.

Output VAT
Output VAT represents VAT due on the sale, lease or exchange of taxable goods or properties or service by any person registered or required to register under Philippine taxation laws and regulations.

Provisions
Provisions are recognized when the Group 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 will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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

Events After the Reporting Period
Post year-end events that provide additional information about the Group's position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed when material.

Earnings Per Common Share
Basic earnings per common share are computed by dividing consolidated net income for the year attributable to the equity holders of the Company by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect for any stock dividends declared and stock rights exercised during the year.

Diluted earnings per share amounts are calculated by dividing the consolidated net income for the year attributable to the equity holders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalents. The Group does not have dilutive potential common shares.

Operating Segments
For management purposes, the Group is organized into two major operating segments (power generation and power distribution) according to the nature of the services provided, with each segment representing a significant business segment. The Group's identified operating segments are consistent with the segments reported to the BOD which is the Group's Chief Operating Decision Maker (CODM). Financial information on the operating segment is presented in Note 31.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosures of contingent liabilities. However, uncertainty about these assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Judgments, key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are consistent with those applied in the most recent annual financial statements, except for those that relate to the adoption of PFRS 9 and PFRS 15.

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

Determining functional currency
Based on the economic substance of the underlying circumstances relevant to the companies in the Group, the functional currency of the companies in the Group has been determined to be the Philippine Peso except for certain subsidiaries and an associate whose functional currency is the US Dollar. The Philippine Peso is the currency of the primary economic environment in which companies in the Group operates and it is the currency that mainly influences the sale of power and services and the costs of power and of providing the services. The functional currency of the Group's subsidiaries and associates is the Philippine Peso except for Therma Mariveles Group, Therma Dinginin Group, and LHC (subsidiaries), and STEAG (associate) whose functional currency is the US Dollar.

Service concession arrangements - Companies in the Group as Operators
Based on management's judgment, the provisions of Philippine Interpretation IFRIC 12 apply to SEZ's Distribution Management Service Agreement (DMSA) with Subic Bay Metropolitan Authority (SBMA); MEZ's Built-Operate-Transfer agreement with Mactan Cebu International Airport Authority (MCIAA) and LHC's Power Purchase Agreement (PPA) with the National Power Corporation (NPC). SEZ, MEZ and LHC's service concession agreements were accounted for under the intangible asset model.

The Company's associate, STEAG, has also determined that the provisions of Philippine Interpretation IFRIC 12 apply to its PPA with NPC. STEAG's service concession agreement was accounted for under the financial asset model. Refer to the accounting policy on service concession arrangements for the discussion of intangible asset and financial asset models.

Determining fair value of customers' deposits
In applying PFRS 9 in 2018 and PAS 39 in 2017 on transformer and lines and poles deposits, the Group has made a judgment that the timing and related amounts of future cash flows relating to such deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using alternative valuation techniques since the expected timing of customers' refund or claim for these deposits cannot be reasonably estimated. These customers' deposits, which are therefore stated at cost, amounted to ₱6.01 billion and ₱6.09 billion as of December 31, 2018 and 2017, respectively (see Note 18).

Finance lease - Company in the Group as the lessee
In accounting for its Independent Power Producer (IPP) Administration Agreement with the PSALM, the Group's management has made a judgment that the IPP Administration Agreement of TLI is an arrangement that contains a lease. The Group's management has made a judgment that TLI has substantially acquired all the risks and rewards incidental to ownership of the power plant principally by virtue of its right to control the capacity of power plant and its right to receive the transfer of the power plant at the end of the IPPA Administration Agreement for no consideration. Accordingly, the Group accounted for the agreement as a finance lease and recognized the power plant and finance lease obligation at the present value of the agreed monthly payments to PSALM (see Note 35).

The power plant is depreciated over its estimated useful life, as there is reasonable certainty that the Group will obtain ownership by the end of the lease term. As of December 31, 2018 and 2017, the carrying value of the power plant amounted to ₱34.67 billion and ₱35.76 billion, respectively (see Notes 12 and 35). The carrying value of finance lease obligation amounted to ₱46.89 billion and ₱49.23 billion as of December 31, 2018 and 2017, respectively (see Note 35).

Nonconsolidation of Manila-Oslo Renewable Enterprise, Inc. (MORE) and its investees
The Group has 83.33% interest in MORE which has a 60% ownership interest in SN Aboitiz Power-Magat, Inc.(SNAP M), SN Aboitiz Power-Benguet, Inc. (SNAP B), SN Aboitiz Power-RES, Inc. (SNAP RES), and SN Aboitiz Power-Generation, Inc.

The Group does not consolidate MORE since it does not have the ability to direct the relevant activities which most significantly affect the returns of MORE, and their respective investees. This is a result of the shareholders' agreements which, among others, stipulate the management and operation of MORE. Management of MORE are vested in their BOD and the affirmative vote of the other shareholder is required for the approval of certain corporate actions which include financial and operating undertakings (see Note 10).

Determining a joint operation
The Group has 50% interest in Pagbilao Energy Corporation (PEC). The Group assessed that the joint arrangement is a joint operation as the financial and operating activities of the operation are jointly controlled by the participating shareholders and are primarily designed for the provision of output to the shareholders.

Classification of financial instruments
The Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet.

Contractual cash flows assessment
For each financial asset, the Group assesses the contractual terms to identify whether the instrument is consistent with the concept of SPPI.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Evaluation of business model in managing financial instruments
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Identifying performance obligations
The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

The Group assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if i) each distinct good or services in the series are transferred over time and ii) the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation

For power generation and ancillary services where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone without the corresponding energy and the buyer cannot obtain energy without contracting a capacity.

The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer since the delivery of energy every month are distinct services which are all recognized over time and have the same measure of progress.

Power distribution and retail supply also qualify as a series of distinct goods or services which is accounted for as one performance obligation since the delivery of energy every month are distinct services which are recognized over time and have the same measure of progress.

Revenue recognition
The Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The Group's revenue from power generation, power distribution, ancillary services and retail supply are to be recognized over time, since customers simultaneously receives and consumes the benefits as the Group supplies power.

Identifying methods for measuring progress of revenue recognized over time
The Group determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

For power generation and ancillary services, the Group determined that the output method is the best method in measuring progress since actual electricity is supplied to customers. The Group recognizes revenue based on:

For power generation and ancillary services:

a. For the variable energy payment, actual kilowatt hours consumed which are billed on a monthly basis.
b. For fixed capacity payments, the Group allocates the transaction price on a straight-line basis over the contract term. The allocated fixed payments are also billed on a monthly basis.

For power distribution and retail supply, the Group uses the actual kilowatt hours consumed, which are also billed on a monthly basis.

Determining method to estimate variable consideration and assessing the constraint
The Group includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the Group will subject to constraint. Factors such as i) highly susceptibility to factors outside the Group's influence, ii) timing of resolution of the uncertainty, and iii) having a large number and broad range of possible considerations amount are considered.

Some contracts with customers provide unspecified quantity of energy, provisional ERC rates, and volume and prompt payment discounts that give rise to variable consideration. In estimating the variable consideration, the Group applies the expected value method in estimating the variable consideration given the large number of customer contracts that have similar characteristics and the range of possible outcomes.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are to be fully constrained based on its historical experience (i.e., volume and prompt payment discounts), the range of possible outcomes (i.e., unspecified quantity of energy), and the unpredictability of other factors outside the Group's influence (i.e., provisional ERC rates).

Allocation of variable consideration
Variable consideration may be attributable to the entire contract or to a specific part of the contract. For power generation, power distribution, ancillary services and retail supply revenue streams which are considered as series of distinct goods or services that are substantially the same and have the same pattern of transfer, the Group allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month) which forms part of the single performance obligation, and forms part of the monthly billing of the Group.

Estimation Uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined.

The judgments made in the context of the purchase price allocation can materially impact the Group's future results of operations. Accordingly, for significant acquisitions, the Group obtains assistance from third party valuation specialists. The valuations are based on information available at the acquisition date (see Note 9).

Estimating allowance for impairment losses on investments and advances
Investments and advances are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There were no impairment indicators in 2018 and 2017 based on management's assessment. The carrying amounts of the investments and advances amounted to ₱34.33 billion and ₱31.25 billion as of December 31, 2018 and 2017, respectively (see Note 10).

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2018 and 2017 amounted to ₱40.22 billion and ₱40.27 billion, respectively. Goodwill impairment recognized in 2018 and 2016 amounted to ₱45.9 million and ₱169.5 million, respectively (see Note 13). No impairment of goodwill was recognized in 2017.

Estimating useful lives of property, plant and equipment
The Group estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors and circumstances mentioned above. As of December 31, 2018 and 2017, the net book values of property, plant and equipment, excluding land, amounted to ₱205.57 billion and ₱202.43 billion, respectively (see Note 12).

Estimating residual value of property, plant and equipment
The residual value of the Group's property, plant and equipment is estimated based on the amount that would be obtained from disposal of the asset, after deducting estimated costs of disposal, if the asset is already of the age and in the condition expected at the end of its useful life. Such estimation is based on the prevailing price of property, plant and equipment of similar age and condition. The estimated residual value of each asset is reviewed periodically and updated if expectations differ from previous estimates due to changes in the prevailing price of a property, plant and equipment of similar age and condition. As of December 31, 2018 and 2017, the aggregate net book values of property, plant and equipment, excluding land, amounted to ₱205.57 billion and ₱202.43 billion, respectively (see Note 12).

Estimating useful lives of intangible asset - franchise
The Group estimates the useful life of VECO distribution franchise based on the period over which the asset is estimated to be available for use over 40 years, which consist of the 15 years remaining contract period from the date of business combination and an expected probable renewal covering another 25 years. As of December 31, 2018 and 2017, the carrying value of the franchise amounted to ₱2.65 billion and ₱2.73 billion, respectively (see Note 13).

Estimating useful lives of intangible asset - customer contracts
The Group estimates the useful lives of intangible asset arising from customer contracts based on the period over which the asset is expected to be available for use which is six years. The Group has not included any renewal period on the basis of uncertainty, as of reporting date, of the probability of securing renewal contract at the end of the original contract term. As at December 31, 2018 and 2017, the net book values of intangible assets - customer contracts amounted to ₱8.6 million and ₱20.0 million, respectively (see Note 13).

Estimating useful lives of intangible asset - service concession rights
The Group estimates the useful lives of intangible asset arising from service concessions based on the period over which the asset is expected to be available for use which is 18 to 25 years. The Group has not included any renewal period on the basis of uncertainty, as of balance sheet date, of the probability of securing renewal contracts at the end of the original contract term. As of December 31, 2018 and 2017, the aggregate net book values of intangible asset - service concession rights amounted to ₱2.79 billion and ₱2.97 billion, respectively (see Note 13).

Assessing impairment of nonfinancial assets
The Group assesses whether there are any indicators of impairment for nonfinancial assets at each balance sheet date. These nonfinancial assets (property, plant and equipment, intangible assets (excluding goodwill), and other current and noncurrent assets) are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Determining the recoverable amount of non-financial assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that the property, plant and equipment, intangible assets (excluding goodwill), and other current and noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on the consolidated balance sheet and consolidated statement of income.

As of December 31, 2018 and 2017, the aggregate net book values of these assets amounted to ₱228.45 billion and ₱226.70 billion, respectively (see Notes 8, 12, 13 and 14). Impairment losses recognized on these non-financial assets in 2018 and 2017 amounted to ₱740.3 million and ₱3.13 billion, respectively (see Notes 12, 13 and 14). No impairment losses were recognized in 2016.

Estimating allowance for impairment of trade and other receivables (prior to adoption of PFRS 9)
The Group maintains allowance for impairment of trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectibility of the accounts. These factors include, but are not limited to, the Group's relationship with its clients, client's current credit status and other known market factors. The Group reviews the age and status of receivables and identifies accounts that are to be provided with allowance either individually or collectively. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment of trade and other receivables will increase the Group's recorded expenses and decrease current assets. As of December 31, 2017, allowance for impairment of trade and other receivables amounted to ₱1.77 billion. Trade and other receivables, net of allowance for impairment, amounted to ₱17.36 billion as of December 31, 2017 (see Note 6).

Measurement of expected credit losses (upon adoption of PFRS 9)
ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- *Financial guarantee contracts:* as the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The Group leverages existing risk management indicators (e.g. internal credit risk classification and restructuring triggers), credit risk rating changes and reasonable and supportable information which allows the Group to identify whether the credit risk of financial assets has significantly increased.

Inputs, assumptions and estimation techniques (upon adoption of PFRS 9)
The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), defined as follows:

- *Probability of default*
  The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining life of the obligation. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures. The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

- *Loss given default*
  Loss Given Default represents the Group's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD.

- *Exposure at default*
  EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

The ECL is determined by projecting the PD, LGD, and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by customer segment

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies including contracted debt sales and price.

The assumptions underlying the ECL calculation such as how the maturity profile of the PDs change are monitored and reviewed on a quarterly basis.

Simplified approach for trade receivables (upon adoption of PFRS 9)
The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for various customer segments that have similar loss patterns (i.e., by geography, customer segment and coverage by letters of credit).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the industrial segment, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Incorporation of forward-looking information (upon adoption of PFRS 9)
The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Group has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The macro-economic variables include the following key indicators for the Philippines: unemployment rates, inflation rates, gross domestic product growth and net personal income growth.

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Group has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

An increase in the Group's allowance for expected credit losses of trade and other receivables will increase the Group's recorded expenses and decrease current assets. As of December 31, 2018, allowance for expected credit losses amounted to ₱1.75 billion. Trade and other receivables, net of allowance for ECL, amounted to ₱21.72 billion as of December 31, 2018 (see Note 6).

Estimating allowance for inventory obsolescence
The Group estimates the allowance for inventory obsolescence based on the age of inventories. The amounts and timing of recorded expenses for any period would differ if different judgments or different estimates are made. An increase in allowance for inventory obsolescence would increase recorded expenses and decrease current assets. As of December 31, 2018 and 2017, allowance for inventory obsolescence amounted to ₱35.7 million. The carrying amount of the inventories amounted to ₱6.69 billion and ₱5.64 billion as of December 31, 2018 and 2017, respectively (see Note 7).

Estimating asset retirement obligation
Under the Geothermal Resource Service Contract (GRSC), the Group has a legal obligation to decommission, abandon and perform surface rehabilitation on its steam field asset at the end of its useful life. The Group also has a legal obligation under its land lease agreements to decommission the power plants at the end of its lease term. The Group recognizes the present value of the obligation to decommission the plant, abandon and perform surface rehabilitation of the steam field asset and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment, which are being depreciated and amortized on a straight-line basis over the useful life of the related asset.

These costs are accrued based on in-house estimates, which incorporates estimates of the amount of obligations and interest rates, if appropriate. Assumptions used to compute the provision are reviewed and updated annually. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with charges being recognized as accretion expense, included under "Interest expense" in the consolidated statement of income.

Changes in the asset retirement obligation that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in the consolidated statement of income as it occurs.

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

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Asset retirement obligation amounted to ₱3.68 billion and ₱2.96 billion as of December 31, 2018 and 2017, respectively, (see Note 19).

Recognition of deferred income tax assets
The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The Group recognize deferred taxes based on enacted or substantially enacted tax rates for renewable of 10% and for non-renewable of 30%. The Group has deferred income tax assets amounting to ₱2.23 billion and ₱1.41 billion as of December 31, 2018 and 2017, respectively.

The Company did not recognize deferred income tax assets on Minimum Corporate Income Tax (MCIT) amounting to ₱49.1 million and ₱44.4 million as of December 31, 2018 and 2017, respectively, and Net Operating Loss Carryover (NOLCO) amounting to ₱1.05 billion and ₱647.9 million as of December 31, 2018 and 2017, respectively, since management expects that it will not generate sufficient taxable income in the future that will be available to allow all of the deferred income tax assets to be utilized (see Note 29).

Pension benefits
The cost of defined benefit pension plans, as well as the present value of the pension obligation, are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 27.

Net benefit expense amounted to ₱195.7 million in 2018, ₱219.4 million in 2017, and ₱199.4 million in 2016. The net pension assets as of December 31, 2018 and 2017 amounted to ₱127.0 million and ₱56.4 million, respectively. Net pension liabilities as of December 31, 2018 and 2017 amounted to ₱244.9 million and ₱361.2 million, respectively.

Fair value of financial instruments
Where the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques which include the discounted cash flow model and other generally accepted market valuation model. The inputs for these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The fair values of the Group's financial instruments are presented under Note 34.

Legal contingencies
The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized in the Group's consolidated financial statements for the years ended December 31, 2018, 2017 and 2016.

5. Cash and Cash Equivalents

	2018	2017
Cash on hand and in banks	**₱11,426,051**	₱10,219,777
Short-term deposits	**34,916,990**	25,479,854
	₱46,343,041	₱35,699,631

Cash in banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposits rates. Interest income earned from cash and cash equivalents amounted to ₱880.1 million in 2018, ₱907.6 million in 2017, and ₱1.08 billion in 2016.

6. Trade and Other Receivables

	2018	2017
Trade receivables - net of allowance for expected credit losses of ₱1.75 billion in 2018 and allowance for impairment losses of ₱1.77 billion in 2017 (see Note 33)	**₱12,810,034**	₱14,604,984
Others		
Dividends receivable (see Note 10)	**665,783**	792,000
Advances to contractors	**148,300**	105,690
Accrued revenue	**3,476,120**	614,363
Non-trade receivable	**2,872,224**	453,885
Interest receivable	**91,992**	29,534
PSALM deferred adjustment (see Note 40k)	**1,042,861**	–
Others	**614,462**	759,372
	₱21,721,776	₱17,359,828

Trade and other receivables are non-interest bearing and are generally on 10 - 30 days' term.

For terms and conditions relating to related party receivables, refer to Note 32.

Advances to contractors refer to non-interest bearing advance payments made for project mobilization which are offset against progress billings to be made by the contractors.

Accrued revenue relates to accrual of power sales of the Power Generation segment.

Non-trade receivable relates mostly to advances to partners in GMCP which are subject to offset against any cash dividends declared by GMCP and due to the partners.

The rollforward analysis of allowance for expected credit losses as of December 31, 2018 and allowance for impairment losses under PAS 39 as of December 31, 2017, which pertains to trade receivables, is presented below:

	2018	2017
January 1	**₱1,774,838**	₱1,761,636
Transition adjustment (see Note 3)	**86,936**	–
Provision (see Note 24)	**235,818**	77,708
Write-off	**(347,601)**	(64,506)
December 31	**₱1,749,991**	₱1,774,838

7. Inventories

	2018	2017
Fuel and lube oil	**₱3,521,390**	₱3,294,622
Plant spare parts and supplies	**2,245,805**	1,625,064
Transmission and distribution supplies	**915,168**	502,825
Other parts and supplies	**8,090**	221,096
	₱6,690,453	₱5,643,607

Inventories are carried at lower of cost and NRV as of December 31, 2018 and 2017.

The cost of inventories recognized as part of cost of generated power in the consolidated statements of income amounted to ₱29.42 billion in 2018, ₱22.32 billion in 2017, and ₱12.21 billion in 2016 (see Note 23). The cost of inventories recognized as part of operations and maintenance in the consolidated statements of income amounted to ₱286.71 million in 2018, ₱412.1 million in 2017, and ₱572.5 million in 2016 (see Note 25).

8. Other Current Assets

	2018	2017
Restricted cash	**₱5,289,145**	₱2,642,327
Input VAT	**2,673,822**	1,978,904
Prepaid tax	**2,171,352**	1,942,081
Advances to National Grid Corporation of the Philippines (NGCP)	**1,725,176**	–
Prepaid expenses	**722,066**	2,252,905
Prepaid rent (see Note 35)	**93,894**	102,033
Others	**530,480**	111,636
	₱13,205,935	₱9,029,886

Restricted cash represents proceeds from sale of power under the control of trustees of TSI's lenders as per loan agreement (see Note 17). The asset will be used to pay the current portion of loans payable and interest payments in the following period.

Advances to NGCP pertain to the cost of construction and installation of substation and transmission facilities which are subject for reimbursement after completion of the project.

Prepaid expenses mainly include prepayments for insurance.

9. **Business Combinations**

Step-acquisition of Sacasun

In 2014, ARI, entered into a joint framework agreement to develop solar photovoltaic projects in the Philippines. Pursuant to their agreement, SunEdison Inc. (SEI), the ultimate parent company of SunE BV and Helios BV, and ARI invested in MHSCI and Sacasun for the 59-MWp solar project in San Carlos City, Negros Occidental.

On December 4, 2017, API signed a Share Purchase Agreement ("SPA") with SunE Solar B.V. (SunE BV) for the acquisition of 100% equity interest in Sunedison Philippines Helios BV (Helios BV). The offshore execution of the Deed of Transfer is subject to certain closing conditions under the SPA. These conditions were met on December 27, 2017.

The transaction will result in API owning all the issued and outstanding shares of Helios BV, which owns a 40% equity interest in each of MHSCI and Sacasun. MHSCI owns 25% of Sacasun. This allows the Company to increase its indirect ownership interest in MHSCI and SACASUN to 100%. The transaction was accounted for as a business combination achieved in stages. The fair value of the of the previously-held interest as at the date of acquisition is ₱330.9 million.

The resulting bargain purchase gain of ₱328.7 million and the loss on remeasurement of previously held interest of ₱18.5 million are included in other income as "Bargain purchase gain" in the 2017 consolidated statement of income (see Note 28). The bargain purchase gain is mainly due to the purchase price reflecting the ongoing difficulty of SEI as confirmed by its bankruptcy declaration which affected its ability to fulfill loan obligations.

In 2017, Sacasun contributed nil to the consolidated revenue and a net loss contribution to the Group amounting to ₱399.7 million. If the combination had taken place at the beginning of 2017, the Group's revenue would have been ₱119.41 billion and net income would have been ₱22.19 billion.

In 2018, the purchase price allocation in the step-acquisition of Sacasun was finalized. No changes were made on the provisional accounting done in 2017.

GNPower acquisition

On October 4, 2016, TPI finalized the purchase and sale agreements for the acquisition of the partnership interests held by affiliated investment funds of The Blackstone Group L.P. which own indirectly the majority and minority interests in GMCP and GNPD, respectively. The Philippine Competition Commission and the Board of Investments approved the acquisition on December 19, 2016 and November 21, 2016, respectively.

GMCP

GMCP owns and operates the Mariveles subcritical coal-fired power plant, consisting of two units totaling 604 MW. The plant is located in Mariveles, Bataan and started commercial operations in 2014. TPI acquired the 82.82% indirect interest in GMCP through its acquisition of Therma Mariveles Holdings L.P. (see Note 2).

The accounting for this business combination recognized in the December 31, 2016 consolidated financial statements was finalized in 2017. The business combination resulted to an increase in fair value of property, plant and equipment amounting to ₱342.8 million, increase in fair value of long-term debt amounting to ₱1.65 billion, decrease in the deferred tax asset of ₱434.1 million, a decrease in the derivative asset of ₱752.3 million, increase in the non-controlling interest of ₱579.8 million, and an increase in the goodwill recognized amounting to ₱3.08 billion. The goodwill can be attributed to GMCP's current workforce and operating capabilities.

In 2016, GMCP contributed ₱663.8 million to the consolidated revenue and ₱326.1 million to the net income of the Group. If the combination had taken place at the beginning of 2016, the Group's revenue would have been ₱105.48 billion and net income would have been ₱25.06 billion.

GNPD
GNPD is the project company established to develop, finance, design, engineer, construct, complete, maintain, own and operate the proposed supercritical coal-fired power project located also in Bataan. The GNPD project is currently under development and consists of up to two units totaling 668 MW. TPI acquired the 50.00% indirect interest in GNPD through its acquisition of Therma Dinginin L.P. (see Note 2).

Step-acquisition of EAUC
EAUC is a Philippine Economic Zone Authority (PEZA) registered power generation company, which provides electric power to PEZA economic zones in Lapu-Lapu City and Balamban, province of Cebu. Prior to the acquisition, EAUC was 50% owned by the Company and 50% owned by El Paso Philippines Energy Company, Inc. (EPPECI).

In June 2016, TPI acquired 50% ownership interest in EAUC from EPPECI. As a result of the acquisition, EAUC became a wholly owned subsidiary of the Company. The transaction was accounted for as a business combination achieved in stages.

In 2017, the purchase price allocation in the step- acquisition of EAUC was finalized. The fair value of the of the previously-held interest as at the date of acquisition is ₱547.4 million. No changes were made on the provisional accounting done in 2016.

The resulting bargain purchase gain of ₱34.2 million and the gain on remeasurement of previously held interest of ₱316.7 million are included in other income as "Bargain purchase gain" in the 2016 consolidated statement of income (see Note 28). The bargain purchase gain can be attributed to higher fair value of the identifiable assets and liabilities acquired over the acquisition price. The seller was an investment firm focusing on distressed securities.

In 2016, EAUC contributed ₱415.8 million to the consolidated revenue and ₱92.5 million to the net income of the Group. If the combination had taken place at the beginning of 2016, the Group's revenue would have been ₱89.47 billion and net income would have been ₱21.54 billion.

10. Investments and Advances

	2018	2017
Acquisition cost:		
Balance at beginning of the year	**₱28,140,556**	₱27,528,339
Additions during the year	**2,498,905**	1,499,035
Step acquisition to subsidiary (Note 9)	**–**	(878,009)
Redemptions during the year	**(80,216)**	(8,809)
Balance at end of year	**30,559,245**	28,140,556
Accumulated equity in net earnings:		
Balance at beginning of the year	**3,666,971**	3,618,877
Share in net earnings	**4,356,825**	4,697,864
Step acquisition to subsidiary (Note 9)	**–**	528,697
Dividends received or receivable	**(4,155,947)**	(5,178,467)
Balance at end of year	**3,867,849**	3,666,971
Share in net unrealized valuation gain on FVOCI/AFS investment of an associate	**101,727**	124,121
Share in actuarial gain on defined benefit plans of associates and joint ventures	**29,729**	4,963
Share in cumulative translation adjustments of associates and joint ventures	**321,139**	(144,507)
	452,595	(15,423)
	34,879,689	31,792,104
Less allowance for impairment losses	**568,125**	568,125
Investments at equity	**34,311,564**	31,223,979
Advances	**22,562**	24,616
	₱34,334,126	₱31,248,595

As of December 31, 2018 and 2017, the undistributed earnings of the associates and joint ventures included in the Group's retained earnings amounting to ₱3.87 billion and ₱3.67 billion, respectively, are not available for distribution to the stockholders unless declared by the investees (see Note 20).

2018

In 2018, the Group, through TPI, made capital contributions to GNPD amounting to US$47.0 million (₱2.50 billion).

In 2018, AEV Aviation, Inc. (AAI) redeemed 80,216 RPS held by the Company for ₱80.2 million.

2017

In 2017, the Group, through TPI, subscribed and paid for additional shares of Redondo Peninsula Energy, Inc. (RPEI) amounting to ₱243.8 million.

In June 2017, AAI redeemed 8,809 RPS held by the Company for ₱8.8 million.

In 2017, the Group, through Therma Dinginin BV, made capital contributions to GNPD amounting to US$23.8 million (₱1.26 billion).

The Group's associates and joint ventures and the corresponding equity ownership are as follows:

	Nature of Business	Percentage of Ownership 2018	2017	2016
MORE[1]	Holding company	**83.33**	83.33	83.33
GNPD (see Note 9)[2]	Power generation	**45.00**	50.00	50.00
Hijos de F. Escaño, Inc. (Hijos)	Holding company	**46.73**	46.73	46.73
Mazzaraty Energy Corporation	Retail electricity supplier	**44.87**	44.87	44.87
San Fernando Electric Light & Power Co., Inc. (SFELAPCO)	Power distribution	**43.78**	43.78	43.78
Pampanga Energy Ventures, Inc. (PEVI)	Holding company	**42.84**	42.84	42.84
La Filipina Electrika, Inc. (LFEI) *	Power generation	**40.00**	40.00	40.00
STEAG	Power generation	**34.00**	34.00	34.00
AAI	Service	**26.69**	26.69	26.69
Cebu Energy Development Corporation (CEDC)	Power generation	**26.40**	26.40	26.40
RPEI*	Power generation	**25.00**	25.00	25.00
Southern Philippines Power Corporation (SPPC)	Power generation	**20.00**	20.00	20.00
Western Mindanao Power Corporation (WMPC)	Power generation	**20.00**	20.00	20.00
MHSCI (see Note 9)	Holding company	**–**	–	60.00
Sacasun (see Note 9)	Power generation	**–**	–	35.00

[1] Joint ventures.
[2] GNPD change in ownership based on the Partnership Agreement.
** No commercial operations as of December 31, 2018.*

The principal place of business and country of incorporation of the Group's associates and joint ventures are in the Philippines.

All ownership percentages presented in the table above are direct ownership of the Group except for SFELAPCO. PEVI has direct ownership in SFELAPCO of 54.83% while the Group's direct ownership in SFELAPCO is 20.29% resulting to the Group's effective ownership in SFELAPCO of 43.78%.

The carrying values of investments, which are accounted for under the equity method are as follows:

	2018	2017
GNPD	**₱14,789,971**	₱12,251,529
MORE	**10,235,695**	9,926,376
STEAG	**4,185,758**	3,787,507
CEDC	**3,192,609**	3,019,192
RPEI	**528,383**	714,191
PEVI	**472,095**	523,356
SFELAPCO	**385,272**	365,809
Hijos	**176,037**	201,337
WMPC	**106,524**	112,420
SPPC	**81,856**	86,537
Others	**157,364**	235,725
	₱34,311,564	₱31,223,979

Following is the summarized financial information of significant associates and joint ventures:

	2018	2017	2016
MORE:			
Total current assets	₱141,293	₱126,125	₱149,022
Total noncurrent assets	12,196,002	11,889,592	11,692,969
Total current liabilities	(54,462)	(56,336)	(96,106)
Total noncurrent liabilities	–	–	(5,190)
Equity	₱12,282,833	₱11,959,381	₱11,740,695
Gross revenue	₱180,236	₱170,236	₱170,236
Operating profit	4,133,911	4,893,753	2,601,566
Net income	4,125,996	4,891,630	2,573,164
Other comprehensive income	96,116	55,115	145,426
Group's share in net income	₱3,439,589	₱4,160,480	₱2,164,217
Additional information:			
Cash and cash equivalents	₱31,873	₱16,134	₱39,817
WMPC:			
Total current assets	₱717,162	₱695,570	₱555,637
Total noncurrent assets	454,108	418,808	305,394
Total current liabilities	(551,781)	(457,032)	(222,299)
Total noncurrent liabilities	(74,341)	(82,718)	(71,782)
Equity	₱545,148	₱574,628	₱566,950
Gross revenue	₱1,393,417	₱1,439,482	₱1,636,339
Operating profit	13,006	98,838	130,244
Net income	20,521	71,933	91,646
Other comprehensive loss	–	–	(9,634)
Group's share in net income	₱4,104	₱14,387	₱18,329
SPPC:			
Total current assets	₱182,303	₱344,106	₱361,706
Total noncurrent assets	311,472	364,648	351,903
Total current liabilities	(36,361)	(221,096)	(42,285)
Total noncurrent liabilities	(58,491)	(68,326)	(66,430)
Equity	₱398,923	₱419,332	₱604,894
Gross revenue	₱160,831	₱523,854	₱632,504
Operating profit	(19,307)	133,508	204,593
Net income (loss)	(23,407)	272,756	272,756
Other comprehensive income	–	–	28,550
Group's share in net income	(₱4,681)	₱19,101	₱41,034
SFELAPCO*:			
Total current assets	₱1,104,307	₱1,576,530	₱1,406,869
Total noncurrent assets	2,567,663	2,215,130	1,996,643
Total current liabilities	(763,966)	(770,041)	(710,301)
Total noncurrent liabilities	(699,175)	(751,789)	(618,579)
Equity	₱2,208,829	₱2,269,830	₱2,074,632
Gross revenue	₱4,088,124	₱4,211,674	₱4,255,286
Operating profit	408,160	366,492	310,511
Net income	302,677	671,268	272,756
Other comprehensive income (loss)	(63,679)	334,246	8,671
Group's share in net income	₱168,307	₱323,674	₱73,415

(Forward)

	2018	2017	2016
STEAG:			
Total current assets	**₱3,459,931**	₱2,688,544	₱2,608,136
Total noncurrent assets	**10,477,098**	10,348,729	10,721,862
Total current liabilities	**(1,672,896)**	(1,394,855)	(2,018,724)
Total noncurrent liabilities	**(3,262,770)**	(3,453,496)	(3,651,920)
Equity	**₱9,001,363**	₱8,188,922	₱7,659,354
Gross revenue	**₱4,468,016**	₱4,502,920	₱4,626,910
Operating profit	**1,115,567**	1,020,846	1,205,122
Net income	**687,186**	516,893	928,891
Other comprehensive income (loss)	**(37,173)**	4,750	10,321
Group's share in net income	**₱87,508**	₱25,744	₱162,426
CEDC:			
Total current assets	**₱4,986,619**	₱5,419,700	₱5,666,952
Total noncurrent assets	**13,371,586**	14,308,208	14,901,922
Total current liabilities	**(2,158,754)**	(2,444,036)	(3,840,126)
Total noncurrent liabilities	**(8,943,522)**	(10,422,073)	(9,751,438)
Equity	**₱7,255,929**	₱6,861,799	₱6,977,310
Gross revenue	**₱9,728,163**	₱8,751,540	₱7,965,518
Operating profit	**3,300,164**	3,183,144	3,433,767
Net income	**1,880,853**	1,686,941	2,546,339
Other comprehensive income	**13,277**	2,451	7,188
Group's share in net income	**₱827,576**	₱742,254	₱1,120,389
Sacasun:			
Total current assets	**₱–**	₱–	₱838,410
Total noncurrent assets	**–**	–	3,642,924
Total current liabilities	**–**	–	(285,178)
Total noncurrent liabilities	**–**	–	(2,696,727)
Equity	**₱–**	₱–	₱1,499,429
Gross revenue	**–**	–	₱101,339
Operating loss	**–**	–	(112,596)
Net loss	**–**	–	(250,887)
Other comprehensive income	**–**	–	–
Group's share in net loss	**₱–**	₱–	(₱87,810)
Additional information:			
Cash and cash equivalents	**₱–**	₱–	₱378,908
Noncurrent financial liabilities	**–**	–	2,696,727
GNPD			
Total current assets	**₱1,705,863**	₱2,486,668	₱533,725
Total noncurrent assets	**40,707,048**	16,762,108	6,593,951
Total current liabilities	**(3,342,924)**	(539,651)	(131,137)
Total noncurrent liabilities	**(29,473,440)**	(14,242,277)	(4,537,895)
Equity	**₱9,596,547**	₱4,466,848	₱2,458,644
Gross revenue	**₱–**	₱–	₱–
Operating loss	**(352,858)**	(251,703)	(185,945)
Net loss	**(68,174)**	(376,336)	(5,907)
Other comprehensive income	**–**	–	–
Group's share in net loss	**(₱15,435)**	(₱188,167)	(₱2,953)
Additional information:			
Cash and cash equivalents	**₱911,642**	₱1,869,486	₱181,026
Noncurrent financial liabilities	**29,473,440**	14,019,562	4,489,160

	2018	2017	2016
Others**:			
Total current assets	₱453,445	₱1,116,846	₱580,170
Total noncurrent assets	2,842,300	3,395,270	3,395,270
Total current liabilities	(62,706)	(16,405)	(214,678)
Total noncurrent liabilities	(110,557)	(5,497)	(87,745)
Gross revenue	160,695	133,022	133,454
Net income (loss)	(727,830)	13,318	(103,315)

**Amounts are based on appraised values which are adjusted to historical amounts upon equity take-up of the Group. Using cost method in accounting for property, plant and equipment net income amounted to ₱952.8 million, ₱745.1 million and ₱361.8 million in 2018, 2017, and 2016, respectively, for SFELAPCO.*
***The financial information of insignificant associates and joint ventures is indicated under "Others".*

11. Joint Operation

		Percentage of Ownership		
Name of Joint Operation	Nature of Business	2018	2017	2016
PEC	Power generation	50.00	50.00	50.00

**PEC's principal place of business and country of incorporation is the Philippines.*

On May 15, 2014, the Group entered into a shareholders' agreement with TPEC Holdings Corporation (TPEC) for the development, construction and operation of the 400 MW Pagbilao Unit III in Pagbilao, Quezon through PEC. TPI and TPEC both agreed to provide their respective capital contributions and subscribe to common shares such that each stockholder owns 50% of the issued and outstanding shares of stock of PEC.

The financial and operating activities of the operation are jointly controlled by the participating shareholders and are primarily designed for the provision of output to the shareholders.

The Group's share of assets, liabilities, revenue, expenses and cash flows of joint operations are included in the consolidated financial statements on a line-by-line basis.

12. Property, Plant and Equipment

December 31, 2018

	Land	Buildings, warehouses and improvements	Power plant equipment and steam field assets (Note 19)	Transmission, distribution and substation equipment	Transportation equipment	Office furniture, fixtures and equipment	Leasehold improvements	Electrical equipment	Meters and laboratory equipment	Tools and others	Construction in progress	Total
Cost:												
Balances at beginning of year	₱1,596,788	₱21,495,721	₱141,380,362	₱17,401,054	₱1,405,923	₱924,894	₱2,762,709	₱5,500,971	₱1,551,939	₱1,252,071	₱56,262,403	₱251,534,835
Additions (see Notes 15 and 19)	32,391	86,872	1,496,624	1,121,508	218,259	156,385	11,770	169,545	98,907	74,069	7,905,143	11,371,473
Disposals	(4,316)	(178,189)	(461,778)	(18,163)	(74,429)	(54,926)	–	(6,089)	–	(40)	–	(797,930)
Reclassifications and others	(83,107)	(48,158)	26,028,151	953,741	20,311	25,884	(109)	20,786	241,328	9,113	(26,331,997)	835,943
Balances at end of year	1,541,756	21,356,246	168,443,359	19,458,140	1,570,064	1,052,237	2,774,370	5,685,213	1,892,174	1,335,213	37,835,549	262,944,321
Accumulated Depreciation and Amortization:												
Balances at beginning of year	–	3,660,718	31,734,935	4,665,817	836,705	678,892	468,165	2,225,590	(9,518)	600,068	–	44,861,372
Depreciation and amortization	–	773,109	5,958,157	585,036	165,986	173,959	127,244	258,944	88,272	58,648	–	8,189,355
Disposals	–	(151,677)	(225,945)	(24,020)	(62,592)	(19,893)	–	(2,054)	–	(562)	–	(486,743)
Reclassifications and others	–	207,547	(95,303)	903	8,425	14,135	–	(2)	4	(224)	–	135,485
Balances at end of year	–	4,489,697	37,371,844	5,227,736	948,524	847,093	595,409	2,482,478	78,758	657,930	–	52,699,469
Accumulated Impairment:												
Balances at beginning of year	–	–	–	–	2,088	792	251	–	–	–	2,645,029	2,648,160
Impairment (see Note 28)	–	–	486,280	–	–	–	–	–	–	–	–	486,280
Balances at end of year	–	–	486,280	–	2,088	792	251	–	–	–	2,645,029	3,134,440
Net book values	₱1,541,756	₱16,866,549	₱130,585,235	₱14,230,404	₱619,452	₱204,352	₱2,178,710	₱3,202,735	₱1,813,416	₱677,283	₱35,190,520	₱207,110,412

December 31, 2017

	Land	Buildings, warehouses and improvements	Power plant equipment and steam field assets (Note 19)	Transmission, distribution and substation equipment	Transportation equipment	Office furniture, fixtures and equipment	Leasehold improvements	Electrical equipment	Meters and laboratory equipment	Tools and others	Construction in progress	Total
Cost:												
Balances at beginning of year	₱1,436,461	₱21,361,116	₱137,570,972	₱16,005,968	₱1,359,708	₱826,632	₱2,735,378	₱3,516,283	₱1,345,439	₱1,152,427	₱42,900,110	₱230,210,494
Additions (see Notes 15 and 19)	160,327	81,195	2,225,275	1,293,991	137,176	102,026	8,275	90,235	187,709	95,680	13,786,197	18,168,086
Business combinations	–	–	1,688,302	–	1,460	545	16,185	1,883,466	–	–	166,514	3,756,472
Disposals	–	(2,340)	(129,841)	(33,439)	(90,462)	(15,014)	(2,416)	(14,423)	–	(417)	–	(288,352)
Reclassifications and others	–	55,750	25,654	134,534	(1,959)	10,705	5,287	25,410	18,791	4,381	(590,418)	(311,865)
Balances at end of year	1,596,788	21,495,721	141,380,362	17,401,054	1,405,923	924,894	2,762,709	5,500,971	1,551,939	1,252,071	56,262,403	251,534,835
Accumulated Depreciation and Amortization:												
Balances at beginning of year	–	2,936,915	26,388,015	4,186,424	746,994	540,774	349,574	1,633,329	(86,361)	538,442	–	37,234,106
Business combinations	–	–	359,311	–	365	154	4,586	398,818	–	–	–	763,234
Depreciation and amortization	–	723,940	5,104,284	514,047	155,606	151,163	115,369	194,420	76,844	78,129	–	7,113,802
Disposals	–	–	(69,617)	(33,439)	(68,893)	(14,162)	(1,945)	(977)	–	(1,560)	–	(190,593)
Reclassifications and others	–	(137)	(47,058)	(1,215)	2,633	963	581	–	(1)	(14,943)	–	(59,177)
Balances at end of year	–	3,660,718	31,734,935	4,665,817	836,705	678,892	468,165	2,225,590	(9,518)	600,068	–	44,861,372
Impairment (see Note 28)	–	–	–	–	2,088	792	251	–	–	–	2,645,029	2,648,160
Net book values	₱1,596,788	₱17,835,003	₱109,645,427	₱12,735,237	₱567,130	₱245,210	₱2,294,293	₱3,275,381	₱1,561,457	₱652,003	₱53,617,374	₱204,025,303

In 2018, the Group has determined that an impairment test has to be performed on certain segments of its property, plant and equipment amounting to ₱5.44 billion. In performing an impairment test calculation, the Group determined the recoverable amount of the relevant property, plant and equipment through value in use (VIU). VIU is derived based on financial budgets prepared by senior management covering the project's entire life. Pre-tax discount rate of 13.00% - 16.14% was used.

The calculation of value in use of these property, plant and equipment are most sensitive to the following assumptions:

- Discount rate - Discount rate reflects the management's estimate of risks applicable to these projects. The benchmark used by the management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates, consideration has been given to various market information, including, but not limited to, government bond yield, bank lending rates and market risk premium.

- Material price inflation - Estimates are obtained from published indices from which the materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise past actual material price movements are used as an indicator of future price movement.

- Growth rate - The long-term rate used to extrapolate future cash flows excludes expansions and potential improvements in the future. Management also recognized the possibility of new entrants, which may have significant impact on existing growth rate assumptions. Management however, believes that new entrants will not have a significant adverse impact on the forecasts included in the financial budget.

The impairment test calculation has not resulted to any recognition of an impairment loss in 2018.

In 2018 and 2017, additions to power plant equipment and steam field assets include asset retirement obligation amounting to ₱560.0 million and ₱1.06 billion, respectively (see Note 19).

In 2018 and 2017, additions to "Construction in progress" include capitalized borrowing costs, net of interest income earned from short-term deposits amounting to ₱2.51 billion and ₱2.62 billion, respectively (see Note 17). The rate used to determine the amount of borrowing costs eligible for capitalization ranged from 4.9% to 9.4% and 4.9% to 7.79% which are the effective interest rate of the specific borrowings in 2018 and 2017, respectively.

Property, plant and equipment with carrying amounts of ₱126.90 billion and ₱125.41 billion as of December 31, 2018 and 2017, respectively, are used to secure the Group's long-term debts (see Note 17).

Fully depreciated property and equipment with gross carrying amount of ₱5.00 billion and ₱4.76 billion as of December 31, 2018 and 2017, respectively, are still in use.

A significant portion of the Group's property, plant and equipment relates to various projects under "Construction in progress" as of December 31, 2018 and 2017, as shown below:

Project Company	Estimated Cost to Complete (in millions)		% of Completion	
	2018	2017	**2018**	2017
TVI	**₱7,246**	₱10,375	**81%**	73%
Hedcor Bukidnon	**–**	2,858	**100%**	75%
PEC (see Note 11)	**–**	2,294	**100%**	87%

As of December 31, 2018, the Group classifies its transmission assets as property held for sale as an ongoing negotiation for the sale of these assets with NGCP which is expected to be consummated in 2019. The property held for sale was recorded at its recoverable amount of ₱675.8 million (see Note 28).

13. Intangible Assets

December 31, 2018

	Goodwill	Service concession rights	Franchise	Project development costs	Customer contracts	Software and licenses	Total
Cost:							
Balances at beginning of year	₱40,270,344	₱5,299,470	₱3,078,431	₱263,436	₱60,068	₱252,690	₱49,224,439
Additions during the year	–	50,410	–	175,954	–	54,648	281,012
Impairment (see Note 28)	(45,933)	–	–	(50,922)	–	–	(96,855)
Exchange differences	–	128,727	–	–	–	–	128,727
Balances at end of year	40,224,411	5,478,607	3,078,431	388,468	60,068	307,338	49,537,323
Accumulated amortization:							
Balances at beginning of year	–	2,327,513	352,738	–	40,045	159,485	2,879,781
Amortization	–	361,484	76,961	–	11,441	42,162	492,048
Balances at end of year	–	2,688,997	429,699	–	51,486	201,647	3,371,829
Net book values	₱40,224,411	₱2,789,610	₱2,648,732	₱388,468	₱8,582	₱105,691	₱46,165,494

December 31, 2017

	Goodwill	Service concession rights	Franchise	Project development costs	Customer contracts	Software and licenses	Total
Cost:							
Balances at beginning of year	₱40,270,344	₱5,199,074	₱3,078,431	₱273,725	₱60,068	₱234,710	₱49,116,352
Additions during the year	–	85,257	–	69,592	–	17,839	172,688
Business combination	–	–	–	–	–	141	141
Impairment (see Note 28)	–	–	–	(79,881)	–	–	(79,881)
Exchange differences	–	15,139	–	–	–	–	15,139
Balances at end of year	40,270,344	5,299,470	3,078,431	263,436	60,068	252,690	49,224,439
Accumulated amortization:							
Balances at beginning of year	–	1,976,951	275,777	–	28,604	116,963	2,398,295
Amortization	–	351,542	76,961	–	11,441	42,522	482,466
Reclassifications	–	(980)	–	–	–	–	(980)
Balances at end of year	–	2,327,513	352,738	–	40,045	159,485	2,879,781
Net book values	₱40,270,344	₱2,971,957	₱2,725,693	₱263,436	₱20,023	₱93,205	₱46,344,658

Impairment Testing of Goodwill

Goodwill acquired through business combinations have been attributed to individual CGUs.

The carrying amount of goodwill follows:

	2018	2017
GMCP (see Note 9)	**₱39,345,126**	₱39,345,126
LEZ	**467,586**	467,586
HI	**220,228**	220,228
BEZ	**191,471**	237,404
	₱40,224,411	₱40,270,344

The recoverable amounts of the investments have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period.

Key assumptions used in value-in-use calculation for December 31, 2018 and 2017

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Discount rates and growth rates

The discount rates applied to cash flow projections are from 10.63% to 14.80% in 2018 and 11.18% to 14.93% in 2017, and cash flows beyond the five-year period are extrapolated using a zero percent growth rate.

Revenue assumptions

Revenue assumptions are based on the expected electricity to be sold. In 2018, revenue growth of 6% in year 1, 4% for the next two years, 3% in year 4 and 5% in year 5 was applied for LEZ; 9% in year 1, 5% in year 2 and 2% in the next three years to BEZ; 4% in year 1, 0% in year 2 , 2% in year 3, 7% in year 4 and 3% in year 5 for GMCP; and 45% in year 1, -1% in year 2, 0% in year 3, 11% I year 4, and -4% in year 5 was applied for HI.

In 2017, revenue growth of -6% in year 1, 6% in year 2, 4% for the next two years and 3% in year 5 was applied for LEZ; -18% in year 1, 3% in the next two years, 1% in year 4 and 0% in year 5 was applied to BEZ; -1% in years 1, 2 and 4, -4% in year 3, and 7% in year 5 for GMCP; and 8% in year 1, 18% in year 2, 7% for the next two years, and -5% in year 5 was applied for HI.

Materials price inflation

In 2018, the assumption used to determine the value assigned to the materials price inflation is 3.47% in 2019, decreases to 3.37% in 2020 and 3.10% in 2021. It then settles at 3.00% for the next 2 years until 2023. The starting point of 2019 is consistent with external information sources.

In 2017, the assumption used to determine the value assigned to the materials price inflation is 3.17% in 2018 and increases to 3.20% in 2019. It then settles at 3.00% for the next 3 years until 2022.

Foreign exchange rates
In 2018, the assumption used to determine foreign exchange rate is a steady Philippine peso at a rate of ₱55.00 to a dollar from 2019 until 2023. In 2017, the assumption used to determine foreign exchange rate is a steady Philippine peso at a rate of ₱51.41 to a dollar from 2018 until 2022.

Based on the assumptions used in impairment testing, an impairment loss on goodwill amounting to ₱45.9 million on the investment in BEZ was recognized in 2018. No impairment of goodwill was recognized in 2017. Impairment loss on goodwill amounting to ₱169.5 million on the investment in MEZ was recognized in 2016.

With regard to the assessment of value-in-use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

<u>Service Concession Rights</u>

Service concession arrangements entered into by the Group are as follows:

a. On November 24, 1996, LHC entered into a PPA with NPC, its sole customer, for the construction and operation of a 70-megawatt hydroelectric power generating facility (the Power Station) in Bakun River in Benguet and Ilocos Sur Provinces on a build-operate-transfer scheme. Under the PPA, LHC shall deliver to NPC all electricity generated over a cooperation period of 25 years until February 5, 2026.

   On the Transfer Date, as defined in the PPA, LHC shall transfer to NPC, free from any lien or encumbrance, all its rights, title and interest in and to the Power Station and all such data as operating manuals, operation summaries/transfer notes, design drawings and other information as may reasonably be required by NPC to enable it to operate the Power Station.

   Since NPC controls the ownership of any significant residual interest of the Power Station at the end of the PPA, the PPA is accounted for under the intangible asset model as LHC has the right to charge users for the public service under the service concession arrangement.

   The Power Station is treated as intangible asset and is amortized over a period of 25 years, which is the service concession period, in accordance with Philippine Interpretation IFRIC 12. The intangible asset with a carrying value of ₱1.97 billion and ₱2.13 billion as of December 31, 2018 and 2017, respectively, was used as collateral to secure LHC's long-term debt (see Note 17).

b. On May 15, 2003, the SBMA, AEV and DLP entered into a DMSA for the privatization of the SBMA Power Distribution System (PDS) on a rehabilitate-operate-and-transfer arrangement; and to develop, construct, lease, lease out, operate and maintain property, structures and machineries in the Subic Bay Freeport Zone (SBFZ).

   Under the terms of the DMSA, SEZ was created to undertake the rehabilitation, operation and maintenance of the PDS (the Project), including the provision of electric power service to the customers within the Subic Bay Freeport Secured Areas of the SBFZ as well as the collection of the relevant fees from them for its services and the payment by SBMA of the service fees throughout the service period pursuant to the terms of the DMSA. The DMSA shall be effective for 25-year period commencing on the turnover date.

For and in consideration of the services and expenditures of SEZ for it to undertake the rehabilitation, operation, management and maintenance of the Project, it shall be paid by the SBMA the service fees in such amount equivalent to all the earnings of the Project, provided, however, that SEZ shall remit the amount of ₱40.0 million to the SBMA at the start of every 12-month period throughout the service period regardless of the total amount of all earnings of the Project. The said remittances may be reduced by the outstanding power receivables from SBMA, including streetlights power consumption and maintenance, for the immediate preceding year.

Since SBMA controls ownership of the equipment at the end of the agreement, the PDS are treated as intangible assets and are amortized over a period of 25 years up to year 2028, in accordance with Philippine Interpretation IFRIC 12.

The carrying value of the intangible asset arising from the service concession arrangement amounted to ₱720.3 million and ₱736.4 million as of December 31, 2018 and 2017, respectively.

c. The transmission and distribution equipment of MEZ are located within Mactan Export Processing Zone (MEPZ) II. Since MCIAA controls ownership of the equipment at the end of the agreement, the equipment are treated as intangible assets and are amortized over a period of 21 years up to year 2028, in accordance with Philippine Interpretation IFRIC 12.

   The carrying amount of the intangible asset arising from the service concession arrangement amounted to ₱97.2 million and ₱105.3 million as of December 31, 2018 and 2017, respectively.

Customer Contracts

Customer contracts pertain to agreements between LEZ and the locators within Lima Technology Center relating to the provision of utility services to the locators. These contracts are treated as intangible assets and are amortized over a period of 5.25 years since 2014.

The amortization of intangible assets is included in "Depreciation and amortization" under "Operating Expenses" in the consolidated statements of income.

14. Other Noncurrent Assets

	2018	2017
Input VAT and tax credit receivable, net of impairment loss of ₱253.2 million (see Note 28)	**₱5,276,346**	₱6,739,800
PSALM deferred adjustment - net of current portion (see Notes 6 and 40k)	**3,183,089**	–
Prepaid rent - net of current portion (see Note 35)	**1,051,102**	533,455
Advances to contractors and projects	**464,139**	2,135,907
Refundable deposits	**375,014**	378,043
Investment properties	**3,300**	3,300
Prepaid taxes	**159,942**	306,948
Others	**147,247**	119,902
	₱10,660,179	₱10,217,355

15. Trade and Other Payables

	2018	2017
Trade payables (see Notes 23 and 33)	**₱8,999,633**	₱7,813,066
Output VAT	**2,768,254**	2,917,565
Amounts due to contractors and other third parties	**1,735,685**	2,021,216
PSALM deferred adjustment (see Note 40k)	**1,042,861**	–
Accrued expenses:		
Interest	**2,101,531**	1,592,087
Taxes and fees	**1,196,611**	963,108
Energy fees and fuel purchase	**413,141**	264,063
Claims conversion costs	**239,377**	229,702
Materials and supplies cost	**82,098**	710,258
Insurance	**17,764**	1,114
Dividends payable	**59,834**	48,433
Unearned revenues	**38,765**	32,952
Customers' deposit	**6,633**	52,109
Nontrade	**2,725,289**	1,944,669
Others	**373,812**	1,262,041
	₱21,801,288	₱19,852,383

Trade payables are non-interest bearing and generally on 30-day terms.

Accrued taxes and fees represent accrual of real property tax, transfer tax and other fees.

Amounts due to contractors and other third parties include liabilities arising from the power plant construction (see Note 12).

Nontrade payables include amounts due to PSALM pertaining to Generation Rate Adjustment Mechanism (GRAM), Incremental Currency Exchange Rate Adjustment (ICERA), and Universal Charges.

Others include withholding taxes and other accrued expenses and are generally payable within 12 months from the balance sheet date.

16. Short-term Loans

	Interest Rate	2018	2017
Peso loans - financial institutions - unsecured	5.00% - 6.75% in 2018 2.50% - 4.00% in 2017	**₱10,915,600**	₱4,717,300
Temporary advances (see Note 32)		**630,960**	–
		₱11,546,560	₱4,717,300

The bank loans are unsecured short-term notes payable obtained from local banks. These loans are covered by the respective borrower's existing credit lines with the banks and are not subject to any significant covenants and warranties.

Interest expense on short-term loans amounted to ₱374.6 million in 2018, ₱131.2 million in 2017 and ₱66.5 million in 2016 (see Note 33).

17. Long-term Debts

	Annual Interest Rate	2018	2017
Company:			
Bonds due 2024	7.51%	**₱7,700,000**	₱–
Bonds due 2021	5.21%	**6,600,000**	6,600,000
Bonds due 2026	6.10%	**3,400,000**	3,400,000
Bonds due 2027	5.34%	**3,000,000**	3,000,000
Bonds due 2025	8.51%	**2,500,000**	–
Subsidiaries:			
GMCP			
Financial institutions - unsecured	LIBOR + 1.7% - 4.85% in 2018 LIBOR + 1.7% - 4.00% in 2017	**41,375,202**	30,706,949
TVI			
Financial institutions - secured	5.50% - 9.00% in 2018 5.50% - 6.91% in 2017	**31,520,000**	29,890,000
TSI			
Financial institutions - secured	5.05% - 5.69% in 2018 4.50% - 5.15% in 2017	**21,349,704**	22,660,043
APRI			
Financial institutions - secured	4.48% - 5.20%	**9,374,400**	10,624,640
Hedcor Bukidnon			
Financial institutions - secured	4.75% - 6.78% in 2018 4.75% - 6.78% in 2017	**9,327,700**	9,327,700
Hedcor Sibulan			
Fixed rate corporate notes - unsecured	4.11% - 5.42%	**3,900,400**	4,097,000
HI			
Financial institution - secured	5.25% - 7.41% in 2018 5.25% in 2017	**450,000**	540,000
Financial institution - secured	7.87%	**1,390,000**	–
VECO			
Financial institution - unsecured	4.58% - 4.81% in 2018 4.49% - 4.81% in 2017	**975,000**	1,176,000
LHC			
Financial institutions - secured	2.00% - 2.75%	**875,458**	1,105,950
DLP			
Financial institution - unsecured	4.58% - 4.81% in 2018 4.49% - 4.81% in 2017	**731,250**	882,000
AI			
AEV - unsecured (see Note 32)		**300,000**	300,000
SEZ			
Financial institution - unsecured	5.00%	**169,500**	226,000
CLP			
Financial institution - unsecured	4.58% - 4.81% in 2018 4.49% - 4.81% in 2017	**146,250**	176,400
TPI			
Financial institutions - unsecured	LIBOR + 1.10%	–	15,153,755
Joint operation (see Note 11)			
Financial institutions - secured	5.50% - 8.31% in 2018 5.50% - 7.38% in 2017	**14,473,052**	14,066,500
		159,557,916	153,932,937
Less deferred financing costs		**1,500,225**	1,879,437
		158,057,691	152,053,500
Less current portion - net of deferred financing costs		**8,697,404**	20,692,751
		₱149,360,287	₱131,360,749

** London Interbank Offered Rate (LIBOR)*

Interest expense and other financing costs on long-term debt amounted to ₱6.86 billion in 2018, ₱6.33 billion in 2017, and ₱2.81 billion in 2016 (see Note 33).

Company
In September 2014, the Company issued a total of ₱10.00 billion bonds, broken down into a ₱6.60 billion 7-year bond due 2021 at an annual fixed rate equivalent to 5.21% and a ₱3.40 billion 12-year bond due 2026 at an annual fixed rate equivalent to 6.10%. The bonds have been rated PRS Aaa by PhilRatings.

In July 2017, the Company issued a ₱3.00 billion 10-year bond due 2027 at an annual fixed rate equivalent to 5.34%. The bonds have been rated PRS Aaa by PhilRatings.

In October 2018, the Company issued a total of ₱10.20 billion bonds, broken down into a ₱7.70 billion 5.25-year bond due 2024 at an annual fixed rate equivalent to 7.51% and a ₱2.50 billion 7-year bond due 2025 at an annual fixed rate equivalent to 8.51%. The bonds have been rated PRS Aaa by PhilRatings.

The principal amount of the bonds shall be payable on a lump sum basis on the respective maturity date at its face value. These bonds may be redeemed in advance by the Company based on stipulated early redemption option dates and on agreed early redemption price.

GMCP
On January 18, 2010, GMCP entered into offshore and onshore facility agreements with China Development Bank Corporation (Offshore Loan) as well as BDO, Bank of the Philippine Islands (BPI), China Banking Corporation, Security Bank Corporation, and Standard Chartered Bank - Singapore (collectively for the Onshore Loan) which was fully drawn in 2012. The proceeds of the loan were used solely for the payment of Project Costs.

On August 29, 2017, GMCP entered into a Notes Facility Agreement (NFA) with local banks with BDO Capital and Investment Corporation as Lead Arranger, with the maximum principal amount of $800.0 million, the proceeds of which will be used to refinance GMCP's existing loan obligation and for other general corporate purposes.

On September 29, 2017, $600.0 million was drawn from the NFA, out of which $462.4 million was used to prepay the outstanding loans. In February 2018, the remaining principal amount of $200.0 million was drawn from the NFA.

GMCP also has an existing facility agreement with BDO to finance the GMCP's working capital requirements.

Loans payable consist of the following dollar denominated loans as of December 31, 2018 and 2017:

	2018	2017	Interest Rate Per Annum	Payment Schedule
NFA				
Fixed Rate Loan	**$483,450**	$300,000	(i) Fixed rates of 2.5514% and 3.4049% plus 1.45% margin for the first seven-year period and (ii) Fixed Rate Loan Benchmark plus 1.45% margin for the subsequent five-year period	24 semi-annual payments starting from the first Interest Payment Date
LIBOR Loan	**288,450**	300,000	Six-month LIBOR plus 1.70% margin	24 semi-annual payments starting from the first Interest Payment Date
Working Capital				
BDO	**15,000**	15,000	LIBOR plus 1.7% applicable margin	Payable within three months
Total borrowings	**786,900**	615,000		
Less unamortized portion of deferred financing costs	**(4,049)**	(5,712)		
	782,851	609,288		
Less current portion	**70,229**	37,451		
Loans payable - net of current portion	**$712,622**	$571,837		

TVI

On June 18, 2015, TVI entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of ₱31.97 billion. As of December 31, 2018, ₱31.52 billion has been drawn from the loan facility.

The loan is available in two tranches, as follows:

- Tranche A, in the amount of ₱25.97 billion, with interest rate fixed for the first eight years and will be repriced and fixed for another seven years.
- Tranche B, in the amount of ₱6.00 billion, with a fixed interest rate for fifteen years.

70% of the principal amount of the loan is payable in 22 equal semi-annual installments, with the remaining 30% payable in full on the final maturity date. TVI may prepay the loan in part or in full beginning on the end of the fourth year from the initial advance or on the project completion date, whichever is earlier. Any prepayment shall be subject to a certain percentage of prepayment penalty on the principal to be prepaid.

The loan is secured by a mortgage of all its assets with carrying amount of ₱42.77 billion as of December 31, 2018, and a pledge of TVI's shares of stock held by its shareholders.

TSI

On October 14, 2013, TSI entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of ₱24.00 billion, which was fully drawn in 2014.

On October 28, 2015, TSI entered into an additional loan agreement with principal amount of ₱1.68 billion, which was fully drawn in 2016.

The loan is secured by a mortgage of all its assets with carrying amount of ₱36.41 billion as of December 31, 2018, and a pledge of TSI's shares of stock held by the Company and TPI.

Interest rate ranging from 4.50% - 5.15% is fixed for the first seven years and will be repriced and fixed for another five years. In 2018, upon release of AP guarantee, interest was increased by 0.5%.

Fifty percent of the principal amount of the loan is payable at semi-annual installments within 12 years with a two-year grace period, with the remaining 50% payable in full on the final maturity date.

TSI may prepay the loan in part or in full beginning on the end of the third year from the initial advance or on the project completion date, whichever is earlier. Any prepayment shall be subject to a certain percentage of prepayment penalty on the principal to be prepaid.

APRI
On February 29, 2016, APRI entered into an omnibus agreement with BPI, Asian Development Bank (ADB) and Credit Guarantee and Investment Facility (CGIF). This has been certified to have met the requirements of the Climate Bond Standard. The loan proceeds were used for return of equity to shareholders and to fund necessary operating and capital expenditures.

The loan is available in two tranches, as follows:

a. The Notes Facility Agreement, in the amount of ₱10.7 billion, with interest rate already fixed for ten years. 41.6% of the principal amount is payable in ten equal semi-annual installments and the balance payable in another ten semi-annual installments
b. The ADB Facility Agreement, in the amount of ₱1.8 billion, with interest rate fixed for five years and principal repayments made in ten equal semi-annual installments.

The loan is secured by mortgage of its assets with carrying amount of ₱26.14 billion as of December 31, 2018, and pledge of APRI's shares of stock held by shareholders and assignment of Project Agreements and Project Accounts.

Hedcor Bukidnon
On September 22, 2015, Hedcor Bukidnon entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of up to ₱10.00 billion. As of December 31, 2018, ₱9.33 billion has been drawn from the loan facility based on the agreed schedule.

The term of the loan is 15 years, and the first principal repayment will take place 42 months after the financial close, or six months after project completion. Principal repayments shall be made in equal semi-annual installments, with a balloon payment not to exceed 30% of the loan amount. Interest rate on the loan is computed at the time of each drawdown, as designated under the agreement.

The loan is secured by an assignment of trade receivables, a pledge of all issued share capital of Hedcor Bukidnon, and corporate suretyship from AP to guarantee the debt service until (a) project completion and (b) receipt of Feed-In-Tariff payments or contracting power supply agreements equivalent to at least the break-even capacity.

Hedcor Sibulan
On November 17, 2016, Hedcor Sibulan entered into a NFA with various institutions with Metrobank - Trust Banking Group as the Notes Facility Agent, for a loan facility with an aggregate principal amount of up to ₱4.10 billion to return equity to shareholders, and for other general corporate purposes.

The unsecured notes were issued in ten tranches with interest payable semi-annually at annual fixed rates ranging from 4.05% - 5.42% with principal maturity as follows:

Tranche	Maturity Date	Principal Amount
1	Fifteen months from issue date	₱96.8 million
2	Two (2) years from issue date	₱96.8 million
3	Three (3) years from issue date	₱84.0 million
4	Four (4) years from issue date	₱84.0 million
5	Five (5) years from issue date	₱284.0 million
6 (Series A&B)	Six (6) years from issue date	₱388.4 million
7 (Series A&B)	Seven (7) years from issue date	₱445.8 million
8	Eight (8) years from issue date	₱451.4 million
9	Nine (9) years from issue date	₱508.1 million
10 (Series A&B)	Ten (10) years from issue date	₱1,660.7 million

Prior to maturity date, Hedcor Sibulan may redeem in whole or in part the relevant outstanding notes on any interest payment date plus a one percent prepayment penalty.

HI
On August 6, 2013, HI availed of a ten-year ₱900 million loan from a local bank. This loan is subject to a semi-annual principal payment with annual interest fixed at 5.25% for the first 5 years. For the remaining five years, interest rate will be repriced and fixed on the fifth anniversary from the drawdown date. The debt is secured by a pledge of HI's shares of stock held by ARI.

On December 14, 2018, HI entered into a Notes Facility Agreement with a local bank to borrow ₱1.39 billion, which will mature on August 31, 2033, to finance the rehabilitation and/or expansion of the Bineng hydropower plant, refinance its short-term loans and for other general corporate purposes. This loan is subject to a semi-annual principal payment with annual interest fixed at 7.8747% for the first 5 years. For the next five years, interest rate will be repriced and fixed one banking day prior to August 31, 2023. For the remaining five years, interest rate will be repriced and fixed one banking day prior to August 31, 2028. The debt is secured by a continuing suretyship from ARI.

VECO

On December 20, 2013, VECO availed of a ₱2.00 billion loan from the NFA it signed on December 17, 2013 with Land Bank of the Philippines (LBP). The unsecured notes were issued in ten tranches of ₱200 million with interest payable semi-annually at annual fixed rates ranging from 3.50% - 4.81% and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱200M balloon payment on maturity date
C	December 20, 2016	₱1M each on first 2 years; ₱198M on maturity date
D	December 20, 2017	₱1M each on first 3 years; ₱197M on maturity date
E	December 20, 2018	₱1M each on first 4 years; ₱196M on maturity date
F	December 20, 2019	₱1M each on first 5 years; ₱195M on maturity date
G	December 20, 2020	₱1M each on first 6 years; ₱194M on maturity date
H	December 20, 2021	₱1M each on first 7 years; ₱193M on maturity date
I	December 20, 2022	₱1M each on first 8 years; ₱192M on maturity date
J	December 20, 2023	₱1M each on first 9 years; ₱191M on maturity date

Prior to maturity date, VECO may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

LHC

On April 24, 2012, LHC entered into an omnibus agreement with Philippine National Bank and Banco De Oro to borrow US$43.1 million with maturity on April 26, 2022 and payable in 20 semi-annual installments. Interest is repriced and paid semi-annually. Annual interest rate ranges from 2.00% to 2.75%.

Intangible asset arising from service concession arrangement with carrying value of ₱1.97 billion as of December 31, 2018, was used as collateral to secure LHC's long-term debt (see Note 13).

DLP

On December 20, 2013, DLP availed of a ₱1.50 billion loan from the NFA it signed on December 17, 2013 with LBP. The unsecured notes were issued in ten tranches of ₱150 million with interest payable semi-annually at annual fixed rates ranging from 3.50% to 4.81% and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱150M balloon payment on maturity date
C	December 20, 2016	₱0.75M each on first 2 years; ₱148.5M on maturity date
D	December 20, 2017	₱0.75M each on first 3 years; ₱147.8M on maturity date
E	December 20, 2018	₱0.75M each on first 4 years; ₱147M on maturity date
F	December 20, 2019	₱0.75M each on first 5 years; ₱146.2M on maturity date
G	December 20, 2020	₱0.75M each on first 6 years; ₱145.5M on maturity date
H	December 20, 2021	₱0.75M each on first 7 years; ₱144.8M on maturity date
I	December 20, 2022	₱0.75M each on first 8 years; ₱144M on maturity date
J	December 20, 2023	₱0.75M each on first 9 years; ₱143.2M on maturity date

Prior to maturity date, DLP may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

SEZ
On July 7, 2011, SEZ issued ₱565.0 million worth of fixed rate notes to Metropolitan Bank and Trust Company. Interest on the notes is subject to quarterly payment at 5% annual fixed interest rate. Principal is payable annually over 10 years at an equal amortization of ₱56.5 million.

CLP
On December 20, 2013, CLP availed of a ₱300 million loan from the NFA it signed on December 17, 2013 with LBP. The unsecured notes were issued in ten tranches of ₱30.0 million with interest payable semi-annually at annual fixed rates ranging from 3.50% - 4.81% and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱30M balloon payment on maturity date
C	December 20, 2016	₱0.15M each on first 2 years; ₱29.7M on maturity date
D	December 20, 2017	₱0.15M each on first 3 years; ₱29.6M on maturity date
E	December 20, 2018	₱0.15M each on first 4 years; ₱29.4M on maturity date
F	December 20, 2019	₱0.15M each on first 5 years; ₱29.2M on maturity date
G	December 20, 2020	₱0.15M each on first 6 years; ₱29.1M on maturity date
H	December 20, 2021	₱0.15M each on first 7 years; ₱29.0M on maturity date
I	December 20, 2022	₱0.15M each on first 8 years; ₱28.8M on maturity date
J	December 20, 2023	₱0.15M each on first 9 years; ₱28.62M on maturity date

Prior to maturity date, CLP may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

TPI
In December 2016, TPI executed and availed a US$623.5 million syndicated bridge loan facility to partially finance the GNPower acquisition. The loan bears a floating interest rate based on a credit spread over applicable LIBOR, repriced every 30 days. The balance of the loan was fully paid in August 2018.

Long-term debt of Joint Operation (see Note 11)
This pertains to TPI's share of the outstanding project debt of its joint operation.

In May 2014, PEC entered into an omnibus agreement with various local banks for a loan facility in the aggregate principal amount of up to ₱33.31 billion with maturity period of 15 years.

The loan facility is subject to a semi-annual interest payment with annual fixed interest ranging from 5.50% - 8.31%. The loans may be voluntarily prepaid in full or in part commencing on and from the third year of the date of initial drawdown with a prepayment penalty.

The loans are secured by a mortgage of substantially all its assets with carrying amount of ₱41.32 billion as of December 31, 2018, and a pledge of the shares of stock held by the joint operators.

Loan covenants
The loan agreements on long-term debt of the Group provide for certain restrictions with respect to, among others, mergers or consolidations or other material changes in their ownership, corporate set-up or management, investment and guaranties, incurrence of additional debt, disposition of mortgage of assets, payment of dividends, and maintenance of financial ratios at certain levels.

These restrictions and requirements were complied with by the Group as of December 31, 2018 and 2017.

18. Customers' Deposits

	2018	2017
Lines and poles	**₱1,101,664**	₱1,115,646
Transformers	**1,044,037**	1,315,127
Bill and load	**3,862,663**	3,663,917
	₱6,008,364	₱6,094,690

Transformers and lines and poles deposits are obtained from certain customers principally as cash bond for their proper maintenance and care of the said facilities while under their exclusive use and responsibility.

Effective April 1, 2010, the Amended Distribution Services and Open Access Rules (Amended DSOAR), increased the refund rate from 25% to 75% of the gross distribution revenue generated from the extension lines and facilities until such amounts are fully refunded.

Bill deposit serves to guarantee payment of bills by a customer which is estimated to equal one month's consumption or bill of the customer.

Both the Magna Carta and Distribution Services and Open Access Rules (DSOAR) also provide that residential and non-residential customers, respectively, must pay a bill deposit to guarantee payment of bills equivalent to their estimated monthly billing. The amount of deposit shall be adjusted after one year to approximate the actual average monthly bills. A customer who has paid his electric bills on or before due date for three consecutive years, may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise, bill deposits and accrued interests shall be refunded within one month from termination of service, provided all bills have been paid.

In cases where the customer has previously received the refund of his bill deposit pursuant to Article 7 of the Magna Carta, and later defaults in the payment of his monthly bills, the customer shall be required to post another bill deposit with the distribution utility and lose his right to avail of the right to refund his bill deposit in the future until termination of service. Failure to pay the required bill deposit shall be a ground for disconnection of electric service.

Interest expense on customers' deposits amounted to ₱2.1 million in 2018, ₱3.2 million in 2017, and ₱2.5 million in 2016 (see Note 33).

The Group classified customers' deposit under noncurrent liabilities due to the expected long-term nature of these deposits. The portion of customers' deposit to be refunded amounted to ₱6.6 million and ₱52.1 million as of December 31, 2018 and 2017, respectively, and are presented as part of "Trade and other payables" (see Note 15).

19. Asset Retirement Obligation

Asset retirement obligation includes the estimated costs to decommission, abandon and perform surface rehabilitation on the steam field assets at the end of their useful lives, and the best estimate of the expenditure required to settle the obligation to decommission power plant at the end of its lease term (see Note 12).

	2018	2017
Balances at beginning of year	**₱2,959,060**	₱1,821,577
Change in accounting estimate	**559,996**	1,056,396
Accretion of decommissioning liability (see Note 33)	**159,754**	81,087
Balances at end of year	**₱3,678,810**	₱2,959,060

The actual dismantling and removal cost could vary substantially from the above estimate because of new regulatory requirements, changes in technology, increased cost of labor, materials, and equipment or actual time required to complete all dismantling and removal activities. Adjustment, if any, to the estimated amount will be recognized prospectively as they become known and reliably estimable.

20. Equity

a. Paid-in Capital (number of shares in disclosed figures)

	2018	2017
Capital Stock		
Authorized - ₱1 par value		
Common shares - 16,000,000,000 shares		
Preferred shares - 1,000,000,000 shares		
Issued		
Common shares - 7,358,604,307 shares	**₱7,358,604**	₱7,358,604
Additional Paid-in Capital	**12,588,894**	12,588,894
	₱19,947,498	₱19,947,498

On May 25, 2007, the Company listed with the PSE its 7,187,664,000 common shares with a par value of ₱1.00 to cover the initial public offering (IPO) of 1,787,664,000 common shares at an issue price of ₱5.80 per share. On March 17, 2008, the Company listed an additional 170,940,307 common shares, which it issued pursuant to a share swap agreement at the IPO price of ₱5.80 per share. The total proceeds from the issuance of new shares amounted to ₱10.37 billion. The Company incurred transaction costs incidental to the initial public offering amounting to ₱412.4 million, which is charged against "Additional paid-in capital" in the consolidated balance sheet.

As of December 31, 2018, 2017 and 2016, the Company has 629, 629 and 628 shareholders, respectively.

Preferred shares are non-voting, non-participating, non-convertible, redeemable, cumulative, and may be issued from time to time by the BOD in one or more series. The BOD is authorized to issue from time to time before issuance thereof, the number of shares in each series, and all the designations, relative rights, preferences, privileges and limitations of the shares of each series. Preferred shares redeemed by the Company may be reissued. Holders thereof are entitled to receive dividends payable out of the unrestricted retained earnings of the Company at a rate based on the offer price that is either fixed or floating from the date of the issuance to final redemption. In either case, the rate of dividend, whether fixed or floating, shall be referenced, or be a discount or premium, to market-determined benchmark as the BOD may determine at the time of issuance with due notice to the SEC.

In the event of any liquidation or dissolution or winding up of the Company, the holders of the preferred stock shall be entitled to be paid in full the offer price of their shares before any payment in liquidation is made upon the common stock.

There are no preferred shares issued and outstanding as of December 31, 2018 and 2017.

b. Retained Earnings

On November 24, 2016, the BOD approved the appropriation of ₱13.16 billion retained earnings for the following projects:

Projects	Full commercial operations by	Appropriation (in billions)
300 MW Cebu Coal	1st half of 2018	₱8.16
2x300 MW Coal-fired	End of 4th quarter 2021	5.00
Total		₱13.16

On November 27, 2014, the BOD approved the appropriation of ₱20.90 billion retained earnings for the following projects:

Projects	Full commercial operations by	Appropriation (in billions)
68 MW Manolo Fortich Hydro	End of 4th quarter 2016	₱2.60
300 MW Davao Coal	End of 1st half 2015	9.50
14 MW Sabangan Hydro	End of 1st half 2015	2.80
400 MW Coal Fired Pagbilao Unit 3	End of 4th quarter 2017	6.00
Total		₱20.90

On March 8, 2016, the BOD approved the declaration of regular cash dividends of ₱1.20 a share (₱8.83 billion) and special cash dividends of ₱0.46 a share (₱3.38 billion) to all stockholders of record as of March 22, 2016. These dividends were paid on April 19, 2016.

On March 7, 2017, the BOD approved the declaration of regular cash dividends of ₱1.36 a share (₱10.01 billion) to all stockholders of record as of March 21, 2017. These dividends were paid on April 10, 2017.

On March 8, 2018, the BOD approved the declaration of regular cash dividends of ₱1.39 a share (₱10.23 billion) to all stockholders of record as of March 22, 2018. These dividends were paid on April 12, 2018.

To comply with the requirements of Section 43 of the Corporation Code, on March 7, 2019, the BOD approved the declaration of regular cash dividends of ₱1.47 a share (₱10.85 billion) to all stockholders of record as of March 21, 2019. The cash dividends are payable on April 5, 2019.

On March 7, 2019, the BOD also approved the following:

- Appropriation of ₱11.90 billion retained earnings for the equity infusions into GNPD to fund the construction of GNPD units 1 & 2, which is expected to have full commercial operations by end of 2020.
- Reversal of ₱12.30 billion retained earnings appropriation that was set up in 2014 for the equity requirements of the 300 MW Davao Coal and 14 MW Sabangan Hydro projects.

c. The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint arrangement amounting to ₱52.77 billion and ₱40.11 billion as at December 31, 2018 and 2017, respectively. Such amounts are not available for distribution until such time that the Company receives the dividends from the respective subsidiaries, associates and joint arrangement (see Note 10).

21. Sale of Power

Sale from Distribution of Power

1. The Uniform Rate Filing Requirements on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001, specified that the billing for sale and distribution of power and electricity will have the following components: Generation Charge, Transmission Charge, System Loss Charge, Distribution Charge, Supply Charge, Metering Charge, the Currency Exchange Rate Adjustment and Interclass and Lifeline Subsidies. National and local franchise taxes, the Power Act Reduction (for residential customers) and the Universal Charge are also separately indicated in the customer's billing statements.

2. Pursuant to Section 43(f) of Republic Act (R.A.) No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), and Rule 15, section 5(a) of its Implementing Rules and Regulations (IRR), the ERC promulgated the Distribution Wheeling Rates Guidelines on December 10, 2004. These were subsequently updated and released on July 26, 2006 as the Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Utilities entering Performance Based Regulation (PBR).

   Details of the PBR regulatory period and the date of implementation of the approved rates are as follows:

	CLP	DLP	VECO	SEZ
Current regulatory period	April 1, 2009 to March 31, 2013	July 1, 2010 to June 30, 2014	July 1, 2010 to June 30, 2014	October 1, 2011 to September 30, 2015
Date of implementation of approved distribution supply and metering charges	May 1, 2009	August 1, 2010	August 1, 2010	November 26, 2011

   The reset process for the Third Regulatory Period to adjust the previously approved distribution supply and metering charges were deferred due to the changes on PBR rules.

   Through ERC Resolution No. 25 Series of 2016 dated July 12, 2016, the ERC adopted the Resolution Modifying the RDWR. Based on this Resolution, the Fourth Regulatory Period shall be as follows:
   (i) CLP: April 1, 2017 to March 31, 2021
   (ii) DLP and VECO: July 1, 2018 to June 30, 2022
   (iii) SEZ: October 1, 2019 to September 30, 2023

   The reset process for the Fourth Regulatory Period has not started for all private DUs as the above-mentioned ERC rules have not been published, which is a condition for their effectivity.

   Total sale from distribution of power amounted to ₱44.88 billion, ₱43.53 billion and ₱44.59 billion in 2018, 2017 and 2016, respectively.

Sale from Generation of Power and Retail Electricity

a. Energy Trading through the Philippine Wholesale Electricity Spot Market (WESM)

Certain subsidiaries are trading participants and direct members under the generator sector of the WESM. These companies are allowed to access the WESM Market Management System through its Market Participant Interface (MPI). The MPI is the facility that allows the trading participants to submit and cancel bids and offers, and to view market results and reports. Under its price determination methodology as approved by the ERC, locational marginal price method is used in computing prices for energy bought and sold in the market on a per node, per hour basis. In the case of bilateral power supply contracts, however, the involved trading participants settle directly with their contracting parties.

Total sale of power to WESM amounted to ₱6.77 billion, ₱3.80 billion and ₱2.88 billion in 2018, 2017 and 2016, respectively.

b. Power Supply Agreements

i. *Power Supply Contracts assumed under Asset Purchase Agreement (APA) and IPP Administration Agreement*

Revenue recognition for customers under the power supply contracts assumed under the APA and IPP Administration Agreements are billed based on the contract price which is calculated based on the pricing structure approved by the ERC. Rates are calculated based on the time-of-use pricing schedule with corresponding adjustments using the GRAM and the ICERA.

ii. *Power Purchase/Supply Agreement and Energy Supply Agreement (PPA/PSA and ESA)*

Certain subsidiaries have negotiated contracts with NPC, Private Distribution Utilities, Electric Cooperatives and Commercial and Industrial Consumers referred to as PPA/PSA or ESA. These contracts provide a tariff that allows these companies to charge for capacity fees, fixed operating fees and energy fees.

iii. Feed-in-Tariff (FIT)

Certain subsidiaries were issued a FIT Certificate of Compliance from the ERC which entitles them to avail the FIT rate. These subsidiaries also signed agreements with the National Transmission Corporation (NTC), the FIT administrator. These agreements enumerate the rights and obligations under the FIT rules and FIT-All guidelines, in respect to the full payment of the actual energy generation of the generator, at a price equivalent to the applicable FIT rate, for the entire duration of its FIT eligibility period.

Total sale of power under power supply agreements amounted to ₱55.08 billion in 2018, ₱53.61 billion in 2017, and ₱32.81 billion in 2016.

c. Retail Electricity Supply Agreements (see Note 40i)

Certain subsidiaries have negotiated contracts with contestable customers. These contracts provide supply and delivery of electricity where capacity fees, fixed operating fees and energy fees are at fixed price/kwh or time of use.

Total sale of power under retail electricity supply agreements amounted to ₱24.22 billion, ₱18.07 billion and ₱8.48 billion in 2018, 2017 and 2016, respectively.

22. Purchased Power

Distribution

DLP and CLPentered into contracts with NPC/PSALM for the purchase of electricity. The material terms of the contract are as follows:

	Term of Agreement with NPC/PSALM	Contract Energy (megawatt hours/year)
DLP	3 years; 2018 - 2021	815,666
CLP	3 years; 2018 - 2021	106,986

The Group's distribution utilities also entered into Transmission Service Agreements with NGCP for the transmission of electricity.

Total power purchases from the NPC/PSALM and NGCP, net of discounts, amounted to ₱8.82 billion in 2018, ₱9.08 billion in 2017, and ₱7.52 billion in 2016. The outstanding payable to the NPC/PSALM and NGCP on purchased power, presented as part of the "Trade and other payables" account in the consolidated balance sheets amounted to ₱736.3 million and ₱755.7 million as of December 31, 2018 and 2017, respectively (see Note 15).

Generation

Purchased power takes place during periods when power generated from power plants are not sufficient to meet customers' required power as stated in the power supply contracts. Insufficient supply of generated energy results from the shutdowns due to scheduled maintenance or an emergency situation. The Group purchases power from WESM to ensure uninterrupted supply of power and meet the requirements in the power supply contracts. Total purchases from WESM amounted to ₱5.05 billion in 2018, ₱6.26 billion in 2017, and ₱1.42 billion in 2016.

The Group entered into Replacement Power Contracts with certain related parties (see Note 32). Under these contracts, the Group supplies power to counterparties when additional power is needed. Correspondingly, when faced with energy shortfalls, the Group purchases power from counterparties.

Retail Electricity Supply

AESI pays PSALM monthly generation payments using the formula specified in the IPP Administration Agreement. Total generation payments to PSALM amounted to ₱2.05 billion, ₱1.82 billion, and ₱1.90 billion in 2018, 2017 and 2016, respectively.

23. Cost of Generated Power

	2018	2017	2016
Fuel costs (see Note 7)	**₱29,423,013**	₱22,324,825	₱12,211,477
Steam supply costs (see Note 36a)	**5,227,807**	4,981,187	4,108,576
Energy fees	**646,317**	668,558	627,751
Ancillary charges	**355,260**	547,291	340,869
Wheeling expenses	**21,821**	35,895	27,599
	₱35,674,218	₱28,557,756	₱17,316,272

24. General and Administrative

	2018	2017	2016
Personnel costs (see Note 26)	**₱2,647,636**	₱2,609,400	₱2,289,959
Taxes and licenses	**1,496,779**	1,033,227	1,078,810
Outside services (see Note 32)	**1,132,345**	1,087,347	795,305
Professional fees (see Note 32)	**608,107**	256,779	249,802
Repairs and maintenance	**420,524**	377,788	308,133
Corporate social responsibility (CSR) (see Note 40k)	**308,918**	331,027	144,728
Provision for credit and impairment loss of trade receivables (see Note 6)	**235,818**	77,708	145,786
Transportation and travel (see Note 32)	**230,658**	195,016	191,348
Rent (see Notes 32 and 35)	**224,758**	95,974	96,634
Insurance	**209,590**	226,712	384,516
Information technology and communication	**108,332**	106,213	86,520
Training	**70,080**	80,482	70,734
Advertisements	**41,768**	53,583	31,564
Entertainment, amusement and recreation	**39,689**	23,862	29,833
Market service and administrative fees	**30,818**	23,075	28,324
Guard services	**2,960**	10,463	6,443
Freight and handling	**2,343**	5,245	679
Gasoline and oil	**1,631**	1,339	1,109
Supervision and regulatory fees	**797**	2,413	1,308
Others	**374,961**	624,615	672,341
	₱8,188,512	₱7,222,268	₱6,613,876

"Others" include host community-related expenses, provision for probable losses, claims conversion costs and utilities expenses.

25. Operations and Maintenance

	2018	2017	2016
Personnel costs (see Note 26)	**₱1,781,283**	₱1,482,775	₱1,032,249
Repairs and maintenance	**1,659,288**	1,262,634	596,379
Taxes and licenses	**861,626**	1,052,800	363,556
Insurance	**752,425**	789,210	446,525
Outside services	**684,074**	808,436	506,741
Materials and supplies (see Note 7)	**201,903**	339,734	261,536
Rent (see Note 35)	**171,989**	204,818	83,071
Fuel and lube oil (see Note 7)	**84,806**	72,412	310,935
Transportation and travel	**37,444**	69,795	57,471
Others	**290,351**	366,574	310,844
	₱6,525,189	₱6,449,188	₱3,969,307

"Others" include environmental, health and safety expenses, and transmission charges.

26. Personnel Costs

	2018	2017	2016
Salaries and wages	**₱3,798,218**	₱2,978,818	₱2,341,096
Employee benefits (see Note 27)	**630,701**	1,113,357	981,112
	₱4,428,919	₱4,092,175	₱3,322,208

27. Pension Benefit Plans

Under the existing regulatory framework, RA 7641, otherwise known as *The Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity. It further states that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The Company and its subsidiaries have funded, non-contributory, defined retirement benefit plans ("Plan") covering all regular and full-time employees and requiring contributions to be made to separately administered funds. The retirement benefit fund ("Fund") of each subsidiary is in the form of a trust being maintained and managed by AEV, under the supervision of the Board of Trustees (BOT) of the Plan. The BOT, whose members are also corporate officers, is responsible for the investment of the Fund assets. Taking into account the Plan's objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of net benefit expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the respective plans.

Net benefit expense (recognized as part of personnel costs under operations and maintenance and general and administrative expenses):

	2018	2017	2016
Current service cost	**₱189,906**	₱193,346	₱171,879
Net interest cost	**15,379**	10,730	23,880
Past service cost	**(9,564)**	15,319	3,665
	₱195,721	₱219,395	₱199,424

Remeasurement effects to be recognized in other comprehensive income:

	2018	2017	2016
Actuarial gains (losses) due to:			
Changes in financial assumptions	**₱61,493**	(₱4,455)	₱12,799
Changes in demographic Assumptions	**34,416**	182,355	(170)
Return on assets excluding amount included in net interest cost	**(96,856)**	27,498	23,935
Experience adjustments	**15,705**	(252,957)	(32,107)
	₱14,758	(₱47,559)	₱4,457

Net pension assets

	2018	2016
Fair value of plan assets	**₱1,150,771**	₱885,860
Present value of the defined benefit obligation	**(1,023,794)**	(829,460)
	₱126,977	₱56,400

Net pension liabilities

	2018	2016
Present value of the defined benefit obligation	**₱1,153,382**	₱1,501,862
Fair value of plan assets	**(908,525)**	(1,140,634)
	₱244,857	₱361,228

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

	2018	2017
At January 1	₱2,331,322	₱2,063,181
Net benefit expense:		
Current service cost	189,906	193,346
Net interest cost	119,262	106,180
Past service cost	(9,564)	15,319
	299,604	314,845
Benefits paid	(330,546)	(109,276)
Transfers and others	(11,590)	(1,745)
Remeasurements in other comprehensive income:		
Actuarial losses (gains) due to:		
Experience adjustments	(15,705)	252,957
Changes in demographic assumptions	(34,416)	(182,355)
Changes in financial assumptions	(61,493)	4,455
	(111,614)	75,057
Decrease from business combinations (see Note 9)	–	(10,740)
At December 31	₱2,177,176	₱2,331,322

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

	2018	2017
At January 1	₱2,026,494	₱1,861,461
Contribution by employer	367,917	179,487
Interest income included in net interest cost	103,883	95,450
Fund transfer from affiliates	(11,596)	(1,743)
Return on assets excluding amount included in net interest cost	(96,856)	27,498
Benefits paid	(330,546)	(135,659)
At December 31	₱2,059,296	₱2,026,494

Changes in net pension liability recognized in the consolidated balance sheets are as follows:

	2018	2017
At January 1	₱304,828	₱201,720
Retirement expense during the year	195,721	219,395
Transfers and others	6	26,381
Contribution to retirement fund	(367,917)	(179,487)
Actuarial loss (gain) recognized during the year	(14,758)	47,559
Decrease from business combinations (see Note 9)	–	(10,740)
At December 31	₱117,880	₱304,828

The fair value of plan assets by each class as at the end of the reporting period are as follows:

	2018	2017
Cash and fixed-income investments	**₱1,470,918**	₱914,608
Equity instruments:		
Financial Institution	**39,582**	4,661
Power	**103,193**	83,680
Holding	**178,538**	44
Others	**267,065**	1,023,501
	588,378	1,111,886
Fair value of plan assets	**₱2,059,296**	₱2,026,494

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets are diverse and do not have any concentration risk.

The BOT reviews the performance of the plans on a regular basis. It assesses whether the retirement plans will achieve investment returns which, together with contributions, will be sufficient to pay retirement benefits as they fall due. The Group also reviews the solvency position of the different member companies on an annual basis and estimates, through the actuary, the expected contribution to the Retirement plan in the subsequent year.

The principal assumptions used as of December 31, 2018, 2017 and 2016 in determining pension benefit obligations for the Group's plans are shown below:

	2018	2017	2016
Discount rates	**4.87%-8.18%**	3.48%-5.21%	4.91%-5.64%
Salary increase rates	**7.00%**	6.00%	5.00%-6.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2018, assuming if all other assumptions were held constant:

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rates	100	(₱101,985)
	(100)	119,219
Future salary increases	100	138,160
	(100)	(120,317)

The Group's defined benefit pension plans are funded by the Company and its subsidiaries.

The Group expects to contribute ₱209.1 million to the defined benefit plans in 2019. The average durations of the defined benefit obligation as of December 31, 2018 and 2017 are 7.78 to 28.76 years and 7.78 to 28.76 years, respectively.

28. Other Income (Expense) - Net

	2018	2017	2016
Surcharges	**₱508,492**	₱435,428	₱403,730
Non-utility operating income	**142,363**	145,948	94,916
Rental income	**42,290**	39,704	39,415
Bargain purchase gain (see Note 9)	**–**	310,198	350,939
Gain on redemption of shares	**–**	–	16,051
Write off of project costs and other assets	**(50,922)**	(79,881)	(249,176)
Gain (loss) on disposal of property, plant and equipment	**(292,799)**	(86,193)	70,252
Impairment losses on property, plant and equipment, goodwill and other assets (see Notes 4, 12, 13 and 14)	**(847,619)[a]**	(3,233,036)[b]	(169,469)
Net foreign exchange gain (losses) (see Note 34)	**(2,055,085)**	203,083	(197,226)
Others - net	**1,260,969**	560,749	1,309,780
	(₱1,292,311)	(₱1,704,000)	₱1,669,212

Included in "Net foreign exchange gain (losses)" are the net gains and losses relating to currency forward transactions (see Note 34).

Impairment losses on property, plant and equipment, goodwill and other assets:

[a] This includes the ₱486.5 million net book value of the Bajada Power Plant which was fully impaired when it ceased operations in 2018 and the loss of ₱282.3 million from recognizing the recoverable amount of transmission assets which were classified as property held for sale.

[b] This includes the ₱2.64 billion impairment loss of Aseagas biomass plant which temporarily ceased its operation to unavailability of the supply of organic effluent wastewater from source and in January 2018, Aseagas decided to make the plant shutdown permanent. As of December 31, 2017, the recoverable amount of Aseagas' property, plant and equipment was determined based on their fair value less costs of disposal. The fair value of the property, plant and equipment was based on valuation performed by an accredited independent appraiser (see Note 12).

"Others" include income arising from the proceeds from claims of liquidating damages from contractor due to the delay of the completion of PEC's and TSI's power plant amounting to ₱340.7 million and ₱785.4 million in 2018 and 2016, respectively. "Others" also include non-recurring items like sale of scrap and sludge oil, and reversal of provisions.

29. Income Tax

The provision for income tax account consists of:

	2018	2017	2016
Current:			
Corporate income tax	**₱3,713,410**	₱3,772,375	₱3,841,051
Final tax	**143,714**	119,833	201,545
	3,857,124	3,892,208	4,042,596
Deferred	**(931,501)**	(33,810)	(546,456)
	₱2,925,623	₱3,858,398	₱3,496,140

Reconciliation between the statutory income tax rate and the Group's effective income tax rates follows:

	2018	2017	2016
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Nondeductible interest expense	**5.77**	6.42	7.14
Nondeductible depreciation expense	**1.18**	1.22	1.31
Deductible lease payments	**(9.57)**	(9.89)	(10.33)
Income under income tax holiday (ITH)	**(11.90)**	(9.29)	(6.69)
Nontaxable share in net earnings of associates and joint ventures	**(4.61)**	(5.25)	(4.37)
Interest income subjected to final tax at lower rates - net	**(0.89)**	(0.78)	(1.28)
Others	**0.34**	1.94	(1.80)
	10.32%	14.37%	13.98%

Deferred income taxes of the companies in the Group that are in deferred income tax assets and liabilities position consist of the following at December 31:

	2018	2017
Net deferred income tax assets:		
Allowances for impairment and probable losses	₱325,356	₱244,555
Net income from commissioning	1,562,631	1,562,631
Difference between the carrying amount of nonmonetary assets and related tax base	(1,673,699)	(1,235,885)
Unrealized foreign exchange loss	1,324,958	580,384
Net operating loss carryover (NOLCO)	189,267	–
Pension asset (liability):		
Unamortized contributions for past service	96,333	107,417
Recognized in other comprehensive income	127,234	194,421
Recognized in statements of income	(80,907)	(144,964)
Unamortized streetlight donations capitalized	(822)	(959)
Unamortized customs duties and taxes capitalized	(50,281)	(28,323)
Net provision for rehabilitation and restoration costs	393,397	120,409
Others	20,228	7,110
Net deferred income tax assets	₱2,233,695	₱1,406,796

	2018	2017
Net deferred income tax liabilities:		
Unamortized franchise	₱794,620	₱817,708
Fair value adjustments of property, plant and Equipment	144,117	150,493
Unrealized foreign exchange gains	4,004	26,957
Capitalized interest	–	8,623
Unamortized customs duties and taxes capitalized	9,008	30,915
Pension asset (liability):		
Recognized in other comprehensive income	127,798	140,409
Recognized in statements of income	(149,723)	(191,948)
Unamortized past service cost	(42,743)	(13,330)
Allowances for impairment and probable losses	(33,738)	(47,376)
Others	4,947	(9,850)
Net deferred income tax liabilities	₱858,290	₱912,601

In computing for deferred income tax assets and liabilities, the rates used were 30% and 10%, which are the rates expected to apply to taxable income in the years in which the deferred income tax assets and liabilities are expected to be recovered or settled and considering the tax rate for renewable energy (RE) developers as allowed by the Renewable Energy Act of 2008 (see Note 40j).

No deferred income tax assets were recognized on the Company's NOLCO and MCIT amounting to ₱1.05 billion and ₱49.1 million, respectively, as of December 31, 2018 and ₱647.9 million and ₱44.4 million, respectively, as of December 31, 2017, since management expects that it will not generate sufficient taxable income in the future that will be available to allow all of the deferred income tax assets to be utilized.

There are no income tax consequences to the Group attaching to the payment of dividends to its shareholders.

30. Earnings Per Common Share

Earnings per common share amounts were computed as follows:

	2018	2017	2016
a. Net income attributable to equity holders of the parent	**₱21,707,603**	₱20,416,442	₱20,002,582
b. Weighted average number of common shares issued and outstanding	**7,358,604,307**	7,358,604,307	7,358,604,307
Earnings per common share (a/b)	**₱2.95**	₱2.77	₱2.72

There are no dilutive potential common shares for the years ended December 31, 2018, 2017 and 2016.

31. Operating Segment Information

Operating segments are components of the Group that engage in business activities from which they may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's CODM to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information is available.

For purposes of management reporting, the Group's operating businesses are organized and managed separately according to services provided, with each segment representing a strategic business segment. The Group's identified operating segments, which are consistent with the segments reported to the BOD, which is the Group's CODM, are as follows:

- "Power Generation" segment, which is engaged in the generation and supply of power to various customers under power supply contracts, ancillary service procurement agreements and for trading in WESM;
- "Power Distribution" segment, which is engaged in the distribution and sale of electricity to the end-users; and
- "Parent Company and Others", which includes the operations of the Company, retail electricity sales to various off takers that are considered to be eligible contestable customers (see Note 40i) and electricity related services of the Group such as installation of electrical equipment.

The power generation segment's revenue from contracts with customers is mainly from power supply contracts. Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Power Generation	Power Distribution	Parent and Others	Total
Revenue from power supply contracts	₱54,237,387	₱–	₱–	₱54,237,387
Revenue from distribution services	–	44,880,546	–	44,880,546
Revenue from retail electricity sales	–	–	24,216,767	24,216,767
Revenue from non-power supply contracts	7,617,298	–	–	7,617,298
Revenue from technical and management services	–	–	620,086	620,086
	₱61,854,685	₱44,880,546	₱24,836,853	₱131,572,084

The revenue from contracts with customers is consistent with the revenue with external customers presented in Segment information.

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

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenue and segment expenses are consistent with the consolidated statement of income. Interest expense and financing charges, depreciation and amortization expense and income taxes are managed on a per segment basis.

The Group has inter-segment revenues in the form of management fees as well as inter-segment sales of electricity which are eliminated in consolidation. The transfers are accounted for at competitive market prices on an arm's-length transaction basis.

Segment assets do not include deferred income tax assets, pension asset and other noncurrent assets. Segment liabilities do not include deferred income tax liabilities, income tax payable and pension liability. Capital expenditures consist of additions of property, plant and equipment and intangible asset - service concession rights. Adjustments as shown below include items not presented as part of segment assets and liabilities.

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and that the revenue can be reliably measured. Sale of power to Manila Electric Company (MERALCO) accounted for 22%, 24%, and 36% of the power generation revenues of the Group in 2018, 2017, and 2016 respectively.

Financial information on the operations of the various business segments are summarized as follows:

2018

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱61,854,685	₱44,880,546	₱24,836,853	₱-	₱131,572,084
Inter-segment	23,725,675	1,518,792	3,041,129	(28,285,596)	–
Total Revenue	₱85,580,360	₱46,399,338	₱27,877,982	(₱28,285,596)	₱131,572,084
Segment Results	₱27,643,753	₱6,039,597	₱2,813,332	₱–	₱36,496,682
Unallocated corporate income - net	(1,611,364)	429,911	(110,858)	–	(1,292,311)
INCOME FROM OPERATIONS	26,032,389	6,469,508	2,702,474	–	35,204,371
Interest expense and other financing costs	(10,178,990)	(370,814)	(1,532,354)	–	(12,082,158)
Interest income	574,737	47,394	257,954	–	880,085
Share in net earnings of associates and joint ventures	4,152,912	168,307	22,444,396	(22,408,790)	4,356,825
Provision for income tax	(459,775)	(1,681,315)	(784,533)	–	(2,925,623)
NET INCOME	₱20,121,273	₱4,633,080	₱23,087,937	(₱22,408,790)	₱25,433,500
OTHER INFORMATION					
Investments	₱33,119,798	₱857,368	₱133,369,580	(₱133,035,182)	₱34,311,564
Capital Expenditures	₱5,973,352	₱2,642,276	₱15,155	₱–	₱8,630,783
Segment Assets	₱280,845,233	₱32,008,694	₱170,041,730	(₱93,233,481)	₱389,662,176
Segment Liabilities	₱185,274,861	₱25,093,441	₱55,420,889	(₱12,703,682)	₱253,085,509
Depreciation and Amortization	₱7,511,495	₱988,911	₱24,537	₱156,460	₱8,681,403

2017

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱57,418,126	₱44,391,734	₱18,440,774	(₱859,331)	₱119,391,303
Inter-segment	20,833,785	–	2,937,047	(23,770,832)	–
Total Revenue	₱78,251,911	44,391,734	₱21,377,821	(₱24,630,163)	₱119,391,303
Segment Results	₱27,493,307	₱5,623,677	₱1,056,745	₱–	₱34,173,729
Unallocated corporate income - net	(2,808,401)	773,943	330,458	–	(1,704,000)
INCOME FROM OPERATIONS	24,684,906	6,397,620	1,387,203	–	32,469,729
Interest expense and other financing costs	(9,225,679)	(293,339)	(1,728,762)	–	(11,247,780)
Interest income	413,527	34,014	479,471	–	927,012
Share in net earnings of associates and joint ventures	4,362,804	323,674	20,540,260	(20,528,874)	4,697,864
Provision for income tax	(1,799,796)	(1,667,979)	(390,623)	–	(3,858,398)
NET INCOME	₱18,435,762	₱4,793,990	₱20,287,549	(₱20,528,874)	₱22,988,427
OTHER INFORMATION					
Investments	₱29,896,526	₱889,166	₱115,650,315	(₱115,212,028)	₱31,223,979
Capital Expenditures	₱13,549,936	₱2,565,221	₱39,052	₱–	₱16,154,209
Segment Assets	₱252,921,514	₱26,977,414	₱151,029,118	(₱69,451,047)	₱361,476,999
Segment Liabilities	₱173,675,992	₱19,266,696	₱52,829,898	(₱8,274,051)	₱237,498,535
Depreciation and Amortization	₱6,532,040	₱884,511	₱23,257	₱156,460	₱7,596,268

2016

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱35,692,441	₱44,666,133	₱8,884,996	(₱80,301)	₱89,163,269
Inter-segment	15,776,746	–	2,864,422	(18,641,168)	–
Total Revenue	₱51,469,187	44,666,133	₱11,749,418	(₱18,721,469)	₱89,163,269
Segment Results	₱20,676,138	₱5,069,839	₱564,323	₱–	₱26,310,300
Unallocated corporate income - net	755,235	647,448	266,529	–	1,669,212
INCOME FROM OPERATIONS	21,431,373	5,717,287	830,852	–	27,979,512
Interest expense and other financing costs	(6,861,084)	(215,531)	(627,396)	–	(7,704,011)
Interest income	720,107	23,395	340,033	–	1,083,535
Share in net earnings of associates and joint ventures	3,403,589	157,619	19,831,376	(19,751,374)	3,641,210
Provision for income tax	(1,773,580)	(1,506,918)	(215,642)	–	(3,496,140)
NET INCOME	₱16,920,405	₱4,175,852	₱20,159,223	(₱19,751,374)	₱21,504,106
OTHER INFORMATION					
Investments	₱29,291,667	₱834,689	₱111,280,064	(₱110,842,490)	₱30,563,930
Capital Expenditures	₱25,824,296	₱2,393,246	₱31,624	₱–	₱28,249,166
Segment Assets	₱272,490,917	₱24,741,202	₱118,496,136	(₱58,721,361)	₱357,006,894
Segment Liabilities	₱213,658,178	₱18,772,584	₱12,867,100	(₱500,188)	₱244,797,674
Depreciation and Amortization	₱5,095,592	₱790,751	₱22,118	₱135,066	₱6,043,527

32. Related Party Disclosures

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

The Group enters into transactions with its parent, associates, joint ventures and other related parties, principally consisting of the following:

a. The Company provides services to certain associates and joint ventures such as technical and legal assistance for various projects and other services.

b. Energy fees are billed by the Group to related parties and the Group also purchased power from associates and joint ventures, arising from the following:

    - PPA/PSA or ESA (Note 21)
    - Replacement power contracts (Note 22)

c. AEV provides human resources, internal audit, legal, treasury and corporate finance services, among others, to the Group and shares with the member companies the business expertise of its highly qualified professionals. Transactions are priced based on agreed rates, and billed costs are always benchmarked to third party rates. Service level agreements are in place to ensure quality of service. This arrangement enables the Group to maximize efficiencies and realize cost synergies. These transactions result to professional and technical fees paid by the Group to AEV (see Note 24).

d. Aviation services are rendered by AAI, an associate, to the Group.

e. Lease of commercial office units by the Group from Cebu Praedia Development Corporation (CPDC) and Aboitizland, Inc. and subsidiaries. CPDC and Aboitizland, Inc. are subsidiaries of AEV.

f. Aboitiz Construction, Inc. (ACI), a wholly owned subsidiary of ACO, rendered its services to the Group for various construction projects.

g. LEZ entered into a Concession Agreement with Lima Land, Inc. (LLI) for which it is entitled to the exclusive right to distribute and supply electricity to LLI's locators.

h. Interest-bearing advances from AEV availed by the Group. The annual interest rates are determined on arm's length basis.

i. Cash deposits with Union Bank of the Philippines (UBP) earn interest at prevailing market rates (see Note 5). UBP is an associate of AEV.

j. The Company obtained Standby Letter of Credit (SBLC) and is acting as surety for the benefit of certain associates and joint ventures in connection with loans and credit accommodations. The Company provided SBLC for STEAG, CEDC, and SNAP B in the amount of ₱1.02 billion in 2018, ₱1.04 billion in 2017 and ₱1.15 billion in 2016.

The above transactions are settle in cash.

The consolidated balance sheets and consolidated statements of income include the following significant account balances resulting from the above transactions with related parties:

a. Revenue - Technical, management and other fees

	Revenue			Receivable			
	2018	2017	2016	**2018**	2017	Terms	Conditions
Associates							
SFELAPCO	**₱132,623**	₱72,158	₱58,119	**₱36,851**	₱41,266	30-day; interest-free	Unsecured; no impairment
CEDC	**71,880**	101,367	103,945	**–**	7,978	30-day; interest-free	Unsecured; no impairment
GNPD	**42,360**	40,556	–	**3,960**	40,556	30-day; interest-free	Unsecured; no Impairment
RPEI	**–**	–	5,882	**–**	–	30-day; interest-free	Unsecured; no Impairment
	₱246,863	₱214,081	₱167,946	**₱40,811**	₱89,800		

b. Revenue - Sale of power

	Revenue			Receivable			
	2018	2017	2016	**2018**	2017	Terms	Conditions
AEV and subsidiaries							
Pilmico Foods Corporation	**₱166,121**	₱216,330	₱156,227	**₱5,765**	₱22,503	30-day; interest-free	Unsecured; no Impairment
Lima Land, Inc.	**47,947**	3,031	2,835	**1,509**	405	30-day; interest-free	Unsecured; no Impairment
Aboitizland, Inc. and subsidiaries	**14,588**	18,060	11,192	**1,698**	12,477	30-day; interest-free	Unsecured; no Impairment
Cebu Industrial Park Developers, Inc.	**2,640**	2,650	–	**237**	204	30-day; interest-free	Unsecured; no Impairment
Lima Water Corporation	**1,943**	17,141	12,944	**2,084**	1,667	30-day; interest-free	Unsecured; no Impairment
Associates and Joint Ventures							
SFELAPCO	**2,290,390**	2,487,557	2,669,036	**160,375**	150,888	30-day; interest-free	Unsecured; no Impairment
SNAP RES	**19,442**	14,209	–	**1,583**	–	30-day; interest-free	Unsecured; no Impairment
SNAP M	**9,193**	–	13,868	**–**	–	30-day; interest-free	Unsecured; no Impairment
SNAP B	**–**	–	18,291	**–**	–	30-day; interest-free	Unsecured; no Impairment
Other related parties							
Republic Cement & Building Materials, Inc. (an associate of AEV)	**1,341,456**	101,092	–	**129,905**	20,114	30-day; interest-free	Unsecured; no impairment
Tsuneishi Heavy Industries Cebu, Inc. (a joint venture of ACO and Tsuneishi Group)	**351,946**	406,366	545,344	**39,478**	41,200	30-day; interest-free	Unsecured; no impairment
Aboitiz Construction International, Inc.	**11,218**	2,410	10,868	**1,263**	261	30-day; interest-free	Unsecured; no Impairment
	₱4,256,884	₱3,268,846	₱3,440,605	**₱343,897**	₱249,719		

c. Cost of purchased power

	Purchases			Payable		Terms	Conditions
	2018	2017	2016	2018	2017		
Associates and Joint Ventures							
CEDC	₱4,196,052	₱4,540,798	₱4,552,650	₱303,563	₱383,308	30-day; interest-free	Unsecured
SNAP M	110,432	158,015	–	8,722	8,252	30-day; interest-free	Unsecured
SFELAPCO	14,287	23,592	–	–	5,237	30-day; interest-free	Unsecured
SPPC	–	–	219,272	–	–	30-day; interest-free	Unsecured
WMPC	–	–	328,000	–	–	30-day; interest-free	Unsecured
SNAP B	–	126,731	136,500	–	–	30-day; interest-free	Unsecured
	₱4,320,771	₱4,849,136	₱5,236,422	₱312,285	₱396,797		

d. Expenses

	Nature	Purchases/Expenses			Payable		Terms	Conditions
		2018	2017	2016	2018	2017		
Ultimate Parent								
ACO	Professional fees	₱9,105	₱18,296	₱8,313	₱955	₱2,675	30-day; interest-free	Unsecured
AEV and subsidiaries								
AEV	Professional and Technical fees	487,770	766,866	550,290	18,858	132,518	30-day; interest-free	Unsecured
Lima Land, Inc.	Concession fees	67,044	59,151	49,622	5,421	4,919	30-day; interest-free	Unsecured
AAI	Aviation Services	46,217	61,189	30,009	–	3,319	30-day; interest-free	Unsecured
ACI	Professional and Technical fees	–	16,789	–	–	9	30-day; interest-free	Unsecured
CPDC	Rental	26,939	34,711	20,364	–	2	30-day; interest-free	Unsecured
CPDC	Professional and Technical fees	–	7	10,426	–	–	30-day; interest-free	Unsecured
Aboitizland, Inc. and subsidiaries	Rental	258	1,163	2,253	–	–	30-day; interest-free	Unsecured
		₱637,333	₱958,172	₱671,277	₱25,234	₱143,442		

e. Capitalized construction and rehabilitation costs

	Purchases			Payable		Terms	Conditions
	2018	2017	2016	2018	2017		
Other related parties							
ACI	₱399,105	₱727,378	₱–	–	₱1,735	30-day; interest-free	Unsecured

f. Temporary advances

	Interest Expense			Payable			
	2018	2017	2016	**2018**	2017	Terms	Conditions
Parent							
AEV	**₱22,390**	₱44,299	₱16,290	**₱930,960**	₱300,000	Promissory note; interest-bearing	Unsecured

g. Notes receivable

	Interest Income			Receivable			
	2018	2017	2016	**2018**	2017	Terms	Conditions
Joint venture							
Sacasun	**₱–**	₱151,040	₱847	**₱–**	₱–	Loan agreement; interest-bearing	Unsecured

h. Cash deposits and placements with UBP

	Interest Income			Outstanding Balance			
	2018	2017	2016	**2018**	2017	Terms	Conditions
Company	**₱67,982**	₱54,450	₱78,251	**₱6,143,040**	₱1,676,753	90 days or less; interest-bearing	No impairment
TPI and subsidiaries	**269,597**	57,888	102,242	**6,091,050**	3,822,627	90 days or less; interest-bearing	No impairment
ARI and subsidiaries	**71,686**	47,101	43,955	**3,243,580**	4,381,506	90 days or less; interest-bearing	No impairment
AESI	**9,556**	14,084	5,615	**880,422**	586,981	90 days or less; interest-bearing	No impairment
AI	**7,091**	3,501	1,202	**1,241,725**	97,068	90 days or less; interest-bearing	No impairment
CPPC	**5,234**	2,396	3,221	**405,191**	166,881	90 days or less; interest-bearing	No impairment
EAUC	**3,932**	4,629	2,157	**229,886**	985,878	90 days or less; interest-bearing	No impairment
LEZ	**2,635**	2,034	1,821	**28,819**	155,443	90 days or less; interest-bearing	No impairment
VECO	**2,304**	3,525	3,755	**57,761**	175,182	90 days or less; interest-bearing	No impairment
DLP	**1,564**	3,505	4,509	**156,235**	207,506	90 days or less; interest-bearing	No impairment
SEZ	**176**	1,575	2,992	**73,548**	11,353	90 days or less; interest-bearing	No impairment
CLP	**157**	306	405	**40,783**	5,337	90 days or less; interest-bearing	No impairment
BEZ	**156**	174	679	**20,375**	87,241	90 days or less; interest-bearing	No impairment
MEZ	**153**	213	839	**37,875**	2,848	90 days or less; interest-bearing	No impairment
PEI	**121**	76	51	**99,358**	4,006	90 days or less; interest-bearing	No impairment
CIPI	**–**	–	–	**200**	–	90 days or less; interest-bearing	No impairment
MVEZ	**–**	–	–	**3,280**	–	90 days or less; interest-bearing	No impairment
MHSCI	**–**	–	–	**49**	–	90 days or less; interest-bearing	No impairment
APInt	**–**	–	–	**105**	–	90 days or less; interest-bearing	No impairment
	₱442,344	₱195,457	₱251,694	**₱18,753,282**	₱12,366,610		

The Company's Fund is in the form of a trust being maintained and managed by AEV. In 2018 and 2017, other than contributions to the Fund, no transactions occurred between the Company or any of its direct subsidiaries and the Fund.

Compensation of BOD and key management personnel of the Group follows:

	2018	2017	2016
Short-term benefits	**₱439,859**	₱461,779	₱791,708
Post-employment benefits	**25,998**	28,518	24,795
	₱465,857	₱490,297	₱816,503

33. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents and long-term debts. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial instruments such as trade and other receivables, investments in equity securities, short-term loans, trade and other payables, finance lease obligation, long-term obligation on power distribution system and customers' deposits, which generally arise directly from its operations.

The Group also enters into derivative transactions, particularly foreign currency forwards, to economically hedge its foreign currency risk from foreign currency denominated liabilities and purchases (see Note 34).

Risk Management Structure

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group.

Financial risk committee

The Financial Risk Committee has the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

Treasury service group

The Treasury Service Group is responsible for the comprehensive monitoring, evaluating and analyzing of the Group's risks in line with the policies and limits.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk, commodity price risk and foreign exchange risk.

Liquidity risk

Liquidity risk is the risk of not meeting obligations as they become due because of the inability to liquidate assets or obtain adequate funding. The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay any dividend declarations.

In managing its long-term financial requirements, the Group's policy is that not more than 25% of long-term borrowings should mature in any twelve-month period. 6.08% and 11.58% of the Group's debt will mature in less than one year as of December 31, 2018 and 2017, respectively. For its short-term funding, the Group's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term debt.

The financial assets that will be principally used to settle the financial liabilities presented in the following table are from cash and cash equivalents and trade and other receivables that have contractual undiscounted cash flows amounting to ₱46.34 billion and ₱24.90 billion, respectively, as of December 31, 2018 and ₱35.70 billion and ₱17.36 billion, respectively, as of December 31, 2017 (see Notes 5 and 6). Cash and cash equivalents can be withdrawn anytime while trade and other receivables are expected to be collected/realized within one year.

The following tables summarize the maturity profile of the Group's financial liabilities as of December 31, 2018 and 2017 based on contractual undiscounted payments:

December 31, 2018

	Total Carrying Value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Short-term loans	₱11,546,560	₱11,595,877	₱–	11,595,877	₱–	₱–
Trade and other payables*	20,980,747	20,980,747	2,249,319	15,548,339	3,183,089	–
Long-term debts	158,057,691	196,167,005	–	12,385,044	69,567,926	114,214,035
Customers' deposits	6,008,364	6,008,364	–	24,546	80,334	5,903,484
Finance lease obligation	46,894,355	66,433,090	–	9,052,200	41,790,990	15,589,900
Long-term obligation on PDS	213,496	400,000	–	40,000	200,000	160,000
Derivative liabilities	159,926	159,926	–	159,926	–	–
	₱243,861,139	₱301,745,009	₱2,249,319	₱48,805,932	₱114,822,339	₱135,867,419

Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent liabilities in the consolidated balance sheet.

December 31, 2017

	Total Carrying Value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Short-term loans	₱4,717,300	₱4,727,469	₱–	₱4,727,469	₱–	₱–
Trade and other payables	15,938,758	15,938,758	1,312,697	14,626,061	–	–
Long-term debts	152,053,500	195,811,675	–	25,546,983	81,201,309	89,063,383
Customers' deposits	6,094,690	6,094,690	–	600	72,304	6,021,786
Finance lease obligation	49,225,254	73,496,465	–	8,813,700	38,927,175	25,755,590
Long-term obligation on PDS	226,071	400,000	–	40,000	200,000	160,000
Derivative liabilities	47,577	47,577	–	47,577	–	–
	₱228,303,150	₱296,516,634	₱1,312,697	₱53,802,390	₱120,400,788	₱121,000,759

Market risk

The risk of loss, immediate or over time, due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Group's overall portfolio (whether on or off-balance sheet) is market risk. These are influenced by foreign and domestic interest rates, foreign exchange rates and gross domestic product growth.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of December 31, 2018, 10% of the Group's long-term debt had annual floating interest rates ranging from 2.94% to 4.31%, and 90% have annual fixed interest rates ranging from 4.11% to 9.00%. As of December 31, 2017, 21% of the Group's long-term debt had annual floating interest rates ranging from 1.88% to 3.00%, and 79% have annual fixed interest rates ranging from 4.00% to 7.38%.

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to cash flow interest rate risk:

As of December 31, 2018

	<1 year	**1-5 years**	**>5 years**	**Total**
Floating rate - long-term debt	**₱2,134,417**	**₱9,816,871**	**₱4,303,409**	**₱16,254,697**

As of December 31, 2017

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	₱15,376,379	₱4,836,681	₱10,993,807	₱31,206,867

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk. The Group's derivative assets and liabilities are subject to fair value interest rate risk (see Note 34).

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income before tax (through the impact on floating rate borrowings):

	Increase (decrease) in basis points	Effect on income before tax
December 2018	**200**	**(₱325,094)**
	(100)	**162,547**
December 2017	200	(₱624,137)
	(100)	312,069

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

The interest expense and other finance charges recognized according to source are as follows:

	2018	2017	2016
Short-term loans and long-term debt (see Notes 16 and 17)	**₱7,237,217**	₱6,458,347	₱2,876,652
Finance lease obligation (see Note 35)	**4,659,794**	4,757,379	4,794,801
Customers' deposits (see Note 18)	**2,143**	3,230	2,493
Other long-term obligations (see Notes 13 and 19)	**183,004**	28,824	30,065
	₱12,082,158	₱11,247,780	₱7,704,011

Commodity Price Risk

Commodity price risk of the Group arises from transactions on the world commodity markets to secure the supply of fuel, particularly coal, which is necessary for the generation of electricity.

The Group's objective is to minimize the impact of commodity price fluctuations and this exposure is hedged in accordance with the Group's commodity price risk management strategy.

Based on a 36-month forecast of the required coal supply, the Group hedges the purchase price of coal using commodity swap contracts. The commodity swap contracts do not result in physical delivery of coal, but are designated as cash flow hedges to offset the effect of price changes in coal.

Foreign exchange risk

The foreign exchange risk of the Group pertains significantly to its foreign currency denominated obligations. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency forward contracts aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows. Foreign currency denominated borrowings account for 31% and 35% of total consolidated borrowings as of December 31, 2018 and 2017, respectively.

Presented below are the Group's foreign currency denominated financial assets and liabilities as of December 31, 2018 and 2017, translated to Philippine Peso:

	December 31, 2018		December 31, 2017	
	US Dollar	**Philippine Peso equivalent[1]**	US Dollar	Philippine Peso equivalent[2]
Financial assets:				
Cash and cash equivalents	**$227,911**	**₱11,983,534**	$106,561	₱5,320,591
Trade and other receivables	**26,591**	**1,398,184**	34,880	1,741,562
Advances to associates	**592**	**31,127**	–	–
Total financial assets	**255,094**	**13,412,845**	141,441	7,062,153
Financial liabilities:				
Short-term loans	**12,000**	**630,960**	–	–
Trade and other payables	**2,934**	**154,294**	41,457	2,069,939
Long-term debt	**–**	**–**	303,500	15,153,755
Finance lease obligation	**479,512**	**25,212,741**	519,370	25,932,144
Total financial liabilities	**494,446**	**25,997,995**	864,327	43,155,838
Total net financial liabilities	**($239,352)**	**(₱12,585,150)**	($722,886)	(₱36,093,685)

[1]US$1 = ₱52.58
[2]US$1 = ₱49.93

The following table demonstrates the sensitivity to a reasonable possible change in the US dollar exchange rates, with all other variables held constant, of the Group's income before tax as of December 31:

	Increase (decrease) in US Dollar	Effect on income before tax
2018		
US Dollar denominated accounts	**US Dollar strengthens by 5%**	**(₱629,257)**
US Dollar denominated accounts	**US Dollar weakens by 5%**	**629,257**
2017		
US Dollar denominated accounts	US Dollar strengthens by 5%	(₱1,804,684)
US Dollar denominated accounts	US Dollar weakens by 5%	1,804,684

The increase in US Dollar rate represents the depreciation of the Philippine Peso while the decrease in US Dollar rate represents appreciation of the Philippine Peso.

The following table presents LHC's and GMCP's foreign currency denominated assets and liabilities:

	2018		2017	
	Philippine Peso	**US Dollar Equivalent[1]**	Philippine Peso	US Dollar Equivalent[2]
Financial assets:				
Cash and cash equivalents	**₱1,212,747**	**$23,065**	₱784,566	$15,713
Trade and other receivables	**801,466**	**15,243**	383,606	7,683
	2,014,213	**38,308**	1,168,172	23,396
Financial liabilities:				
Trade and other payables	**608,306**	**11,569**	487,004	9,754
Net foreign currency denominated assets	**₱1,405,907**	**$26,739**	₱681,168	$13,642

[1]US$1 = ₱52.58
[2]US$1 = ₱49.93

The following tables demonstrate the sensitivity to a reasonable possible change in the US dollar exchange rate in relation to Philippine peso, with all variables held constant, of the Group's income before tax as of December 31:

	Effect on income before tax
2018	
U.S. dollar appreciates against Philippine peso by 5.0%	**($1,337)**
U.S. dollar depreciates against Philippine peso by 5.0%	**1,337**
2017	
U.S. dollar appreciates against Philippine peso by 5.0%	($682)
U.S. dollar depreciates against Philippine peso by 5.0%	682

There is no other impact on the Group's equity other than those already affecting the consolidated statements of comprehensive income.

Credit risk
For its cash investments (including restricted portion), financial assets at FVTPL and receivables, the Group's credit risk pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these investments. With respect to cash investments and financial assets at FVTPL, the risk is mitigated by the short-term and/or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions and entities of high credit standing. With respect to receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to only enter into transactions with credit-worthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales are made to customers with appropriate credit history and it has internal mechanisms to monitor the granting of credit and management of credit exposures.

Concentration risk
Credit risk concentration of the Group's receivables according to the customer category as of December 31, 2018 and 2017 is summarized in the following table:

	2018	2017
Power distribution:		
Industrial	**₱4,973,567**	₱4,573,703
Residential	**1,676,936**	1,083,524
Commercial	**778,623**	1,198,568
City street lighting	**30,006**	31,680
Power generation:		
Power supply contracts	**4,567,682**	7,815,795
Spot market	**2,533,211**	1,676,552
	₱14,560,025	₱16,379,822

The above receivables were provided with allowance for ECL amounting to ₱1.75 billion in 2018 and ₱1.77 billion in 2017 (see Note 6).

Maximum exposure to credit risk after collateral and other credit enhancements
The maximum exposure of the Group's financial instruments is equivalent to the carrying values as reflected in the consolidated balance sheets and related notes, except that the credit risk associated with the receivables from customers is mitigated because some of these receivables have collaterals.

Maximum exposure to credit risk for collateralized loans is shown below:

	2018			2017		
	Carrying Value	**Financial Effect of Collateral in Mitigating Credit Risk**	**Maximum Exposure to Credit Risk**	Carrying Value	Financial Effect of Collateral in Mitigating Credit Risk	Maximum Exposure to Credit Risk
Trade receivables:						
Power distribution	**₱7,619,514**	**₱7,619,514**	**₱–**	₱6,887,475	₱6,887,475	₱–

Financial effect of collateral in mitigating credit risk is equivalent to the fair value of the collateral or the carrying value of the loan, whichever is lower.

Credit quality
The credit quality per class of financial assets is as follows:

December 31, 2018

	Neither past due nor impaired			Past due or individually	
	High Grade	Standard	Sub-standard	impaired	Total
Cash and cash equivalents:					
Cash on hand and in banks	₱11,426,051	₱–	₱–	₱–	₱11,426,051
Short-term deposits	34,916,990	–	–	–	34,916,990
	46,343,041	–	–	–	46,343,041
Trade receivables:					
Power supply contracts	3,510,685	8,857	162	1,047,978	4,567,682
Spot market	653,426	–	–	1,879,785	2,533,211
Industrial	4,704,832	–	–	268,735	4,973,567
Residential	807,292	–	–	869,644	1,676,936
Commercial	477,608	–	–	301,015	778,623
City street lighting	16,495	–	–	13,511	30,006
	10,170,338	8,857	162	4,380,668	14,560,025
Other receivables*	12,074,660	–	–	20,171	12,094,831
Financial assets at FVTPL	101,441	–	–	–	101,441
Restricted cash	5,289,145	–	–	–	5,289,145
Derivative assets	292,828	–	–	–	292,828
Total	₱74,271,453	₱8,857	₱162	₱4,400,839	₱78,681,311

**Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent assets in the consolidated balance sheets.*

December 31, 2017

	Neither past due nor impaired			Past due or individually	
	High Grade	Standard	Sub-standard	impaired	Total
Cash and cash equivalents:					
Cash on hand and in banks	₱10,219,777	₱–	₱–	₱–	₱10,219,777
Short-term deposits	25,479,854	–	–	–	25,479,854
	35,699,631	–	–	–	35,699,631
Trade receivables:					
Power supply contracts	6,666,860	–	–	1,148,935	7,815,795
Spot market	298,523	–	–	1,378,029	1,676,552
Industrial	3,702,771	41,813	–	829,119	4,573,703
Residential	402,230	–	–	681,294	1,083,524
Commercial	957,258	2,810	–	238,500	1,198,568
City street lighting	5,041	–	–	26,639	31,680
	12,032,683	44,623	–	4,302,516	16,379,822
Other receivables	2,727,027	–	–	27,817	2,754,844
AFS investments	102,999	–	–	–	102,999
Restricted cash	2,642,327	–	–	–	2,642,327
Derivative assets	341,941	–	–	–	341,941
Total	₱53,546,608	₱44,623	₱–	₱4,330,333	₱57,921,564

	2018				2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
High grade	₱64,101,115	₱10,170,338	₱–	₱74,271,453	₱53,546,608
Standard grade	–	8,857	–	8,857	44,623
Substandard grade	–	162	–	162	–
Default	20,171	22,879,856	1,500,812	4,400,839	4,330,333
Gross carrying amount	64,121,286	13,059,213	1,500,812	78,681,311	57,921,564
Loss allowance	–	249,179	1,500,812	1,749,991	1,774,838
Carrying amount	₱64,121,286	₱12,810,034	₱–	₱76,931,320	₱56,146,726

High grade - pertain to receivables from customers with good favorable credit standing and have no history of default.

Standard grade - pertain to those customers with history of sliding beyond the credit terms but pay a week after being past due.

Sub-standard grade - pertain to those customers with payment habits that normally extend beyond the approved credit terms, and has high probability of being impaired.

Trade and other receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and have defaulted on payments and accounts under dispute and legal proceedings.

The Group evaluated its cash and cash equivalents and restricted cash as high quality financial assets since these are placed in financial institutions of high credit standing.

With respect to other receivables, investments in equity securities and derivative assets, the Group evaluates the counterparty's external credit rating in establishing credit quality.

The tables below show the Group's aging analysis of financial assets:

<u>December 31, 2018</u>

			Past due but not impaired			
	Total	Neither past due nor impaired	Less than 30 days	31 days to 60 days	Over 60 days	Individually impaired
Cash and cash equivalents:						
Cash on hand and in banks	₱11,426,051	₱11,426,051	₱–	₱–	₱–	₱–
Short-term deposits	34,916,990	34,916,990	–	–	–	–
	46,343,041	46,343,041	–	–	–	–
Trade receivables:						
Power supply contracts	4,567,682	3,519,704	166,653	126,484	434,900	319,941
Spot market	2,533,211	653,426	16,619	17,070	603,359	1,242,737
Industrial	4,973,567	4,704,832	170,360	17,184	58,331	22,860
Residential	1,676,936	807,292	435,020	64,942	244,498	125,184
Commercial	778,623	477,608	157,412	19,693	88,052	35,858
City street lighting	30,006	16,495	3,121	266	6,713	3,411
	14,560,025	10,179,357	949,185	245,639	1,435,853	1,749,991
Other receivables*	12,094,831	12,074,660	–	–	20,171	–
Financial assets at FVTPL	101,441	101,441	–	–	–	–
Restricted cash	5,289,145	5,289,145	–	–	–	–
Derivative assets	292,828	292,828	–	–	–	–
Total	₱78,681,311	₱74,280,472	₱949,185	₱245,639	₱1,456,024	₱1,749,991

**Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent assets in the consolidated balance sheets.*

December 31, 2017

	Total	Neither past due nor impaired	Past due but not impaired: Less than 30 days	31 days to 60 days	Over 60 days	Individually impaired
Cash and cash equivalents:						
Cash on hand and in banks	₱10,219,777	₱10,219,777	₱–	₱–	₱–	₱–
Short-term deposits	25,479,854	25,479,854	–	–	–	–
	35,699,631	35,699,631	–	–	–	–
Trade receivables:						
Power supply contracts	7,815,795	6,666,860	152,545	68,246	626,667	301,477
Spot market	1,676,552	298,523	538	5,229	113,698	1,258,564
Industrial	4,573,703	3,744,584	349,993	46,434	309,474	123,218
Residential	1,083,524	402,230	383,897	68,367	152,460	76,570
Commercial	1,198,568	960,068	141,852	43,107	45,789	7,752
City street lighting	31,680	5,041	9,634	1,902	7,846	7,257
	16,379,822	12,077,306	1,038,459	233,285	1,255,934	1,774,838
Other receivables	2,754,844	2,727,027	–	10,214	17,603	–
AFS investments	102,999	102,999	–	–	–	–
Restricted cash	2,642,327	2,642,327	–	–	–	–
Derivative assets	341,941	341,941	–	–	–	–
Total	₱57,921,564	₱53,591,231	₱1,038,459	₱243,499	₱1,273,537	₱1,774,838

Capital Management

Capital includes equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio at 70% or below. The Group determines net debt as the sum of interest-bearing short-term and long-term loans (comprising long-term debt and finance lease obligation) less cash and short-term deposits (including restricted cash).

Gearing ratios of the Group as of December 31, 2018 and 2017 are as follows:

	2018	2017
Short-term loans	**₱11,546,560**	₱4,717,300
Long-term debt	**204,952,046**	201,278,754
Cash and cash equivalents	**(46,343,041)**	(35,699,631)
Restricted cash	**(5,289,145)**	(2,642,327)
Net debt (a)	**164,866,420**	167,654,096
Equity	**136,576,667**	123,978,464
Equity and net debt (b)	**₱301,443,087**	₱291,632,560
Gearing ratio (a/b)	**54.69%**	57.49%

Part of the Group's capital management is to ensure that it meets financial covenants attached to long-term borrowings. Breaches in meeting the financial covenants would permit the banks to immediately call loans and borrowings. The Group is in compliance with the financial covenants attached to its long-term debt as of December 31, 2018 and 2017 (see Note 17).
Certain entities within the Group that are registered with the BOI are required to raise a minimum amount of capital in order to avail of their registration incentives. As of December 31, 2018 and 2017, these entities have complied with the requirement as applicable (see Note 37).

No changes were made in the objectives, policies or processes during the years ended December 31, 2018 and 2017.

34. Financial Instruments

Fair Value of Financial Instruments
Fair value is defined as the amount at which the financial instrument could be sold in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with no active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price.

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments whose fair values are different from their carrying amounts.

	2018		2017	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial asset:				
PSALM deferred adjustment	**₱4,225,900**	**₱3,889,099**	₱–	₱–
Financial liabilities:				
Finance lease obligation	**₱46,894,355**	**₱40,495,647**	₱49,225,254	₱43,462,850
Long-term debt - fixed rate	**141,802,994**	**138,103,091**	120,846,633	115,027,567
PSALM deferred adjustment	**4,225,950**	**3,889,099**	–	–
Long-term obligation on PDS	**213,496**	**297,790**	226,071	326,655
	₱193,136,795	**₱182,764,638**	₱170,297,958	₱158,817,072

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

Cash and cash equivalents, trade and other receivables, short-term loans and trade and other payables. The carrying amounts of cash and cash equivalents, trade and other receivables, short-term loans and trade and other payables approximate fair value due to the relatively short-term maturity of these financial instruments.

Fixed-rate borrowings. The fair value of fixed rate interest-bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Interest-bearing loans were discounted using credit-adjusted interest rates ranging from 3.15% to 7.53% in 2018 and 3.10% to 6.17% in 2017.

Floating-rate borrowings. Since repricing of the variable-rate interest bearing loan is done on a quarterly basis, the carrying value approximates the fair value.

Finance lease obligation. The fair value of the finance lease obligation was calculated by discounting future cash flows using discount rates of 2.33% to 2.73% for dollar payments and 5.26% to 6.67% for peso payments in 2018 and 1.48% to 2.42% for dollar payments and 3.28% to 4.25% for peso payments in 2017.

Long-term obligation on PDS and PSALM deferred adjustment. The fair value of the long-term obligations on power distribution system and PSALM deferred adjustment is calculated by discounting expected future cash flows at prevailing market rates. Discount rates used in discounting the obligation ranges from 4.32% to 7.49% in 2018 and 2.70% to 4.66% in 2017.

Customers' deposits. The fair value of bill deposits approximates the carrying values as these deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines. The timing and related amounts of future cash flows relating to transformer and lines and poles deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

AFS investments in 2017. These are carried at cost less impairment because fair value cannot be determined reliably due to the unpredictable nature of cash flows and lack of suitable methods of arriving at reliable fair value.

Financial assets at FVTPL in 2018. These equity securities are carried at fair value.

Derivative financial instruments. The fair value of forward contracts is calculated by reference to prevailing interest rate differential and spot exchange rate as of valuation date, taking into account its remaining term to maturity. The fair value of the embedded prepayment options is determined using Binomial Option Pricing Model which allows for the specification of points in time until option expiry date. This valuation incorporates inputs such as interest rates and volatility. The fair value of the IRS and interest rate cap are determined by generally accepted valuation techniques with reference to observable market data such as interest rates.

The Group entered into an IRS agreement to fully hedge its floating rate exposure on its foreign currency-denominated loan and par forward contracts to hedge the floating rate exposure on foreign-currency denominated payments.

The Group also entered into deliverable and non-deliverable short-term forward contracts with counterparty banks to manage its foreign currency risks associated with foreign currency-denominated liabilities, purchases and highly probable forecasted purchases.

The Group also entered into commodity swap contracts to hedge the price volatility of its forecasted coal purchases.

IRS
In August 2012, LHC entered into an IRS agreement effective October 31, 2012 to fully hedge its floating rate exposure on its US Dollar-denominated loan. Under the IRS agreement, LHC, on a semi-annual basis, pays a fixed rate of 1.505% per annum and receives variable interest at 6-month LIBOR plus margin. The interest payments and receipts are based on the outstanding USD notional amount simultaneous with the interest payments on the hedged loan. Similar with the hedged loan, the IRS has amortizing notional amounts which cover a period up to final maturity. LHC designated the swap as a cash flow hedge.

As of December 31, 2018, the outstanding notional amount and derivative asset as a result of the swap amounted to US$16.6 million and ₱19.6 million, respectively. As of December 31, 2017, the outstanding notional amount and derivative asset as a result of the swap amounted to US$22.2 million and ₱15.8 million, respectively.

GMCP (see Note 9), has an IRS agreement to hedge the variability in the interest cash flows on the entire amount of its Onshore - Tranche B loans. Under the swap agreement, GMCP pays a fixed rate of 4.37% and receives 6-month LIBOR, semi-annually from January 29, 2010 until March 29, 2021. GMCP designated the swap as a cash flow hedge. On September 29, 2017, the IRS agreement was terminated following the prepayment of the loan (see Note 17). As a result of the termination, the outstanding value of the derivative liability amounting to US$4.5 million was derecognized in cumulative translation adjustments.

On September 29, 2017, GMCP entered into an IRS agreement to hedge the variability in the interest cash flows on the entire amount of its LIBOR Loan (see Note 17), which bears interest based on six-month US LIBOR. Under the swap agreement, GMCP pays a fixed rate of 2.18% and receives six-month US LIBOR, semi-annually from March 29, 2018 until September 27, 2024. The IRS settlement dates coincide with the semi-annual interest payment dates of the NFA. GMCP designated the swap as a cash flow hedge.

As of December 31, 2018, the outstanding notional amount and derivative asset as a result of the swap amounted to US$288.5 million and ₱272.2 million, respectively. As of December 31, 2017, the outstanding notional amount and derivative asset as a result of the swap amounted to US$300.0 million and ₱49.9 million, respectively.

Interest rate cap (IRC)
GMCP (see Note 9), has an IRC to hedge the variability in the interest cash flows above a certain maximum interest rate on the outstanding amount of its Onshore - Tranche A loans (see Note 17). The IRC has an outstanding notional amount of US$34.4 million, and a derivative liability amount of ₱19.5 million, as of December 31, 2016. Under the IRC agreement, GMCP will receive an amount based upon the outstanding notional amount and the excess of the 6-month LIBOR over the 2.00% cap rate and pays a fixed interest of 0.69% as a premium for the IRC on each settlement date. If the 6-month LIBOR is below 2.00%, no payment will be received by GMCP. The settlement dates shall be on semi-annual basis from March 29, 2015 until March 29, 2021. GMCP designated the swap as a cash flow hedge. On September 29, 2017, the IRC agreement was terminated following the prepayment of the loan (see Note 17). As a result of the termination, the outstanding value of the derivative asset was derecognized in cumulative translation adjustments.

Foreign currency forward contracts
On November 26, 2015, Hedcor Bukidnon entered into a deliverable forward contract to manage its foreign currency risks associated with its Euro denominated purchases. As of December 31, 2018 and 2017, the outstanding sell U.S. Dollar buy Euro forward contract has an aggregate notional of €1.0 million and €2.5 million, respectively. The maturity of the derivatives begins on December 21, 2015 until April 25, 2018.

On November 26, 2015, Hedcor Bukidnon also entered into a non-deliverable forward contract to manage its exposure to exchange rate fluctuations associated with US dollar denominated purchases. As of December 31, 2018 and 2017, the contract has an aggregate notional amount of US$1.2 million and US$2.6 million, respectively. The contracts will be fully settled in January 2019.

Hedcor Bukidnon designated these foreign currency hedging transactions as cash flow hedges.

TLI entered into forward contracts to hedge the foreign currency risk arising from forecasted US dollar denominated coal purchases. These forecasted transactions are highly probable, and they comprise about 20% of the TLI's total expected coal purchases. The forward contracts were designated as cash flow hedges. As of December 31, 2018, the aggregate notional amount of the forward contracts is ₱4.83 billion.

In 2015, TVI entered into par forward contracts to hedge the foreign currency risk arising from the forecasted US Dollar denominated payments under the Engineering Procurement Construction (EPC) contract related to the construction of a power plant. As of December 31, 2018 and 2017, the aggregate notional amount of the par forward contracts is US$25.2 million (₱1.3 billion) and US$23.7 million (₱1.4 billion), respectively.

In 2014, the Group's Joint Operation entered into par forward contracts to hedge the foreign currency risk arising from the forecasted US Dollar denominated payments under the EPC contract related to the construction of a power plant. The par forward contracts were designated as cash flow hedges. As of December 31, 2017, the aggregate notional amount of the par forward contracts is ₱254.3 million, these were fully settled in 2018.

The Company enters into short-term forward contracts with counterparty banks to manage foreign currency risks associated with foreign currency-denominated liabilities and purchases. As of December 31, 2017, the aggregate notional amount of the par forward contract is US$39.0 million, these were fully settled in 2018.

Commodity swap contracts
In 2018, TLI entered into commodity swap contracts to hedge the price volatility of forecasted coal purchases. The commodity swaps do not result in physical delivery of coal, but are designated as cash flow hedges to offset the effect of price changes in coal. TLI hedges approximately 30% of its expected coal purchases considered to be highly probable. There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign currency forward and commodity swap contracts match the terms of the expected highly probable forecasted transactions.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign currency forward, IRS and commodity swap contracts match the terms of the expected highly probable foreign currency denominated forecasted purchases and floating rate loans. The Group has established a hedge ration of 1:1 for the hedging relationships as the underlying risk of the foreign currency forward, IRS and commodity swap contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative technique and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The hedge ineffectiveness can arise from:

- Different reference prices linked to the hedged risk of the hedged items and hedging instruments
- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

The Group is holding the following hedging instruments designated as cash flow hedges as of December 31, 2018:

	Maturity					
	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 years	More than 2 years	Total
As at 31 December 2018						
IRS - Derivative Assets						
Notional amount (in PHP)	552,090	115,676	725,604	1,144,930	13,503,858	16,042,158
Average fixed interest rate (%)	2.18%	1.51%-2.18%	1.51%-2.18%	1.51%-2.18%	1.51%-2.18%	
Foreign Currency Forward Contracts - Derivative Assets						
Notional amount (in PHP)	–	61,118	–	–	–	61,118
Average forward rate (in PHP)	54	55	55	56	57	
Foreign Currency Forward Contracts - Derivative Liability						
Notional amount (in PHP)	975,740	752,345	933,916	1,372,435	798,837	4,833,273
Average forward rate (in PHP)	54	55	55	56	57	
Commodity swaps - Derivative Asset						
Notional amount (in metric tonnes)	47,000	103,000	161,000	150,000	70,000	531,000
Notional amount (in PHP)	212,949	484,425	749,278	695,381	330,607	2,472,640
Average hedged rate (in PHP per metric tonne)	4,531	4,703	4,654	4,636	4,723	
Commodity swaps - Derivative Liability						
Notional amount (in metric tonnes)	86,000	44,000	289,000	150,000	151,000	720,000
Notional amount (in PHP)	486,652	248,709	1,608,393	800,799	775,024	3,919,577
Average hedged rate (in PHP per metric tonne)	5,659	5,652	5,565	5,339	5,133	

The impact of the hedging instruments on the consolidated balance sheet as of December 31, 2018 is, as follows:

	As at 31 December 2018			
	Notional amount	Carrying amount	Line Item in the consolidated balance sheet	Change in fair value used for measuring ineffectiveness for the period
IRS	₱16,042,158	₱291,763	Derivative asset	₱272,185
Forward exchange currency forwards	61,118	210	Derivative asset	(539)
Forward exchange currency forwards	4,833,273	(118,596)	Derivative liability	(228,658)
Commodity swaps	2,472,640	1,200	Derivative asset	22,141
Commodity swaps	3,919,576	(40,311)	Derivative liability	(154,829)

The impact of the hedged item on the consolidated balance sheet as at December 31, 2018 is as follows:

	31 December 2018	
	Change in fair value used for measuring ineffectiveness	Reserves - Cash Flow Hedges
Highly probable forecasted purchases		
Foreign currency hedge	(₱228,658)	₱117,304
Commodity price hedge	(132,688)	39,923
Purchases		
Foreign currency hedge	(539)	–
Floating rate loans		
IRS	272,185	168,841

The effect of the cash flow hedge in the consolidated statements of income and other comprehensive income for the year ended December 31, 2018 is, as follows:

	Year ended 31 December 2018		
	Total hedging gain/(loss) recognized in other comprehensive income	Ineffectiveness recognized in profit or loss	Line item in the consolidated statement of income
Highly probable forecasted purchases			
Foreign currency hedge	(₱117,304)	(₱1,291)	Other income (expenses)
Commodity price hedge	(39,923)	(7,138)	Other income (expenses)
Purchases			
Foreign currency hedge	–	(539)	Other income (expenses)
Floating rate loans			
IRS	168,841	2,095	Other income (expenses)

The movements in fair value changes of all derivative instruments for the year ended December 31, 2018 and 2017 are as follows:

	2018	2017
At beginning of year	**₱294,364**	(₱69,016)
Net changes in fair value of derivatives designated as cash flow hedges	**(125,642)**	105,483
Net changes in fair value of derivatives not designated as accounting hedges	**(72,252)**	5,339
Derecognition recognized in cumulative translation adjustments	**–**	240,960
Fair value of settled instruments	**36,432**	11,598
At end of year	**₱132,902**	₱294,364

The net gains and losses from the net fair value changes of derivatives not designated as accounting hedges are included under "Net foreign exchange gain (losses)" in Note 28.

The changes in the fair value of derivatives designated as cash flow hedges were deferred in equity under "Cumulative translation adjustments."

The net movement of changes to Cumulative translation adjustment is as follows:

	2018	2017
Balance at beginning of year (net of tax)	**₱139,879**	(₱176,936)
Changes in fair value recorded in equity	**203,751**	75,935
	343,630	(101,001)
Derecognition	**–**	147,881
Transfers to construction in progress	**(77,180)**	(57,959)
Changes in fair value transferred to profit or loss	**(7,579)**	127,328
Balance at end of year before deferred tax effect	**258,871**	116,249
Deferred tax effect	**2,507**	23,630
Balance at end of year (net of tax)	**₱261,378**	₱139,879

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2018 and 2017, the Group held the following financial instruments that are measured and carried or disclosed at fair value:

December 31, 2018

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative assets	**₱292,828**	**₱–**	**₱292,828**	**₱–**
Derivative liabilities	**159,926**	**–**	**159,926**	**–**
Disclosed at fair value:				
Finance lease obligation	**40,495,647**	**–**	**–**	**40,495,647**
Long-term debt - fixed rate	**138,103,091**	**–**	**–**	**138,103,091**
Long-term obligation on PDS	**297,790**	**–**	**–**	**297,790**

December 31, 2017

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative assets	₱341,941	₱–	₱341,941	₱–
Derivative liabilities	47,577	–	47,577	–
Disclosed at fair value:				
Finance lease obligation	43,462,850	–	–	43,462,850
Long-term debt - fixed rate	115,027,567	–	–	115,027,567
Long-term obligation on PDS	326,655	–	–	326,655

During the years ended December 31, 2018 and 2017, there were no transfers between level 1 and level 2 fair value measurements and transfers into and out of level 3 fair value measurement.

35. Lease Agreements

TLI

TLI was appointed by PSALM as Administrator under the IPP Administration Agreement, giving TLI the right to receive, manage and control the capacity of the power plant for its own account and at its own cost and risk; and the right to receive the transfer of the power plant at the end of the IPP Administration Agreement for no consideration.

In view of the nature of the IPP Administration Agreement, the arrangement has been considered as a finance lease. Accordingly, TLI recognized the capitalized asset and related liability of ₱44.79 billion (equivalent to the present value of the minimum lease payments using TLI's incremental borrowing rates of 10% and 12% for dollar and peso payments, respectively) in the consolidated financial statements as "Power plant" and "Finance lease obligation" accounts, respectively. The discount determined at inception of the IPP Administration Agreement is amortized over the period of the IPP Administration Agreement and is recognized as interest expense in the consolidated statements of income. Interest expense in 2018, 2017 and 2016 amounted to ₱4.66 billion, ₱4.76 billion, and ₱4.79billion, respectively (see Note 33).

Future minimum monthly dollar and peso payments under the IPP Administration Agreement and their present values as of December 31, 2018 and 2017 are as follows:

	Dollar payments	Peso equivalent of dollar payments[1]	Peso payments	2018 Total
Within one year	$90,000	₱4,732,200	₱4,320,000	₱9,052,200
After one year but not more than five years	415,500	21,846,990	19,944,000	41,790,990
More than five years	155,000	8,149,900	7,440,000	15,589,900
Total contractual payments	660,500	34,729,090	31,704,000	66,433,090
Unamortized discount	193,770	9,516,320	10,022,415	19,538,735
Present value	466,730	25,212,770	21,681,585	46,894,355
Less current portion				4,131,059
Noncurrent portion of finance lease obligation				₱42,763,296

	Dollar payments	Peso equivalent of dollar payments[1]	Peso payments	2017 Total
Within one year	$90,000	₱4,493,700	₱4,320,000	₱8,813,700
After one year but not more than five years	397,500	19,847,175	19,080,000	38,927,175
More than five years	263,000	13,131,590	12,624,000	25,755,590
Total contractual payments	750,500	37,472,465	36,024,000	73,496,465
Unamortized discount	231,130	11,540,344	12,730,867	24,271,211
Present value	519,370	25,932,121	23,293,133	49,225,254
Less current portion				3,316,165
Noncurrent portion of finance lease obligation				₱45,909,089

[1]US$1 = ₱52.58 in 2018; ₱49.93 in 2017

APRI
On May 25, 2009, APRI entered into a lease agreement with PSALM for a parcel of land owned by the latter on which a portion of the assets purchased under the APA is situated. The lease term is for a period of 25 years commencing from the Closing Date as defined in the APA which falls on May 25, 2009. The rental fees for the whole term of 25 years amounting to ₱492.0 million were paid in full after the receipt by APRI of the Certificate of Effectivity on the lease (see Notes 8 and 14). Total lease charged to operations amounted to ₱19.7 million in 2018, 2017 and 2016 (see Note 25).

GMCP
In August 2007, a 25-year lease agreement with Authority of the Freeport Area of Bataan for land at Bataan Economic Zone, used as an access road and right of way for electric power transmission lines.

In January 2010, a 50-year land lease agreement with PMR Group Retirement Plan, Inc. (PGRPI), used for its power plant facilities. GMCP, upon mutual agreement of PGRPI, has the right and option to extend the lease for a period of twenty-five years. In August 2016, GMCP entered into another lease agreement with PGRPI for land to be used for staff house.

HI, HTI and HSI
HI, HTI and HSI entered into contracts with various lot owners for lease of land where their power plants are located. Terms of contract are for a period of 1 to 50 years renewable upon mutual agreement by the parties.

Sacasun
Sacasun entered into a contract for lease of land where the power plant is located. The contract pertains to rent for 25 years renewable upon mutual agreement by the parties. Prepaid rent amounts to ₱51.5 million and ₱50.8 million as of December 31, 2018 and 2017, respectively (see Note 8).

Therma Mobile
On April 26, 2014, a 10-year lease for portions of the breakwater area of the Navotas Fishport Complex (NFPC), including the mooring facility, marine and land transmission lines.

EAUC
Lease agreement with PEZA for a piece of land located inside Mactan Economic Zone for its power plant facilities.

TPVI
TPVI entered into a contract for lease of land where the power plant is located. The contract pertains to rent for 25 years renewable upon mutual agreement by the parties. Prepaid rent amounts to ₱516.0 million as of December 31, 2018 (see Notes 8, 14 and 40e).

Future minimum lease payments under the non-cancellable operating leases of GMCP, Sacasun, HI, HTI, HSI, Therma Mobile, EAUC and TPVI are as follows (amounts in millions):

	2018	2017
Not later than 1 year	₱292.9	₱252.3
Later than 1 year but not later than 5 years	749.5	736.7
Later than 5 years	6,039.2	5,619.7

Total lease charged to operations related to these contracts amounted to ₱263.5 million in 2018, ₱163.7 million in 2017, and ₱38.5 million in 2016 (see Note 25).

36. Agreements

Pagbilao IPP Administration Agreement

TLI and PSALM executed the IPP Administration Agreement wherein PSALM appointed TLI to manage the 700MW contracted capacity (the "Capacity") of NPC in the coal-fired power plant in Pagbilao, Quezon.

The IPP Administration Agreement includes the following obligations TLI would have to perform until the transfer date of the power plant (or the earlier termination of the IPP Administration Agreement):

a. Supply and deliver all fuel for the power plant in accordance with the specifications of the original Energy Conservation Agreement (ECA); and
b. Pay to PSALM the monthly payments (based on the bid) and energy fees (equivalent to the amount paid by NPC to the IPP).

TLI has the following rights, among others, under the IPP Administration Agreement:

a. The right to receive, manage and control the Capacity of the power plant for its own account and at its own cost and risk;
b. The right to trade, sell or otherwise deal with the Capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and its own risk and cost. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
c. The right to receive the transfer of the power plant at the end of the IPP Administration Agreement (which is technically the end of the ECA) for no consideration; and
d. The right to receive an assignment of NPC's interest to existing short-term bilateral Power Supply Contract from the effective date of the IPP Administration Agreement the last of which were scheduled to end in November 2011.

In view of the nature of the IPP Administration Agreement, the arrangement has been accounted for as a finance lease (see Note 35).

Agreements with Contractors and Suppliers

a. APRI total steam supply cost reported as part of "Cost of generated power" amounted to ₱5.23 billion in 2018, ₱4.98 billion in 2017, and ₱4.11 billion in 2016 (see Note 23).

   On May 26, 2013, APRI's steam supply contract with Chevron Geothermal Philippines Holdings, Inc. (CGPHI) shifted to a GRSC. The change is due to an existing provision under the government's existing contract with CGPHI when the Tiwi-Makban facilities were bidded out under the former's privatization program. Under the GRSC, the effective steam price of APRI payable to PGPC will be a premium to coal.

   To ensure that APRI will continue to remain competitive in the market, a two-month interim agreement supplementing the GRSC was implemented on August 14, 2013 and extended until August 25, 2018. On August 24, 2018, a new contract was signed by the Company and Philippine Geothermal Production Company, Inc. which aims to ensure long-term operations of both parties. The Geothermal Resources Supply and Services Agreement took effect August 26, 2018 and shall continue in effect until October 22, 2034, unless earlier terminated or extended by mutual agreement of the Parties.

b. Construction of civil and electromechanical works, procurement and installation of solar panels and project management related to the construction of the San Carlos Solar Plant. Total purchase commitments entered into by Sacasun from its contracts amounted to ₱526.7 million and $66.2 million as of December 31, 2018 and 2017, respectively. Total payments made for the commitments amounted to nil as of December 31, 2018 and 2017.

c. TLI enters into short-term coal supply agreements. Outstanding coal supply agreements as of December 31, 2018 have aggregate supply amounts of 1,840,000 MT (equivalent dollar value is estimated to be at $210 million), which are due for delivery from January 2019 to December 2019. Terms of payment are by letter of credit where payment is due at sight against presentation of documents, and by telegraphic transfer where payment is due within 7 days from receipt of original invoice.

d. GMCP has a current Coal Supply Agreement (CSA) with PT Arutmin Indonesia (Seller) for the delivery of coal, which is effective until November 2, 2019. In addition a supply backstop deed was included in the coal supply agreement wherein PT Kaltim Prima Coal (Obligor) irrevocably and unconditionally undertakes for the benefit of GMCP the due and punctual performance of the Seller each and all of their obligations, duties and undertakings pursuant to the CSA, when and such obligations, duties and undertakings shall become due and performable according to the terms of the CSA; provided that the undertaking of the Obligor hereunder shall be limited to 1,000,000 tonnes of substitute coal per delivery year.

e. PEC enters into EPC contracts with suppliers relating to the construction of the 400MW coal fired power plant. Total EPC contract price for the complete performance of these contracts amount to US$398.0 million and ₱7.00 billion. As of December 31, 2018, the joint operation has a retention payable amounting to ₱280.3 million, which is presented as part of "Trade and other payables" in the consolidated balance sheets. As of December 31, 2017, this retention payable amounting to ₱400.0 million, was presented as "Other noncurrent liability" in the consolidated balance sheets.

37. Registration with the Board of Investments (BOI)

Certain power generation subsidiaries in the Group have been registered with the BOI. The following are the incentives granted by the BOI:

a. ITH for a period of four (4) to seven (7) years, as follows:

Subsidiary/Joint operation	BOI Approval Date	Start of ITH Period	ITH Period
Hedcor Sibulan[3]	December 27, 2005	March 1, 2010	7 years
APRI[2]	June 19, 2009	June 1, 2009	7 years
GMCP	January 29, 2010	July 1, 2013	6 years
TSI	July 15, 2011	February 1, 2016[1]	4 years
TVI	August 28, 2012	January 1, 2017[1]	4 years
Hedcor Tudaya	January 31, 2013	August 1, 2014[1]	7 years
Hedcor, Inc.[5]	February 20, 2013	February 1, 2013	7 years
Hedcor Sibulan[4]	April 23, 2013	September 1, 2014[1]	7 years
Hedcor Sabangan	October 23, 2013	February 1, 2015[1]	7 years
Hedcor Bukidnon	January 7, 2015	Start of commercial operations	7 years
PEC	June 26, 2014	March 7, 2018	6 years
Sacasun	October 26, 2015	Start of commercial operations	7 years

[1] Or actual start of commercial operations, whichever is earlier.
[2] Expired ITH: APRI - June 2016
[3] For Sibulan hydroelectric plants with 1 year extension.
[4] For Tudaya-1 hydroelectric plant.
[5] For Irisan-1 hydroelectric plant.

The ITH shall be limited only to sales/revenue generated from the sales of electricity of the power plant and revenues generated from the sales of carbon emission reduction credits.

b. For the first five (5) years from date of registration, the registrant shall be allowed an additional deduction from taxable income of fifty percent (50) of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by BOI of US$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH.

c. Employment of foreign nationals may be allowed in supervisory, technical or advisory positions for five (5) years from date of registration.

d. Importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond.

e. Special realty tax rates on equipment and machinery and tax credit on domestic capital equipment and services

f. For APRI, it may qualify to import capital requirement, spare parts and accessories at zero (0%) duty rate from the date of registration to June 16, 2011 pursuant to Executive Order No. 528 and its Implementing Rules and Regulations.

As a requirement for availment of the incentives, the registrant is required to maintain a minimum equity requirement.

As of December 31, 2018 and 2017, the power generation subsidiaries referred to above, which are currently availing the incentives, have complied with the requirements.

38. Notes to Consolidated Statement of Cash Flows

The following are the cash flow movements of the Group's financing liabilities:

December 31, 2018

			Non-cash Changes					
	January 1, 2018	Net cash flows	Amortized deferred financing costs	Foreign exchange movement	Changes in fair values	Accreted interest	Others	December 31, 2018
Current interest-bearing loans and borrowings, excluding obligations under finance leases	₱25,410,051	(₱14,075,303)	₱260,372	(₱48,560)	₱–	₱–	₱8,697,404	₱20,243,964
Current obligations under finance leases	3,316,165	(7,804,460)	–	–	–	–	8,619,354	4,131,059
Non-current interest-bearing loans and borrowings, excluding obligations under finance leases	131,360,749	24,772,719	118,840	1,800,851	–	–	(8,692,872)	149,360,287
Non-current obligations under finance leases	45,909,089	–	–	873,546	–	4,600,015	(8,619,354)	42,763,296
Dividends payable	–	(10,228,460)	–	–	–	–	10,228,460	–
Derivatives	47,577	–	–	–	112,349	–	–	159,926
Total liabilities from financing activities	₱206,043,631	(₱7,335,504)	₱379,212	₱2,625,837	₱112,349	₱4,600,015	₱10,232,992	₱216,658,532

December 31, 2017

			Non-cash Changes					
	January 1, 2017	Net cash flows	Amortized deferred financing costs	Foreign exchange movement	Changes in fair values	Accreted interest	Others	December 31, 2017
Current interest-bearing loans and borrowings, excluding obligations under finance leases	₱11,613,963	(₱7,015,311)	₱38,913	₱79,735	₱–	₱–	₱20,692,751	₱25,410,051
Current obligations under finance leases	2,968,491	(7,877,292)	–	–	–	–	8,224,966	3,316,165
Non-current interest-bearing loans and borrowings, excluding obligations under finance leases	151,914,172	566,963	457,403	729,963	(6,776)	–	(22,300,976)	131,360,749
Non-current obligations under finance leases	49,371,713	–	–	97,139	–	4,665,203	(8,224,966)	45,909,089
Dividends payable	–	(10,007,702)	–	–	–	–	10,007,702	–
Derivatives	360,877	–	–	–	(313,300)	–	–	47,577
Total liabilities from financing activities	₱216,229,216	(₱24,333,342)	₱496,316	₱906,837	(₱320,076)	₱4,665,203	₱8,399,477	₱206,043,631

Others includes the effect of reclassification of noncurrent portion of interest-bearing loans and borrowings

39. Contingencies

The Group is a party to certain proceedings and legal cases with other parties in the normal course of business. The ultimate outcome of these proceedings and legal cases cannot be presently determined. Management, in consultation with its legal counsels, believes that it has substantial legal and factual bases for its positions and is currently of the opinion that the likely outcome of these proceedings and legal cases will not have a material adverse effect on the Group's financial position and operating results. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these proceedings and legal cases.

The Company obtained SBLC and is acting as surety for the benefit of certain associates and joint ventures in connection with loans and credit accommodations. The Company provided SBLC for STEAG, CEDC, SNAP M and SNAP B in the amount of ₱1.02 billion in 2018, ₱1.04 billion in 2017 and ₱1.15 billion in 2016 (see Note 32).

40. Other Matters

a. Temporary Restraining Order (TRO) affecting power generation companies trading in WESM

On December 19, 2013, Bayan Muna representatives filed a Petition for Certiorari against the ERC and MERALCO with the Supreme Court (SC). On December 20, 2013, National Association of Electricity Consumers for Reforms filed a Petition for Certiorari and/or Prohibition against MERALCO, ERC and Department of Energy (DOE). These cases raised and questioned, among others, the alleged substantial increase in MERALCO's power rates for the billing period of November 2013, the failure of the ERC to protect consumers from high energy prices and perceived market collusion of the generation companies.

These cases were consolidated by the SC which issued a TRO for a period of 60 days from December 23, 2013 to February 21, 2014, preventing MERALCO from collecting the increase in power rates for the billing period of November 2013. The TRO was subsequently extended for another 60 days ending April 22, 2014 by the SC. Thereafter, the TRO was extended indefinitely.

MERALCO, in turn, filed a counter-petition impleading generation companies supplying power to the WESM. The SC also ordered all the parties in the consolidated cases to file their respective pleadings in response to MERALCO's counter-petition. The SC set the consolidated cases for oral arguments last January 21, 2014, February 4 and 11, 2014. After hearing, all parties were directed to file their comments and/or memorandum. The case is now submitted for resolution.

As a result of the TRO, MERALCO has not been able to fully bill its consumers for the generation costs for the supply month of November 2013; and in turn, it has not been able to fully pay its suppliers of generation costs. As of December 31, 2018, the SC has not lifted the TRO.

b. Imposition of financial penalties on Therma Mobile by PEMC

This case involves an investigation of Therma Mobile in the dispatch of its power barges during the November and December 2013 supply periods. As a result of the MERALCO price hike case brought before the SC, the SC ordered the ERC to investigate anti-competitive behavior and abuse of market power allegedly committed by some WESM participants.

PEMC conducted the investigation under the "Must-Offer" rules of the WESM Rules.

PEMC initially found that Therma Mobile violated the "Must-Offer Rule" during the period under investigation. In its letter dated January 30, 2015, the PEM Board imposed financial penalties amounting to ₱234.9 million on Therma Mobile. According to the PEM Board, the penalties will be collected from Therma Mobile through the WESM settlement process.

Therma Mobile maintains that there is no basis for the PEMC decision. It did not violate the Must-Offer Rule for the period covered, as it was physically impossible for Therma Mobile to transmit more than 100MW to MERALCO. Although Therma Mobile's rated capacity is 234 MW (Net), it could only safely, reliably and consistently deliver 100MW during the November and December 2013 supply period because of transmission constraints. Therma Mobile's engines and transmission lines were still undergoing major repairs to address issues on post rehabilitation.

On February 13, 2015, Therma Mobile filed a notice of dispute with the PEMC to refer the matter to dispute resolution under the WEM Rules and the WESM Dispute Resolution Market Manual.

Therma Mobile also filed a Petition for the Issuance of Interim Measures of Protection with the Regional Trial Court (RTC) of Pasig to hold off enforcement of the payment of the penalties during the pendency of the Therma Mobile and PEMC dispute resolution proceedings. On February 24, 2015, the RTC issued in favor of Therma Mobile an ex parte 20-day Temporary Order of Protection directing PEMC to refrain from (a) demanding and collecting from Therma Mobile the ₱234.9 million financial penalty; (b) charging and accruing interest on the financial penalty; and (c) transmitting the PEMC-ECO investigation report to the ERC.

On April 1, 2015, the RTC granted the prayer for the issuance of Writ of Preliminary Injunction, which ruling was assailed by the PEMC and elevated to the Court of Appeals (CA) via Petition for Review. On December 15, 2015, the CA issued a Decision confirming the RTC's findings. PEMC filed a Motion for Reconsideration, and in compliance with a Resolution of the CA, has filed a comment on the said motion.

On June 6, 2016, PEMC filed a petition before the SC questioning the CA's Decision. TMO also filed its Comment on the Petition on November 14, 2016. On June 1, 2017, TMO received the SC Notice dated March 29, 2017. In the Resolution, the SC noted TMO's Comment and PEMC's Reply. As of December 31, 2018, the petition is still pending resolution with the SC.

c. Therma Marine Cases

In 2013, ERC issued Final Approval of various ESAs of Therma Marine with some modifications on ERC's provisionally approved rates which directed both parties to devise a scheme for the refund of the difference between the final and the provisionally approved rates.

On November 25, 2013, ERC issued its order for Therma Marine to refund the amount of ₱180.0 million to its customers for a period of 6 months with equal installments per month.

On August 27, 2014, ERC issued an order directing NGCP to refund its customers the amount of ₱12.7 million and the corresponding VAT for a period of twelve months. As such, Therma Marine will refund the said amount to NGCP and the latter will refund the same to its customers. In 2015, ERC issued Provisional Approvals (PA) on ESA contracts extensions with capacity fees lower than the previously approved rates. Therma Marine filed MRs on these PAs. During the last quarter of 2015, ERC issued Final Approvals on some of these ESA's sustaining the decision in the PA's, thus Therma Marine filed MRs on the final decisions. As of December 31, 2018, there is no resolution yet on the MRs on the Final Approvals.

d. ERC Case No. 2013-077 MC

On August 29, 2013, MERALCO filed a petition for dispute resolution against TLI/APRI, among other Successor Generating Companies ("SGCs") under ERC Case No. 2013-077 MC. The case arose from a claim of refund of the alleged over charging of transmission line losses pursuant to the ERC Order dated March 4, 2013 and July 1, 2013 in ERC Case No. 2008-083 MC.

On September 20, 2013, TLI, together with the other SGCs, filed a Joint Motion to Dismiss arguing that MERALCO's petition should be dismissed for failure to state a cause of action and ERC's lack of jurisdiction over the subject matter of the case. The SGCs and Meralco have filed their respective comments, reply, rejoinder and sur-rejoinder after the filing of the Joint Motion to Dismiss. The Joint Motion to Dismiss has since then been submitted for resolution with the ERC. As of December 31, 2018, the ERC has yet to render its decision on the Joint Motion to Dismiss.

e. Sergio Osmena III vs. PSALM, Emmanuel R. Ledesma, Jr., SPC Power Corporation (SPC) & Therma Power Visayas, Inc. (TPVI)

In 2009, SPC acquired through a negotiated bid the 153.1MW Naga Land-Based Gas Turbine Power Plant ("Naga Plant") in Naga, Cebu. In the same year, it entered into a Land Lease Agreement (LLA) with PSALM, which includes SPC's right to top (RTT) the price of a winning bidder for the sale of any property in the vicinity of the leased premises.

PSALM subsequently bid out the Naga Plant located in the leased premises. On April 30, 2014 and after two failed biddings, PSALM issued a Notice of Award to TPVI for submitting the highest bid for the Naga Plant. SPC wrote PSALM of its intent to exercise its RTT the winning bid, on the condition that the LLA would be for a term of 25 years from closing date.

Senator Sergio Osmeña III filed with the SC a Petition for Certiorari and Prohibition with prayer for issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction dated June 16, 2014 (the "Case") with PSALM, Emmanuel R. Ledesma, SPC and TPVI as respondents to enjoin PSALM from making the award of the Naga Plant to SPC. In his petition, Sen. Osmeña argued that the RTT should be held invalid as it defeats the purpose of a fair and transparent bidding for a government asset and it discourages interested bidders considering the unfair advantage given to SPC.

On July 25, 2014, PSALM awarded the contract to SPC, despite TPVI's objection on the ground that SPC did not validly exercise its right to top because of its qualified offer. Thereafter, an APA for the Naga Plant was executed between PSALM and SPC.

On September 28, 2015, the SC declared in the Case that the RTT and the APA executed in favor of SPC are null and void. The parties thereafter filed various motions for reconsideration which the SC subsequently denied.

On March 16, 2016, TPVI filed its Manifestation/Motion praying that the Notice of Award dated April 30, 2014 be reinstated and that respondent PSALM be ordered to execute the Asset Purchase Agreement ("NPPC-APA"), Land Lease Agreement ("NPPC-LLA") and other documents to implement TPVI's acquisition of the Naga Plant.

On April 6, 2016, the SC issued a Resolution that required PSALM and SPC to comment on TPVI's Manifestation/Motion. In the same Resolution, the SC denied the motion for leave to file and admit SPC's second motion for reconsideration and referral to the SC en banc.

On July 19, 2016, TPVI filed its Manifestation with Omnibus Motion to clarify the motion dated March 16, 2016 and for early resolution. TPVI prayed that the SC Decision dated September 28, 2015 be clarified, and if necessary, be amended to include in its "fallo" that the Notice of Award in favor of TPVI be reinstated.

In response to various motions, the SC issued a Notice of Judgment and Resolution dated October 5, 2016 clarifying that the nullification of SPC's right to top did not invalidate the entire bidding process. Thus, the SC ordered the reinstatement of the Notice of Award dated April 30, 2014 in favor of TPVI. Further, the SC annulled and set aside the APA and the LLA executed between SPC and PSALM and directed PSALM to execute with dispatch the NPPC-APA and the NPPC-LLA in favor of TPVI.

On October 26, 2016, SPC filed an Urgent Motion for Reconsideration with Alternative Motion to Refer to the En Banc of the SC. SPC reiterated its prayer for the reversal of the October 5, 2016 Resolution, denial of TPVI's Manifestation/Motion and for the conduct of a new round of bidding for the Naga Plant. PSALM also filed its Motion for Reconsideration with Leave and prayed that the SC's October 5, 2016 Resolution be re-examined and/or reconsidered.

In its Resolution dated November 28, 2016, the SC denied SPC's and PSALM's motions for reconsideration (of the October 5, 2016 Resolution) with finality. The SC ordered that no further pleadings, motions, letters, or other communications shall be entertained in the Case, and it ordered the issuance of Entry of Judgment.

Notwithstanding the above SC Resolution, SPC filed its Motion for Leave to File and Admit (Motion for Reconsideration dated 9 December 2016) with attached Motion for Reconsideration dated December 9, 2016. Thereafter, SPC filed its Supplemental Motion/Petition for Referral to the Banc dated January 16, 2017.

On February 14, 2017, TPVI received a copy of the Entry of Judgment which states that the October 5, 2016 Resolution of the SC has become final and executory on November 28, 2016.

In May 2018, TPVI received the Certificate of Effectivity (COE) from PSALM initiating the purchase of the facility. The COE implements the September 28, 2015 decision of the SC, which upheld the April 30, 2014 award of the facility to TPVI. Pursuant to the NPPC-APA, on July 16, 2018 ("Closing date"), the Joint Certificate of Turn-Over was signed and issued and the facility was formally turned-over to TPVI.

TPVI paid a total amount ₱1.03 billion for the NPPC-APA and NPPC-LLA and ₱495.97 million for the inventories upon implementation of the acquisition of the Naga Power Plant.

f. DLP Case

On December 7, 1990, certain customers of DLP filed before the then Energy Regulatory Board (ERB) a letter-petition for recovery claiming that with the SC's decision reducing the sound appraisal value of DLP's properties, DLP exceeded the 12% Return on Rate Base (RORB). The ERB's order dated June 4, 1998, limited the computation coverage of the refund from January 19, 1984 to December 14, 1984. No amount was indicated in the ERB order as this has yet to be recomputed.

The CA, in Court of Appeals General Register Special Proceeding (CA-GR SP) No. 50771, promulgated a decision dated February 23, 2001 which reversed the order of the then ERB, and expanded the computation coverage period from January 19, 1984 to September 18, 1989.

The SC in its decision dated November 30, 2006 per GR150253 reversed the CA's decision CA-GR SP No. 50771 by limiting the period covered for the refund from January 19, 1984 to December 14, 1984, approximately 11 months. The respondent/customers filed a Motion for Reconsideration with the SC, which was denied with finality by the SC in its Order dated July 4, 2007.

The SC, following its decision dated November 30, 2006, ordered the ERC to proceed with the refund proceedings instituted by the respondents with reasonable dispatch.

On March 17, 2010, the ERC directed DLP to submit its proposed scheme in implementing the refund to its customers. In compliance with the order, the DLP filed its compliance stating that DLP cannot propose a scheme for implementing a refund as its computation resulted to no refund.

A clarificatory meeting was held where DLP was ordered to submit its memoranda.

On October 4, 2010, in compliance with the ERC directive, DLP submitted its memoranda reiterating that no refund can be made. After which, no resolution has been received by DLP from the ERC as of December 31, 2018.

g. LHC Franchise Tax Assessment

In 2007, the Provincial Treasurer of Benguet issued a franchise tax assessment against LHC, requiring LHC to pay franchise tax amounting to approximately ₱40.4 million, inclusive of surcharges and penalties covering the years 2002 to 2007. In 2008, LHC has filed for a petition for the annulment of the franchise tax assessment, based primarily on the fact that LHC is not liable for franchise tax because it does not have a franchise to operate the business. Section 6 of R.A. No. 9136 provides that power generation shall not be considered a public utility operation. As such, an entity engaged or which shall engage in power generation and supply of electricity shall not be required to secure a national franchise. Accordingly, no provision has been made in the consolidated financial statements. The case remains pending as of December 31, 2018.

h. EPIRA of 2001

R.A. No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. The law provides for the privatization of NPC and the restructuring of the electric power industry. The IRR were approved by the Joint Congressional Power Commission on February 27, 2002.

R.A. No. 9136 and the IRR impact the industry as a whole. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

R.A. No. 9136, the EPIRA, and the covering IRR provides for significant changes in the power sector, which include among others:

i. The unbundling of the generation, transmission, distribution and supply and other disposable assets of a company, including its contracts with IPPs and electricity rates;
ii. Creation of a WESM; and
iii. Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effectivity date of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

i. Retail Competition and Open Access

The EPIRA mandates the implementation of Retail Competition and Open Access (RCOA) subject to the fulfilment of the conditions as provided in the EPIRA. The ERC was tasked under the EPIRA Implementing Rules and Regulations to declare, after due notice and public hearing, the initial implementation of RCOA. Through the RCOA, eligible customers will have the option to source their electricity from eligible suppliers that have secured Retail Electricity Supplier (RES) licenses from the ERC. End users with a monthly average peak demand of at least 1 Megawatt (MW) for the preceding 12 months are eligible to be contestable customers. The 1 MW qualification would gradually be reduced upon evaluation of the ERC.

In June 2011, after due notice and public hearings, the ERC declared December 26, 2011 as the date to mark the commencement of the full operation of RCOA in Luzon and Visayas. However, due to deficiencies in the rules and guidelines governing the RCOA at that time, the December 26, 2011 commencement date was deferred several times until an interim system commenced on July 26, 2013.

The DOE and ERC have issued and revised several circulars, rules and resolutions on the implementation of the RCOA and the issuance of RES licences, including a Code of Conduct, Rules on Contestability, and Rules on RES Licencing.

On February 21, 2017, the SC issued a TRO enjoining the DOE and ERC from implementing the following issuances:

1. DOE Circular No. DC-2015-06-0010 or the DOE Circular Providing Policies to Facilitate the Full Implementation of RCOA in the Philippine Electric Power Industry;
2. ERC Resolution No. 5, Series of 2016 or the Rules Governing the Issuance of Licenses to RES and Prescribing the Requirements and Conditions Therefor;
3. ERC Resolution No. 10, Series of 2016 or a Resolution adopting the Revised Rules for Contestability;
4. ERC Resolution No. 11, Series of 2016 or a Resolution Imposing Restrictions on the Operations of DUs and RES in the Competitive Retail Electricity Market; and
5. ERC Resolution No. 28, Series of 2016 or the Revised Timeframe for Mandatory Contestability, Amending Resolution No. 10, Series of 2016, entitled Revised Rules of Contestability.

The TRO effectively enjoined the DOE and the ERC from imposing the mandatory migration of end-users with average monthly peak demand of at least 1MW and 750 kW on 26 February 2017 and 26 June 2017, respectively, and barring Local RESs and DUs from supplying electricity to the Contestable Market.

Due to the TRO, no new or renewed RES licenses were issued by the ERC due to the perceived risk of being declared in contempt by the SC. The renewal of PEI, AEI and AESI's RES licenses remain pending before the ERC. The application for RES licenses of TLI and APRI are likewise pending.

On November 29, 2017, DOE issued Department Circular No. 2017-12-0013, which provides, among other things, for voluntary participation of Contestable Customers in the Retail Market. On the same date, DOE issued Department Circular No. 2017-12-0014, which provides, among other things, the guidelines on the licensing of RES. Both DOE Circulars enjoin the ERC to promote the supporting guidelines to the DOE Circulars. Once the ERC promulgates these rules, approval of RES license applications and renewals can be expected.

j. Renewable Energy Act of 2008

On January 30, 2009, R.A. No. 9513, An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective. The Act aims to (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, renewable energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the BOI, shall be entitled to incentives, such as, income tax holiday, duty-free importation of RE machinery, equipment and materials, zero percent VAT rate on sale of power from RE sources, and tax exemption of carbon credits, among others.

k. PSALM deferred adjustment

Deferred Accounting Adjustments (DAA)
The ERC issued a Decision dated March 26, 2012 which granted PSALM DAA pertaining to GRAM and ICERA and in its Order dated June 20, 2017, the ERC authorized PSALM to implement the methodology for the recovery/refund of the approved DAA.

Upon Private Electric Power Operators Association's (PEPOA) motion, the ERC, in an Order dated October 19, 2017, deferred the implementation of the approved DAA pending clarification by the ERC of the queries raised in the motion for clarification.

In its Order dated December 19, 2017, the ERC clarified that the GRAM and ICERA DAA are deferred adjustments, which were incurred by PSALM/NPC in supplying energy during the corresponding period; thus, it should be recovered/refunded by PSALM/NPC to its customers. Hence, the Distribution Utilities (DUs) are not just mere collectors of the said DAA but these are charges that they should pay to NPC/PSALM and charged to their customers as part of their generation charge. In the same Order, the ERC directed the DUs to resume the implementation of the GRAM and ICERA starting the January 2018 billing period.

Automatic Cost Recovery Mechanism (ACRM)
On June 20, 2017, the ERC issued its Decision, authorizing PSALM to recover/refund the True-up Adjustments of Fuel and Purchased Power Costs and Foreign Exchange-Related Costs effective its next billing period.

In an Order dated October 19, 2017, the implementation of the ACRM was deferred to the January 2018 billing period pending the evaluation of the clarifications raised in PEPOA's letter and motion and on 19 December 2017, the Commission issued an Order directing PSALM and the DUS to abide with the clarifications issued by the Commission.

l. CSR Projects
The Group has several CSR projects in 2018, 2017 and 2016 which are presented as part of "General and administrative expenses" (see Note 24).

m. Events after the reporting period
The Group received approval from the Philippine Competition Commission on February 28, 2019 for the acquisition of the 49% voting stake and 60% economic stake in AA Thermal, Inc. for a total cash consideration of $579.2 million (Base price, subject to adjustment at closing). The Group expects to close the acquisition shortly upon receipt of all conditions precedent.

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Aboitiz Power Corporation and Subsidiaries included in this Form 17-A and have issued our report thereon dated March 7, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, as amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore
Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-3 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 164-533-282
BIR Accreditation No. 08-001998-71-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332597, January 3, 2019, Makati City

March 7, 2019

Aboitiz Power Corporation and Subsidiaries

Supplementary Schedules
to the Financial Statements
Required by the Securities and Exchange Commission
For the Year Ended December 31, 2018

and

Independent Auditors' Report

Philippine
Pesos

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

Supplementary Schedules Required
By the Securities and Exchange Commission
As of and for the Year Ended December 31, 2018

NA: NOT APPLICABLE

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

AS OF DECEMBER 31, 2018
(Amounts in Thousands except number of shares)

Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Income received and accrued
CASH IN BANK			
ANZ		P26	P-
Banco de Oro		5,866,113	17,638
Bank of Commerce		647	-
Bank of the Philippine Islands		743,988	10,753
Bank of Tokyo - Mitsubishi UFJ		94	-
Citibank		5,047	-
Development Bank of the Philippines		4,005	1
ING Bank N.V.		359,581	-
Land Bank of the Philippines		7,404	6
Metropolitan Bank and Trust Company		220,195	794
One Network Bank		6,478	-
Philippine National Bank		65,384	349
Rizal Commercial Banking Corporation		4,811	40
Security Bank Corporation		257,632	634
Standard Chartered Bank		99,099	384
Union Bank of the Philippines		3,721,977	54,758
Cash on Hand, Cash in Vault and Revolving Fund		63,570	1,737
TOTAL		P11,426,051	P87,094
MONEY MARKET PLACEMENT			
Banco de Oro		P3,246,735	P46,893
Bangko Sentral ng Pilipinas		1,157,368	-
Bank of the Philippine Islands		652,224	24,339
China Trust Banking Corporation		1,361,674	51,888
City Savings Bank		8,033,009	185,152
Deutsche Bank		-	957
First Metro Investment Corporation		-	969
Metropolitan Bank and Trust Company		272,835	51,958
Philippine National Bank		7,991	65
Rizal Commercial Banking Corporation		9,161	-
Security Bank Corporation		3,649,518	25,349
Mizuho Corporate Bank, Ltd.		1,495,170	17,835
Union Bank of the Philippines		15,031,305	387,586
TOTAL		P34,916,990	P792,991
TRADE AND OTHER RECEIVABLES			
Trade Receivables (net of allowance):			
Residential		P1,551,750	P-
Commercial		742,765	-
Industrial		4,950,707	-
City street Lighting		26,595	-
Spot market		1,290,474	-
Power supply contracts		4,247,743	-
Dividends Receivable		665,783	-
Advances to contractors		148,300	-
Accrued Revenues		3,476,120	-
Non-trade Receivables		2,872,224	-
Interest receivable		91,992	-
PSALM Adjustment		1,042,861	
Other Receivables		614,462	-
TOTAL		P21,721,776	P-
Financial assets at FVTPL			
Apo Golf & Country Club	3	P2	P-
Banco De Oro	8,050	793	-
Philippine Long Distance Telephone Co.	36,463	458	-
PICOP Resources, Inc.	164	8	-
Alta Vista Golf & Country Club	1	2,265	-
UBP - Trust fund	1,000,000	97,535	-
Philex Mining Corp	2,168	5	-
Others	375,000	375	-
TOTAL		P101,441	P-

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018
(Amounts in Thousands)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Non-Current	Ending Balance
			Amounts Collected	Amounts Written-Off			
Davao Light & Power Co., Inc.	P688,129	P7,319,647	(P7,333,924)	P-	P673,852	P-	P673,852
Therma Power, Inc. and Subsidiaries	50,956	102,170	(140,170)	-	12,956	-	12,956
Cotabato Light & Power Company	29,960	280,886	(296,709)	-	14,137	-	14,137
Aboitiz Renewables, Inc. and Subsidiaries	9,966	16,161	(23,473)	-	2,654	-	2,654
Subic Enerzone Corporation	193,332	318,618	(341,779)	-	170,171	-	170,171
Visayan Electric Co., Inc.	584,221	3,866,742	(3,833,272)		617,691	-	617,691
Aboitiz Energy Solutions, Inc.	678,651	7,353,931	(6,703,066)	-	1,329,516	-	1,329,516
Mactan Enerzone Corporation	209	4,671	(3,828)	-	1,052	-	1,052
Balamban Enerzone Corporation	209	4,600	(3,675)	-	1,134	-	1,134
Cebu Private Power Corporation	18,323	58,729	(14,078)	-	62,974	-	62,974
Lima Enerzone Corporation	27,451	405,505	(399,618)	-	33,338	-	33,338
East Asia Utilities Corporation	195.00	1,878	(1,708)	-	365	-	365
Prism Energy, Inc.	25,324.00	626,723	(555,578)	-	96,469	-	96,469
Adventenergy, Inc.	621,163	7,925,335	(7,232,289)	-	1,314,209	-	1,314,209
TOTAL	**P2,928,089**	**P28,285,596**	**(P26,883,167)**	P-	**P4,330,518**	P-	**P4,330,518**

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS

AS OF DECEMBER 31, 2018
(Amount in Thousands)

Description	Beginning Balance	Additions At Cost	DEDUCTIONS Charged to Costs and Expenses	 Charged to Other Accounts	Other Changes Additions (Deductions)	Ending Balance
A. Intangibles						
Goodwill	P40,270,344	P-	(P45,933)	P-	P-	P40,224,411
Service concession rights	2,971,957	50,410	(361,484)	-	128,727	2,789,610
Project development costs	263,436	175,954	(50,922)	-		388,468
Franchise	2,725,693	-	(76,961)	-	-	2,648,732
Customer contracts	20,023	-	(11,441)	-	-	8,582
Software and licenses	93,205	54,648	(42,162)	-	-	105,691
Total	P46,344,658	P281,012	(P588,903)	P-	P128,727	P46,165,494
B. Other Noncurrent Assets						
Restricted cash	P-	P-	P-	P-	P-	P-
Prepaid rent	533,455	-	-	-	517,647	1,051,102
Prepaid taxes	306,948		-	-	(147,006)	159,942
Input vat and tax credit receivable	6,739,800		-	-	(1,463,454)	5,276,346
Notes Receivable	-				-	-
Advances to contractors and projects	2,135,907	-	-	-	(1,671,768)	464,139
Receivable from NGCP	-	-	-	-	-	-
Refundable deposits	378,043	-	-	-	(3,029)	375,014
Investment properties	3,300	-	-	-	-	3,300
PSALM adjutment - net of current	-	-	-	-	3,183,089	3,183,089
Others	119,902	-	-	-	27,345	147,247
Total	P10,217,355	P-	P-	P-	P442,824	P10,660,179
Total	**P56,562,013**	**P281,012**	**(P588,903)**	**P-**	**P571,551**	**P56,825,673**

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE E - LONG-TERM DEBT

AS OF DECEMBER 31, 2018
(Amounts in Thousands)

Name of Issuer and Type of Obligation	Amount Authorized by Indentures	Amount Shown as Current	Amount Shown as Long-Term	Remarks
Parent:				
Aboitiz Power Corporation	P22,997,821	P-	P22,997,821	
Subsidiaries:				
Hedcor, Inc.	1,827,786	88,414	1,739,372	
Subic Enerzone Corporation	169,500	56,500	113,000	
Luzon Hydro Corporation	873,422	288,106	585,316	
Davao Light & Power Co., Inc.	731,250	149,250	582,000	
Cotabato Light & Power Company	146,250	29,850	116,400	
Therma South, Inc.	21,175,346	1,282,338	19,893,008	
Pagbilao Energy Corp. (Joint Operation)	14,222,533	1,074,642	13,147,891	
Visayan Electric Co., Inc.	973,045	199,000	774,045	
GNPower Mariveles Coal Plant Ltd. Co.	41,162,331	3,692,622	37,469,709	
Therma Visayas, Inc.	31,193,746	-	31,193,746	
AP Renewables, Inc.	9,207,164	1,209,185	7,997,979	
Hedcor Sibulan, Inc.	3,863,854	93,118	3,770,736	
Hedcor Bukidnon, Inc.	9,213,643	534,379	8,679,264	
Total	**P157,757,691**	**P8,697,404**	**P149,060,287**	

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES
(LONG-TERM LOANS FROM RELATED PARTIES)

AS OF DECEMBER 31, 2018
(Amounts in Thousands)

Name of Affiliate	Beginning Balance	Ending Balance
Aboitiz Equity Ventures, Inc.	P-	P300,000
	-	-
	-	-
Total	**P -**	**P300,000**

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE H - CAPITAL STOCK

AS OF DECEMBER 31, 2018
(Amounts in Thousands)

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
COMMON SHARES	16,000,000	7,358,604	-	5,818,935	133,972	1,405,697
PREFERRED SHARES	1,000,000	-	-	-	-	-

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE I - TRADE AND OTHER RECEIVABLES FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018
(Amounts in Thousands)

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Davao Light & Power Co., Inc.	P568,292	P105,560	P673,852	P7,319,647	P-	P-	30 days
Therma Power, Inc. and Subsidiaries	-	12,956	12,956	102,170	-	-	30 days
Cotabato Light & Power Company	3,619	10,518	14,137	280,886	-	-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	-	2,654	2,654	16,161	-	-	30 days
Subic Enerzone Corporation	169,240	931	170,171	318,618	-	-	30 days
Visayan Electric Co., Inc.	559,153	58,538	617,691	3,866,742	-	-	30 days
Aboitiz Energy Solutions, Inc.	1,324,133	5,383	1,329,516	7,353,931	-	-	30 days
Mactan Enerzone Corporation	-	1,052	1,052	4,671	-	-	30 days
Balamban Enerzone Corporation	-	1,134	1,134	4,600	-	-	30 days
Cebu Private Power Corporation	-	62,974	62,974	58,729	-	-	30 days
Lima Enerzone Corporation	32,243	1,095	33,338	405,505	-	-	30 days
East Asia Utilities Corporation	-	365	365	1,878			30 days
Prism Energy, Inc.	95,664	805	96,469	626,723			30 days
Adventenergy, Inc.	1,311,638	2,571	1,314,209	7,925,335	-	-	30 days
TOTAL	**P4,063,982**	**P266,536**	**P4,330,518**	**P28,285,596**	**P-**	**P-**	

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE J - TRADE AND OTHER PAYABLES FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018
(Amounts in Thousands)

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Parent Company	P-	P266,536	P266,536	P1,066,501	P-	P-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	1,217,338	-	1,217,338	7,495,171	-	-	30 days
Cebu Private Power Corporation	115,292	-	115,292	1,182,766	-	-	30 days
Therma Power, Inc. and Subsidiaries	2,219,916	-	2,219,916	14,729,317	-	-	30 days
Aboitiz Energy Solutions, Inc.	342,982	-	342,982	1,974,626	-	-	30 days
East Asia Utilities Corporation	24,582	-	24,582	318,423	-	-	30 days
Subic Enerzone Corporation	38,933	-	38,933	523,558	-	-	30 days
Balamban Enerzone Corporation	11,902	-	11,902	153,533	-	-	30 days
Mactan Enerzone Corporation	8,305	-	8,305	101,490	-	-	30 days
Lima Enerzone Corporation	41,513	-	41,513	454,965	-	-	30 days
Visayan Electric Co., Inc.	43,219	-	43,219	285,246	-	-	30 days
TOTAL	P4,063,982	P266,536	P4,330,518	P28,285,596	P-	P-	

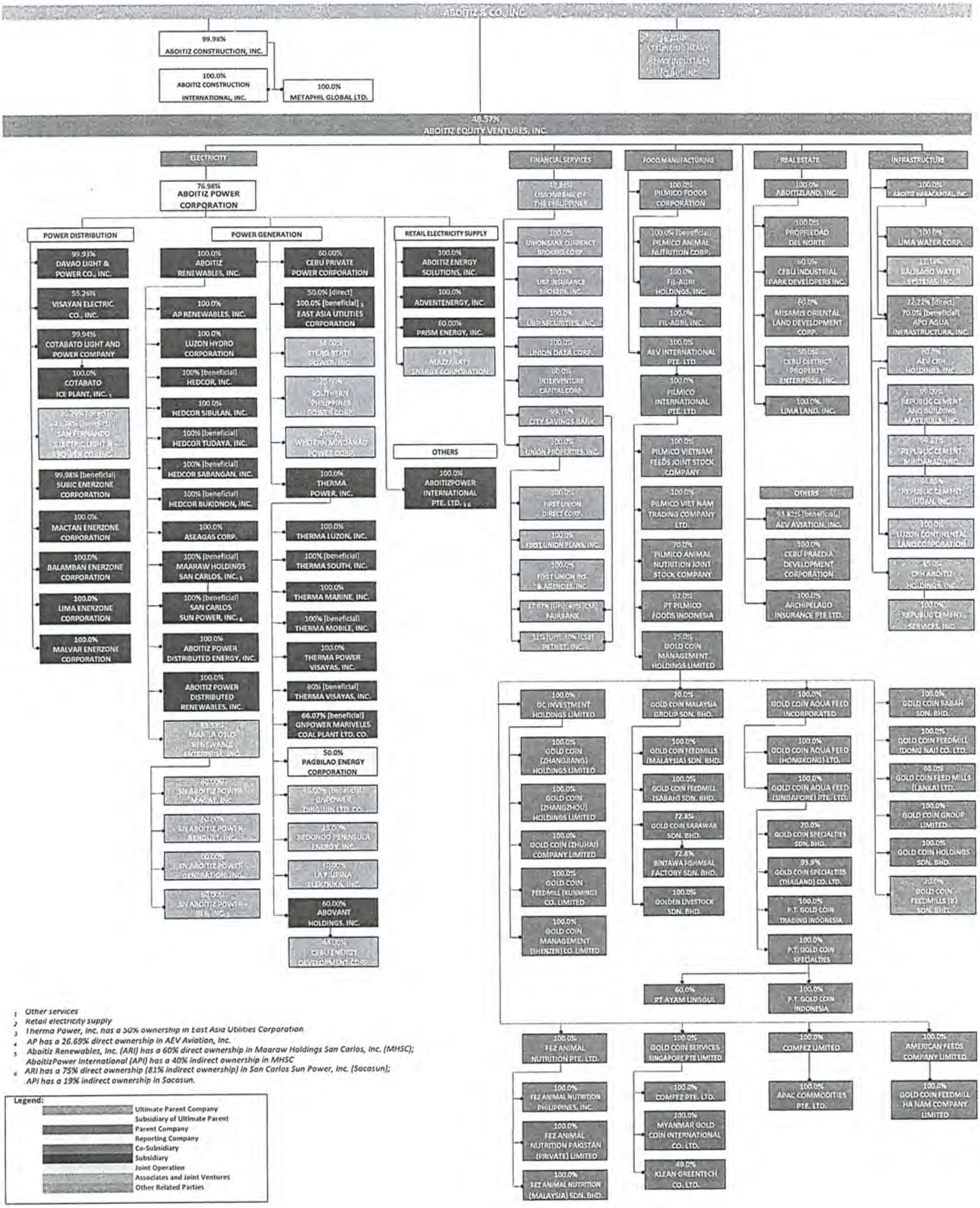
ABOITIZ POWER CORPORATION AND SUBSIDIARIES

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2018
(Amount in Philippine Currency)

Unappropriated Retained Earnings, *beginning*		P22,892,214,864
Less:		
Appropriation for the year 2018		-
Effect of adoption – PFRS 9		(625,169)
		22,891,589,695
Net income based on face of audited financial statements	P8,995,307,226	
Less: Non-actual/unrealized income (net of tax)	-	
Add: Non-actual loss (net of tax)	-	
Net income actual/realized for the period		8,995,307,226
Less:		
Dividend declaration during the period		(10,228,459,987)
UNAPPROPRIATED RETAINED EARNINGS, AS ADJUSTED, ENDING		**P21,658,436,934**

BOITIZ POWER CORPORATION AND SUBSIDIARIES
ONGLOMERATE MAP
of December 31, 2018



1 Other services
2 Retail electricity supply
3 Therma Power, Inc. has a 50% ownership in East Asia Utilities Corporation
4 AP has a 26.69% direct ownership in AEV Aviation, Inc.
5 Aboitiz Renewables, Inc. (ARI) has a 60% direct ownership in Maaraw Holdings San Carlos, Inc. (MHSC); AboitizPower International (API) has a 40% indirect ownership in MHSC
6 ARI has a 75% direct ownership (81% indirect ownership) in San Carlos Sun Power, Inc. (Sacasun); API has a 19% indirect ownership in Sacasun.

USE OF PROCEEDS
(Amounts are in thousands)

1) Ten Billion Fixed Rate Bonds issued in 2014

As of December 31, 2016, the proceeds from the 2014 bonds were fully utilized for the following projects:

Name of Project	Projected Usage (Per Prospectus)	Actual Usage
400 MW (net) Pulverised Coal-Fired Expansion Unit 3 in Pagbilao, Quezon	₱4,100,000	₱3,917,722
68 MW Manolo Fortich Hydropower Plant	3,600,000	2,253,450
300 MW Cebu Coal	500,000	527,859
300 MW Davao Coal	500,000	1,698,469
14 MW Sabangan Hydropower Plant	1,300,000	1,602,500
TOTAL	₱10,000,000	₱10,000,000

2) Series "A" of the Thirty Billion Shelf Registration issued in 2017

As of September 30, 2018 the proceeds from the 2017 bonds were fully utilized for the following projects:

Name of Project	Projected Usage (Per Prospectus)	Actual Usage
Equity infusions into GNPD in 2017	₱2,206,373	₱1,255,745
Equity infusions into GNPD in 2018	764,395	1,711,317
Bond issuance costs	29,232	32,938
TOTAL	₱3,000,000	₱3,000,000

3) Series "B" and "C" of the Thirty Billion Shelf Registration issued in 2018

As of December 31, 2018 the proceeds from the 2018 bonds were utilized for the following:

Name of Project	Projected Usage (Per Prospectus)	Actual Usage
Refinancing of the Medium-Term Loan of Therma Power, Inc.	₱8,700,000	₱8,700,000
Bond issuance costs	118,868	121,924
General corporate purposes	1,381,132	-
TOTAL	₱10,200,000	₱8,821,924

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE OF RELEVANT FINANCIAL RATIOS

	FORMULA	2018	2017
LIQUIDITY RATIOS			
Current ratio	Current assets / Current liabilities	**1.89**	1.38
Acid test ratio	Cash + Marketable securities + Accounts receivable + Other liquid assets / Current liabilities	**1.46**	1.08
SOLVENCY RATIOS			
Debt to equity ratio	Total liabilities / Total equity	**1.85**	1.92
Asset to equity ratio	Total assets / Total equity	**2.85**	2.92
Net debt to equity ratio	Debt - Cash & cash equivalents / Total equity	**1.21**	**1.35**
Gearing ratio	Debt - Cash & cash equivalents / Total equity + (Debt - Cash & cash equivalents)	**54.69%**	**57.49%**
Interest coverage ratio	EBIT / Interest expense	**3.53**	3.60
PROFITABILITY RATIOS			
Operating margin	Operating profit / Total revenues	**27.7%**	28.6%
Return on equity	Net income after tax / Total equity adjusted for cash dividends	**20.2%**	20.9%

SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS
EFFECTIVE AS OF DECEMBER 31, 2018

Standards and Interpretations		Remarks
Philippine Financial Reporting Standards (PFRS)		
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	Adopted
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	Not Applicable
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	Not Applicable
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	Not Applicable
	Amendments to PFRS 1: Government Loans	Not Applicable
PFRS 2	Share-based Payment	Not Applicable
	Amendments to PFRS 2: Vesting Conditions and Cancellations	Not Applicable
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	Not Applicable
	Amendments to PFRS 2: Definition of Vesting Condition	Not Applicable
PFRS 3 (Revised)	Business Combinations	Adopted
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination	Adopted
	Amendments to PFRS 3: Scope Exceptions for Joint Ventures	Adopted
PFRS 4	Insurance Contracts	Not Applicable
	Amendments to PFRS 4: Financial Guarantee Contracts	Adopted
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Adopted
	Amendment to PFRS 5: Changes in Methods of Disposal	Adopted
PFRS 6	Exploration for and Evaluation of Mineral Resources	Not Applicable
PFRS 7	Financial Instruments: Disclosures	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	Adopted
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	Adopted
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	Adopted
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	Adopted
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Adopted
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments)	Adopted
	Amendments to PFRS 7: Servicing Contracts	Adopted
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial	Adopted
PFRS 8	Operating Segments	Adopted
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the	Adopted
PFRS 9	Financial Instruments: Classification and Measurement of Financial Assets	Adopted
	Financial Instruments: Classification and Measurement of Financial Liabilities	Adopted
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Adopted
	PFRS 9, Financial Instruments (Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39)	Adopted
	PFRS 9, Financial Instruments (2014)	Adopted
	Amendments to PFRS 9: Prepayment Features with Negative Compensation	See footnote1
PFRS 10	Consolidated Financial Statements	Adopted
	Amendments to PFRS 10: Transition Guidance	Adopted
	Amendments to PFRS 10: Investment Entities	Adopted
	Amendments to PFRS 10: Sale or Contribution of Assets Between an Investor and its Associate or Joint	Effective date deferred
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception	Not Applicable
PFRS 11	Joint Arrangements	Adopted
	Amendments to PFRS 11: Transition Guidance	Adopted
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	Adopted
PFRS 12	Disclosure of Interests in Other Entities	Adopted
	Amendments to PFRS 12: Transition Guidance	Adopted
	Amendments to PFRS 12: Investment Entities	Adopted
	Amendment to PFRS 12, Clarification of the Scope of the Standard	Adopted
PFRS 13	Fair Value Measurement	Adopted
	Amendments to PFRS 13: Short-term Receivables and Payables	Adopted
	Amendments to PFRS 13: Portfolio Exception	Adopted
PFRS 14	Regulatory Deferral Accounts	Not Applicable
PFRS 15	Revenue from Contracts with Customers	Adopted
PFRS 16	Leases	See footnote1

Philippine Accounting Standards (PAS)

PAS 1 (Revised)	Presentation of Financial Statements	Adopted
	Amendment to PAS 1: Capital Disclosures	Adopted
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	Adopted
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	Adopted
	Amendment to PAS 1: Disclosure Initiative	Adopted
PAS 2	Inventories	Adopted
PAS 7	Statement of Cash Flows	Adopted
	Amendment to PAS 7: Disclosure Initiative	Adopted

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS
EFFECTIVE AS OF DECEMBER 31, 2018

Standards and Interpretations		Remarks
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	Adopted
PAS 10	Events after the Reporting Period	Adopted
PAS 11	Construction Contracts	Not Applicable
PAS 12	Income Taxes	Adopted
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	Adopted
	Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses	Adopted
PAS 16	Property, Plant and Equipment	Adopted
	Amendments to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Amortization	Adopted
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	Adopted
	Amendments to PAS 16: Bearer Plants	Not Applicable
PAS 17	Leases	Adopted
PAS 18	Revenue	Adopted
PAS 19 (Revised)	Employee Benefits	Adopted
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	Adopted
	Amendment to PAS 19: Discount Rate: Regional Market Issue	Adopted
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	Adopted
	Amendment: Net Investment in a Foreign Operation	Adopted
PAS 23 (Revised)	Borrowing Costs	Adopted
PAS 24 (Revised)	Related Party Disclosures	Adopted
	Amendments to PAS 24: Key Management Personnel Services	Adopted
PAS 26	Accounting and Reporting by Retirement Benefit Plans	Not Applicable
PAS 27 (Amended)	Separate Financial Statements	Adopted
	Amendments to PAS 27 (Amended): Investment Entities	Not Applicable
	Amendments to PAS 27: Equity Method in Separate Financial Statements	Adopted
PAS 28 (Amended)	Investments in Associates and Joint Ventures	Adopted
	Amendments to PAS 28, Investment Entities: Applying the Consolidation Exception	See footnote1
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value	Not Applicable
	Amendments to PAS 28: Long-term interests in Associates and Joint Ventures	See footnote1
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets Between an Investor and its	Effective date deferred
PAS 29	Financial Reporting in Hyperinflationary Economies	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	Adopted
	Financial Instruments: Presentation	Adopted
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	Adopted
	Amendment to PAS 32: Classification of Rights Issues	Adopted
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	Adopted
PAS 33	Earnings per Share	Adopted
PAS 34	Interim Financial Reporting	Adopted
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	Adopted
PAS 36	Impairment of Assets	Adopted
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	Adopted
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	Adopted
PAS 38	Intangible Assets	Adopted
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization	Adopted
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	Adopted
PAS 39	Financial Instruments: Recognition and Measurement	Adopted
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	Adopted
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	Adopted
	Amendments to PAS 39: The Fair Value Option	Adopted
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	Adopted
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	Adopted
	Amendment to PAS 39: Eligible Hedged Items	Adopted
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	Adopted

SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS
EFFECTIVE AS OF DECEMBER 31, 2018

Standards and Interpretations		Remarks
PAS 40	Investment Property	Adopted
	Amendments to PAS 40: Clarifying the Interrelationship Between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property	Adopted
	Amendments to PAS 40: Investment Property, Transfers of Investment Property	Adopted
PAS 41	Agriculture	Not Applicable
	Amendments to PAS 41: Bearer Plants	Not Applicable

Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Adopted
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	Not Applicable
IFRIC 4	Determining Whether an Arrangement Contains a Lease	Adopted
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Not Applicable
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	Not Applicable
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies	Not Applicable
IFRIC 8	Scope of PFRS 2	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives	Adopted
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	Adopted
IFRIC 10	Interim Financial Reporting and Impairment	Adopted
IFRIC 11	Scope of PFRS 2	Not Applicable
IFRIC 12	Service Concession Arrangements	Adopted
IFRIC 13	Customer Loyalty Programmes	Not Applicable
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Not Applicable
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	Adopted
IFRIC 15	Agreements for the Construction of Real Estate	Not Applicable
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	Not Applicable
IFRIC 17	Distributions of Non-cash Assets to Owners	Adopted
IFRIC 18	Transfers of Assets from Customers	Adopted
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Adopted
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Not Applicable
IFRIC 21	Levies	Adopted
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Adopted
IFRIC 23	Uncertainty over Income Tax Treatments	See footnote1

Philippine Interpretations - Standing Interpretations Committee (SIC)

SIC 7	Introduction of the Euro	Not Applicable
SIC 10	Government Assistance - No Specific Relation to Operating Activities	Not Applicable
SIC 12	Consolidation - Special Purpose Entities	Adopted
	Amendment to SIC - 12: Scope of SIC 12	Adopted
SIC 13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	Adopted
SIC 15	Operating Leases - Incentives	Adopted
SIC 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	Adopted
SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	Adopted
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	Adopted
SIC 29	Service Concession Arrangements: Disclosures	Adopted
SIC 31	Revenue - Barter Transactions Involving Advertising Services	Not Applicable
SIC 32	Intangible Assets - Web Site Costs	Adopted

[1] Effective subsequent to December 31, 2018