

April 14, 2020

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
29th Floor BDO Equitable Tower
8751 Paseo de Roxas, Makati City 1226

ATTENTION : **ATTY. MARIE ROSE M. MAGALLEN-LIRIO**
Head – Issuer Compliance and Disclosures Department

Gentlemen:

Attached is the SEC Form 17-A (Annual Report 2019) 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

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S.E.C. Registration Number

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(Company's Full Name)

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

MANUEL ALBERTO R. COLAYCO

Contact Person

02- 8886-2338

Company Telephone Number

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Month Day

Fiscal Year

Annual Report

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FORM TYPE

4th Monday of

April

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Month Day

Annual Meeting

N/A

Secondary License Type, if Applicable

SEC

Dept. Requiring this Doc

N/A

Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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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 2019
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
Address of principal office
- 1634
Postal Code
8. (02) 8886-2800
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, 2019) **₱233,096,686,000.00**

Fixed-Rate Peso Retail Bonds Issued by the Company:

Issue Date	Series	Amount of Issuance	Maturity Date	Tenor
September 2014	Series A	₱6.6 billion	September 2021	7 years
September 2014	Series B	₱3.4 billion	September 2026	12 years
July 2017	Series A	₱3 billion	July 2027	10 years
October 2018	Series B	₱7.7 billion	January 2024	5.25 years
October 2018	Series C	₱2.5 billion	October 2028	10 years
October 2019	Series D	₱7.25 billion	October 2026	7 years

For a discussion on the Company's bond issuances, please refer to Part I Item 1 (I)(b).

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 2019, aggregate voting stock of registrant held outside of its affiliates and/or officers and employees totaled 1,399,582,664 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 ₱34.20, as of December 31, 2019.

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 ₱47,865,727,108.80.

**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

AboitizPower through its Subsidiaries, joint ventures, and Associates, is a leading player in the Philippine power industry with interests in privately-owned power generation companies, RES services, and distribution utilities throughout the Philippines, from Benguet in the north to Davao in the south.

AboitizPower's portfolio of power generating plants consist of a mix of renewable and non-renewable sources and of baseload and peaking power plants. This allows the Company to address the 24-hour demand of the country with its coal and geothermal plants handling baseload demand, while the hydropower, solar, and oil-based plants handle intermediate to peaking demand. Most of these plants are also capable of providing ancillary services, which are also critical in ensuring a reliable grid operation. Its generation companies have an installed capacity which is equivalent to a 15% market share of the national grid's installed generating capacity.¹ Taking into consideration projects in the pipeline, AboitizPower believes that it will meet its strategic goal of increasing its attributable net sellable capacity to 4,000 MW by 2020, having an attributable net sellable capacity of 3,455 MW as of March 31, 2020. AboitizPower's renewable investments are held primarily through its wholly-owned Subsidiary, Aboitiz Renewables, Inc. (ARI) and its Subsidiaries and joint ventures. AboitizPower is a pioneer in the building and operation of run-of-river mini hydropower plants in the country.

AboitizPower also owns interests in nine Distribution Utilities in Luzon, Visayas, and Mindanao, including Visayan Electric and Davao Light, the second and third largest distribution utilities in the Philippines, respectively. AboitizPower's Subsidiaries engaged in the distribution of electricity sold a total of 7,821,159 MWh for the year 2019.

AboitizPower's power generation business supplies power to various customers under power supply contracts, ancillary service procurement agreements (each, an "ASPA"), and for trading in the Wholesale Electricity Spot Market (WESM). The power distribution business is engaged in the distribution and sale of electricity to end-users, and the RES and Others segment includes retail electricity sales to various off-takers that are considered eligible contestable customers ("Contestable Customers") and provision of electricity-related services, such as installation of electrical equipment. AboitizPower's Subsidiaries engaged in the supply of retail electricity sold a total of 4.66 Terawatt hours (TWh) for the year 2019.

As of December 31, 2019, Aboitiz Equity Ventures, Inc. (AEV) owned 76.98% of the outstanding capital stock of AboitizPower, 78.97% was owned by directors, officers and related parties, while the remainder was owned by the public.

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

History and Milestones

The Aboitiz Group's involvement in the power industry began when members of the Aboitiz family acquired 20% ownership interest in Visayan Electric in the early 1900s. The Aboitiz Group's direct and active involvement in the power distribution industry can be traced to the 1930s, when 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 distribution 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 Visayan Electric.

¹ Based on ERC Resolution No. 5, dated June 18, 2019

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 Hydro Electric Development Corporation (HEDC), which carried out feasibility studies (including hydrological and geological studies), hydroelectric power installation and maintenance, and also developed hydroelectric projects 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 NPC to develop and operate the 70-MW Bakun AC hydroelectric plant (the "Bakun Plant") in Ilocos Sur.

The table below sets out milestones in AboitizPower's development since 1998:

Year	Milestones
1998	Incorporated as a holding company for the Aboitiz Group's investments in power generation and distribution.
2005	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).
2007	<p>Entered into a share swap agreement with AEV in exchange for AEV's ownership interest in the following distribution utilities:</p> <ul style="list-style-type: none"> (i) An effective 55% equity interest in Visayan Electric; (ii) 100% equity interest in each of Davao Light and Cotabato Light; (iii) An effective 64% ownership interest in Subic Enerzone; and (iv) An effective 44% ownership interest in SFELAPCO. <p>As part of the reorganization of the power-related assets of the Aboitiz Group, the Company:</p> <ul style="list-style-type: none"> (i) Acquired 100% interest in Mactan Enerzone and 60% interest in Balamban Enerzone from AboitizLand; and (ii) Consolidated its ownership interests in Subic Enerzone by acquiring the combined 25% interest in Subic Enerzone held by AEV, SFELAPCO, Okeelanta Corporation, and Pampanga Sugar Development Corporation. <p>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 Mactan Enerzone, Balamban Enerzone, and Subic Enerzone.</p> <p>Together with its partner, Statkraft Norfund Power Invest AS of Norway, through SN Aboitiz Power-Magat, acquired possession and control of the Magat Plant following its successful bid in an auction by the Power Sector Assets and Liabilities Management Corporation (PSALM).</p> <p>Formed Abovant Holdings, Inc. (Abovant) with the Vivant Group as the investment vehicle for the construction and operation of a coal-fired power plant in Toledo City, Cebu ("Cebu Coal Project"). Abovant entered into a Memorandum of Agreement (MOA) with Global Business Power Corporation (Global Power) of the Metrobank group for the acquisition of a 44% equity interest in Cebu Energy Development Corporation (Cebu Energy).</p> <p>Therma Power, Inc. (TPI) entered into a MOA with Taiwan Cogeneration International Corporation (TCIC) for the Subic Coal Project, an independent coal-fired power plant in the Subic Bay Freeport Zone. Redondo Peninsula Energy, Inc. (RP Energy) was incorporated as the project company.</p> <p>Acquired 50% of East Asia Utilities Corporation (EAUC) from El Paso Philippines Energy Company, Inc. and 60% of Cebu Private Power Corporation (CPPC).</p> <p>Purchased 34% equity ownership in STEAG State Power, Inc. (STEAG Power) from Evonik Steag GmbH in August 2007.</p> <p>Purchased Team Philippines Industrial Power II Corporation Industrial Power II Corp.'s 20% equity in Subic Enerzone.</p>
2008	<p>SN Aboitiz Power-Benguet submitted the highest bid for the Ambuklao-Binga Hydroelectric Power Complex.</p> <p>Acquired Tsuneishi Holdings (Cebu), Inc.'s 40% equity ownership in Balamban Enerzone, bringing AboitizPower's total equity in Balamban Enerzone to 100%.</p>

Year	Milestones
2009	AP Renewables, Inc. (APRI) acquired the 234-MW Tiwi geothermal power facility in Albay and the 449.8 MW Makiling-Banahaw geothermal power facility in Laguna (collectively referred to as the “Tiwi-MakBan Geothermal Facilities”).
	Therma Luzon, Inc. (TLI) became the Independent Power Producer Administrator (IPPA) for the 700-MW contracted capacity of the Pagbilao Coal-Fired Power Plant (“Pagbilao Plant”), becoming the first IPPA of the country.
2010	Therma Marine, Inc. (TMI), acquired ownership over Mobile 1 (Power Barge 118) and Mobile 2 (Power Barge 117) from PSALM.
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.
	Therma Mobile, Inc. (TMO) acquired four barge-mounted floating power plants and their operating facilities from Duracom Mobile Power Corporation and EAUC. In the same year, the barges underwent rehabilitation and started commercial operations in 2013.
2013	Aboitiz Energy Solutions, Inc. (AESI) won 40 strips of energy corresponding to 40 MW capacity of Unified Leyte Geothermal Power Plant (ULGPP). The contract between AESI with PSALM with respect to the ULGPP capacity was terminated on October 26, 2019.
2014	TPI entered into a joint venture agreement with TPEC Holdings Corporation to form Pagbilao Energy Corporation (“PEC”) to develop, construct, and operate the 400 MW coal-fired Pagbilao Unit 3.
	Therma Power-Visayas, Inc. (TPVI) was declared the highest bidder for the privatization of the Naga Power Plant Complex (NPPC). 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.
	Acquired 100% of Lima Enerzone Corporation (Lima Enerzone), from Lima Land, Inc., a wholly-owned Subsidiary of AboitizLand.
	TPI entered into a Shareholders’ Agreement with Vivant Group, for the latter’s acquisition of 20% issued and outstanding shares in Therma Visayas, Inc. (TVI).
2015	Aboitiz Renewables formed a joint venture company, San Carlos Sun Power, Inc. (Sacasun), with SunEdison Philippines to explore solar energy project.
	TSI commences full commercial operations of its Unit 1.
2016	TSI commences full commercial operations of its Unit 2.
	TPI acquired 82.8% beneficial ownership interest in GNPowder Mariveles Coal Plant Ltd. Co. (“GNPowder Mariveles” or “GMPC”) and 50% beneficial ownership interest in GNPowder Dinginin Ltd. Co. (“GNPowder Dinginin” or “GNPD”).
	Through TPI, acquired the remaining 50% interest in EAUC from El Paso Philippines.
	AboitizPower first ventured into the solar market with SacaSun.
2017	AboitizPower International completes its acquisition of SunEdison Philippines, and consolidates ownership of SacaSun.
2018	Aseagas permanently ceased operations of its 8.8-MW biomass plant in Lian, Batangas.
	TPVI accepted the turnover of the Naga Power Plant Complex PSALM.
	Pagbilao Unit 3 begins commercial operations.

On April 22, 2019, TMO signed a Power Supply Agreement (PSA) with Meralco, after the facility went into preservation mode on February 5, 2019, and voluntarily disconnected from the grid and de-registered from WESM. TMO has registered again with Independent Electricity Market Operator of the Philippines Inc. (IEMOP) on April 22, 2019 and commenced delivery of power to Meralco on April 26, 2019.

Following Philippine Competition Commission’s (PCC) approval, the Company completed the acquisition of a 49% voting stake and a 60% economic stake in AA Thermal, Inc., which holds the GNPowder Mariveles and GNPowder Dinginin projects, increasing its economic interests in the GNPowder Mariveles and GNPowder Dinginin projects to 78.32% and 72.50%, respectively.

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. As of March 31, 2020, AboitizPower has 921 MW of attributable 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.

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

AboitizPower's power generation portfolio includes interests in both renewable and non-renewable generation plants. As of December 31, 2019, the power generation business accounted for 88% 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, 2019, compared to the same period in 2018 and 2017:

Generation Companies	2019	Energy Sold 2018 (in GWh)	2017	2019	Revenue 2018 (in mn Pesos)	2017
APRI	2,968	2,857	2,747	12,545	12,518	11,645
Sacasun	49	41	41	269	197	189
Hedcor	226	172	162	881	694	821
LHC	262	291	272	787	970	774
Hedcor Sibulan	191	213	259	1,282	1,385	1,591
Hedcor Tudaya	29	32	41	172	191	240
Hedcor Sabangan	51	53	55	300	315	325
SN Aboitiz Power-Magat	2,054	2,379	1,324	6,608	7,182	8,298
SN AboitizPower-Benguet	1,975	2,085	989	6,065	6,070	6,996
TLI	6,812	6,808	5,126	25,410	26,603	22,939
TSI	1,393	1,959	1,647	9,099	11,141	10,535
Cebu Energy	1,900	1,978	1,724	8,571	9,724	8,752
STEAG Power	1,840	1,840	1,212	4,791	4,373	4,255
GMCP	3,909	5,498	5,482	19,373	23,492	21,644
WMPC	638	438	221	1,158	1,393	1,439
SPPC	0	161	50	0	161	524
CPPC	550	551	141	1,685	1,253	1,484
EAUC	383	368	63	1,013	819	844
TMI	1,200	1,432	182	1,865	2,016	2,076
TMO	938	814	286	1,968	1,694	3,111
Davao Light*	0	0	0	Revenue Neutral	Revenue Neutral	Revenue Neutral
Cotabato Light*	0	0	0	Revenue Neutral	Revenue Neutral	Revenue Neutral

* 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 ERC. The Davao Light plant has been decommissioned since November 2018.

Renewables

Aboitiz Renewables, Inc. (ARI)

AboitizPower has been committed to developing expertise in renewable energy technologies since commencing its operations in 1998. As of March 31, 2020, AboitizPower's renewable energy portfolio comprises attributable net sellable capacity of approximately 921 MW in operation, divided into 46 MW of solar, 585 MW of hydro, and 290 MW of geothermal.

AboitizPower's investments and interests in various renewable energy projects, including geothermal, large hydro, run-of-river hydro, and solar projects, are held primarily through its wholly-owned Subsidiary, ARI and its Subsidiary power generation companies. ARI was incorporated on January 19, 1995. AboitizPower, through and/or with ARI, owns equity interests in the following Generation Companies, among others:

Generation Company	Percentage of Ownership	Plant Name (Location)	Type of Plant	Net Sellable Capacity (MW)	Attributable Net Sellable Capacity (MW)	Offtakers
APRI	100%	Tiwi – Makban (Luzon)	Geothermal	290	290	WESM/ Bilaterals
Hedcor	100%	Benguet 1-11 (Luzon) La Trinidad, Bineng 3, Ampohaw, FLS, Labay, Lonoy, Irisan 1 and 3, and Salangan	Run-of-river hydro	51	51	FIT/ Bilaterals
		Davao 1-5 (Mindanao) Talomo 1, 2, 2A, 2B, and 3	Run-of-river hydro	5	5	Distribution utility
		Manolo Fortich (Mindanao)	Run-of-river hydro	69	69	FIT
Hedcor Sabangan	100%	Sabangan (Luzon)	Run-of-river hydro	14	14	FIT
Hedcor Sibulan	100%	Sibulan (A, B and Tudaya A) (Mindanao)	Run-of-river hydro	49	49	Distribution utility
Hedcor Tudaya	100%	Tudaya (B) (Mindanao)	Run-of-river hydro	7	7	FIT
Luzon Hydro Corporation	100%	Bakun (Ilocos Sur, Luzon)	Run-of-river hydro	70	70	NPC (2026)
San Carlos Sun Power, Inc.	100%	SacaSun (Visayas)	Solar	46	46	WESM
SN Aboitiz Power-Benguet	60%	Ambuklao (Benguet, Luzon)	Large Hydroelectric	105	53	WESM
		Binga (Luzon)	Large Hydroelectric	140	70	WESM/ASP A
SN Aboitiz Power-Magat	60%	Magat (Luzon)	Large Hydroelectric	360	180	WESM/ Coops/ ASPA
		Maris Main Canal 1 (Luzon)	Run-of-river hydro	9	4	FIT*
AESI	100%	ULGPP**strips	Geothermal	40	40	Bilaterals
Total				1,255*		

Notes:

* Sum figures will differ due to rounding effect.

** Unified Leyte Geothermal Power Plant. The contract between AESI with PSALM in respect of the 40MW ULGPP capacity was terminated on 26 October 2019.

Run-of-River Hydros

Luzon Hydro Corporation (LHC)

LHC, a wholly-owned Subsidiary of ARI, owns, operates, and manages the 70-MW run-of-river hydropower Bakun Plant located in Amilongan, Alilem, Ilocos Sur. LHC was incorporated on September 14, 1994.

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.

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

In 2018, the Bakun AC Hydro Plant gained its ISO 22301:2014 Business Continuity Management Certification, aligning with international standards in improving its business resilience. It has maintained this certification in 2019, together with its certifications for Quality, Environmental, Operational Health and Safety, Asset Management, and Information Security.

Hedcor, Inc. (Hedcor)

In 2005, ARI consolidated all its mini-hydroelectric generation assets, including those developed by HEDC and Cleanergy, into Hedcor. Cleanergy is Hedcor's brand for clean and renewable energy. 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.

The electricity generated from Hedcor's hydropower plants are taken up by NPC, Adventenergy and Davao Light pursuant to PPAs with the said off-takers. Irisan I sells energy under the Feed-in-Tariff ("FIT") mechanism through a renewable energy payment agreement ("REPA") with the National Transmission Corporation ("Transco"). The remaining electricity is sold through the 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 2019, Hedcor's hydropower plants generated a total of 964 GWh of Cleanergy.

In 2017, Hedcor broke ground on its Bineng Combination Hydro project in La Trinidad, Benguet. It replaced Bineng 1, 2, and 2B, which originally had a combined capacity of 6 MW, with a new facility that produces 19 MW of hydro power of which 100% is attributable to AboitizPower. The plant achieved commercial operations in July 2019.

Hedcor Sibulan, Inc. (Hedcor Sibulan)

Hedcor Sibulan, a wholly-owned Subsidiary of ARI, owns, operates, and manages the 49.23-MW hydropower plants composed of three cascading plants (the "Sibulan Project") located in Santa Cruz, Davao del Sur. The Sibulan Project consists of: Sibulan A Hydro, which produces 16.32 MW; Tudaya 1 Hydro, 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. 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. The energy produced by

the Sibulan Plants are sold to Davao Light through a PSA signed in 2007. The company was incorporated on December 2, 2005.

In 2018, Hedcor Sibulan gained its ISO 22301:2014 Business Continuity Management Certification. Likewise, it has passed all surveillance audits in 2019, maintaining its certifications for Quality, Environmental, Operational Health and Safety, Asset Management, Information Security, and Business Continuity.

Hedcor Tudaya, Inc. (Hedcor Tudaya)

Hedcor Tudaya, a wholly-owned Subsidiary of ARI, owns, operates, and manages the 7-MW Tudaya Hydro 2 run-of-river hydropower plant in Santa Cruz, Davao del Sur. The company was incorporated on January 17, 2011.

The Tudaya Hydro 2 plant has been 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 also gained its ISO 22301:2014 Business Continuity Management Certification in 2018, and maintained its certifications in 2019.

Hedcor Sabangan, Inc. (Hedcor Sabangan)

Hedcor Sabangan, a wholly-owned Subsidiary of ARI, owns, operates, and manages the 14-MW Sabangan run-of-river HEPP in Sabangan, Mountain Province. The Sabangan 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 Sabangan was incorporated on January 17, 2011. The Sabangan plant has been commercially operating since June 2015, and is selling under the FIT mechanism through a REPA with Transco.

Hedcor Bukidnon, Inc. (Hedcor Bukidnon)

Hedcor Bukidnon, a wholly-owned Subsidiary of ARI, owns, operates, and manages the Manolo Fortich hydropower plants with a combined net sellable capacity of 68.8 MW located in Manolo Fortich, Bukidnon. The company was incorporated on January 17, 2011.

The Manolo Fortich plant is composed of the 43.4-MW Manolo Fortich Hydro 1 and the 25.4-MW Manolo Fortich Hydro 2. Both plants produce at least 350 GWh annually, harnessing the power of Tanaon, Amusig, and Guihean rivers. The construction of the Manolo Fortich plant was completed in 2018.

The Manolo Fortich plant is selling under the FIT mechanism through REPAs with various cooperatives and private distribution utilities.

Large Hydros

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

SN Aboitiz Power-Magat owns and operates the 360-MW Magat Plant located at the border of Ramon, Province of Isabela and Alfonso Lista, Ifugao (the “Magat Plant”), and the 8.5-MW run-of-river Maris Main Canal 1 HEPP located in Barangay Ambatali in Ramon, Isabela (the “Maris Plant”). The company was incorporated on November 29, 2005.

SN Aboitiz Power-Magat’s Certificate of Compliance (“COC”) was issued on December 2015 and is valid for five years or until November 28, 2020. 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. SN Aboitiz Power-Magat is 60% owned by MORE. As of March 31, 2020, SN Power Invest Netherlands BV owns the remaining 40% equity interest of SN Aboitiz Power-Magat.

The Magat Plant was completed in 1983 and was turned over to SN Aboitiz Power-Magat in April 2007 after winning a bidding process conducted by PSALM in December 2006. 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.

On April 25, 2019, ERC certified the Magat Plant's new Maximum Stable Load (Pmax) at 388 MW. The Magat Plant's Units 1-4 have been favored for an uprate of 2 MW each—from 95 MW to 97 MW per unit. This means that Magat Plant is capable of producing, under normal to best conditions, its nameplate capacity of 360 MW to 388 MW.

The new Pmax of the four units was based on the capability test conducted by NGCP in 2018. The new technical specifications will be reflected in the Magat Plant's COC upon its renewal in 2020.

SN Aboitiz Power-Magat is an accredited provider of ancillary services to the Luzon Grid. It sells a significant portion of its available capacity to NGCP, the system operator of the Luzon Grid. SN Aboitiz Power-Magat's remaining capacity is sold as electric energy to the spot market through WESM and to load customers through bilateral contracts.

Because 2019 has generally been characterized as an El Niño year, total inflows in the Magat dam are only 89% of historical normal. The first half dry season of 2019 resulted to 105% of the normal total inflows but very low inflows for the months of February to April occurred at about 64% only of historical normal. The second half wet season recorded 83% of normal inflows. The El Niño event for 2019 resulted in low energy typhoons tracking the Magat watersheds that also led to this below normal water availability in the Magat Dam.

Driven by lower water inflows, the Magat Plant's total sold quantities from spot energy generation and AS is at 1.8 TWh, which is lower than previous year's sold capacity of 2.3 TWh. This is equivalent to a sold capacity factor of 54%, compared to 67% in 2018. Spot and AS revenue for the year 2019 is ₱5.2 bn for 2019, which is 13% lower than the previous year's ₱5.98 bn. SN Aboitiz Power-Magat's Bilateral Contract Quantity (BCQ) revenue for 2019 is ₱17 mn, significantly lower than the previous year's ₱564.8 mn.

SN Aboitiz Power-Magat switched on its 200-kW pilot floating solar project in Ramon, Isabela on June 27, 2019. The facility is placed over a 2,500-square meter area over the Magat reservoir, with a circular installation made up of 720 solar panels held in place by four mooring systems.

The 8.5MW run-of-river Maris Main Canal I HEPP I is composed of two generator units with a nameplate capacity of 4.25 MW each. The project broke ground in late 2015 and was completed in November 2017. The plant was granted entitlement to the FIT system in its operations pursuant to the COC issued by ERC on November 2017. This is the first non-hydro renewable energy project of SN Aboitiz Power Group, which is looking at other renewables and complementary technologies to expand its portfolio. At present, the project will provide power to SN AboitizPower-Magat's facilities in the area. The SN Aboitiz Power Group will look into scaling up the project so that the power generated may contribute to its renewable energy capacity and to the country's energy security.

SN Aboitiz Power-Magat retained its Integrated Management System certifications for ISO 14001 for Environmental Management System, ISO 9001 for Quality Management System, ISO 45001 for Occupational Health and Safety Management Systems, and ISO 55001 Asset Management System, as verified and audited by DQS Philippines in 2019. The company recorded 1.8 mn manhours without lost time incident in 2019.

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

SN Aboitiz Power-Benguet is the owner and operator of the Ambuklao-Binga hydroelectric power complex, which consists of the 105-MW Ambuklao HEPP (the "Ambuklao Plant") and the 140-MW Binga HEPP (the "Binga Plant"), located in Barangay Tinongdan, Itogon, Benguet Province. SN Aboitiz Power-Benguet is also

a joint venture between ARI and SN Power. As of March 31, 2020, 60% equity is owned by MORE and 40% equity interest is owned by SN Power. The company was incorporated on March 12, 2007.

The Ambuklao-Binga hydroelectric power complex was turned over to SN AboitizPower-Benguet in July 2008. SN AboitizPower-Benguet began a significant rehabilitation project that restored the Ambuklao Plant to operating status and increased its capacity from 75 MW to 105 MW when it re-commenced operations in 2011. The Binga Plant also underwent refurbishment that began in 2010 and was completed in 2013. This refurbishment increased Binga Plant's capacity to 125 MW. In March 2017, SN Aboitiz Power-Benguet received its amended COC from ERC for all four units of the Binga Plant. The amended COC reflects the increase of the Binga plant's capacity from 130 MW (35 MW for each of the four units) to 130.08 MW (35.02 MW for each unit). It is capable of generating up to 140 MW. The Ambuklao Plant and Binga Plant sell capacity from spot energy generation and ancillary services to the national transmission system and related facilities that conveys power.

The year 2019 was characterized as generally an El Niño year. The year's total inflows to the Benguet dam are 98% of historical normal and only 62% in comparison to the total inflows in 2018. The first half dry season of 2019 resulted to 94% of the normal total inflows. The El Nino effects experienced from May to July resulted to only about 60% of historical normal inflows. The second half wet season recorded 98% of the normal total inflows (only 62% in comparison to the second half of 2018). Inflow distribution for the months of August and September was recorded at 142% of normal, leading to spilling almost all throughout the months. The inflows for the rest of the second half months were below normal. The El Niño event for 2019 resulted in low energy typhoons tracking the Benguet watersheds that also led to near normal water availability in the Benguet dams.

Although inflows were higher in the Ambuklao reservoir in 2019 as compared to 2018, there was an overall lower AS Capacity Approval and spot sales for SN Aboitiz Power-Benguet. The Ambuklao Plant's total sold capacity from spot energy generation and ancillary services for 2019 is only 737 GWh, which is 91% of the capacity sold in 2018 of 810 TWh. This is equivalent to a sold capacity factor of 80% for 2019, as compared to the 88% in 2018.

On the other hand, the Binga Plant's total sold capacity from spot energy generation and AS in the year 2019 is at 1.02 TWh, or 93% of the 1.1 TWh sold capacity in 2018. This is equivalent to a sold capacity factor of 84% for 2019, compared to the 90% in 2018.

The resulting combined spot and AS revenue of the Ambuklao and Binga Plants for 2019 is at ₱4.97 bn, as compared to ₱4.9 bn in 2018. SN Aboitiz Power-Benguet's BCQ revenue for 2019 is at ₱350 mn, which is significantly lower than 2018's BCQ revenue of ₱542 mn.

Both the Ambuklao Plant and Binga Plant have retained their Integrated Management System certifications (ISO 14001 Environmental Management System, ISO 9001 Quality Management System, and ISO 55001 for Asset Management) in 2019. The company also successfully migrated and got certified to ISO 45001 Occupational Health & Safety Management System from OHSAS 18001. The Ambuklao Plant and Binga Plant jointly have more than 4.32 mn man hours of no lost time incident in 2019.

Geothermal

AP Renewables, Inc. (APRI)

APRI, a wholly-owned Subsidiary of ARI, is one of the leading renewable power companies in the country. It owns the 234 MW Tiwi geothermal power facility in Albay and the 449.8 MW Makiling-Banahaw geothermal power facility in Laguna (the "Tiwi-MakBan Geothermal Facilities") located in Albay, Laguna, and Batangas. These geothermal facilities were acquired by APRI from PSALM in July 2008 and were formally turned over to APRI on May 25, 2009.

The Tiwi-MakBan Geothermal Facilities 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 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 Geothermal Facilities. The GRSSA effective date will run until the expiration of APRI's initial DOE operating contracts term on October 22, 2034, thereby ensuring the long-term operations of the facilities. Under the GRSSA, PGPC has committed to drill at least 12 new production wells over a six-year period to increase steam availability. The GRSSA also provides for more equitable and competitive fuel pricing in the long run.

The Tiwi-MakBan Geothermal Facilities have generally operated at par or better than industry standards. APRI 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 San Carlos Holdings, Inc. (Maaraw San Carlos) and San Carlos Sun Power Inc. (SacaSun)

SacaSun owns and operates the 59-megawatt peak (MWp) solar photovoltaic (PV) power generation plant located in the San Carlos Ecozone, Barangay Punao, San Carlos City, Negros Occidental ("SacaSun Plant"). The project was inaugurated on April 19, 2016.

SacaSun was incorporated on July 25, 2014 initially as a joint venture between ARI and SunEdison Philippines. On December 4, 2017, AboitizPower acquired 100% effective equity ownership in SacaSun.

As of December 31, 2019, the energy generated from the SacaSun Plant benefited more than 6,774 homes within the Visayas Grid and displaced the energy equivalent to 6,365,712 gallons of gasoline or approximately 61,846,065 pounds of coal.

Maaraw San Carlos is the holding company of SacaSun. It was incorporated on April 24, 2015, and is effectively owned by AboitizPower, through its wholly-owned Subsidiaries, ARI and AboitizPower International.

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

APX1 is the project company which, together with APX2 (formerly: Kookabura Equity Ventures, Inc.) (collectively, APX), engage in the business of operating rooftop PV solar systems in the distributed energy space. APX1 and APX2 are wholly-owned Subsidiaries of AboitizPower through ARI. APX1 and APX2 were incorporated in November 2016 and May 2002, respectively.

APX1 is a registered Philippine Economic Zone Authority (PEZA) company, which intends to serve customers operating within PEZA zones.

To date, APX has a total of 4.487 MWp rooftop solar projects operating or under development stage. Notable operational PV solar systems are the 1.508MWp Rooftop PV Solar System at The Outlets @ Lipa for Lima Land, Inc. and the 0.832MWp Rooftop PV Solar System at the PANC Feedmill in Capas, Tarlac.

Renewables Pipeline

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

SN Aboitiz Power-Gen implements the SN Aboitiz Power Group's Business Development Program, which aims to grow the SN Aboitiz Power Group's renewable energy portfolio by looking at potential 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 completed Maris Plant which has since been transferred to SN Aboitiz Power-

Magat.

As of the end of 2019, SN Aboitiz Power-Gen's most significant project is the proposed 380-MW Alimit hydropower complex in Ifugao, which consists of the 120-MW Alimit hydropower plant, the 250-MW Alimit pumped storage facility (which is currently on hold due to market constraints), and the 20-MW Olilicon hydropower plant (the "Alimit Project"). All concerned Indigenous Peoples Organizations have signified their Free and Prior Informed Consent (FPIC) by signing MOAs.

SN Aboitiz Power-Gen was incorporated on March 10, 2011. The company is a joint venture between ARI and SN Power, with the 60% equity interest owned by MORE with the remaining 40% owned by SN Power Philippines.

Non-Renewables

Therma Power, Inc. (TPI)

AboitizPower's investments and interests in various non-renewable energy projects are held primarily through its wholly-owned Subsidiary, TPI and its Subsidiary power generation companies. TPI was incorporated on October 26, 2007. AboitizPower, through and/or with TPI, owns equity interests in the following Generation Companies, among others:

Generation Company	Percentage Ownership	Plant Name (Location)	Project Type	Net Sellable Capacity (MW)	Attributable Net Sellable Capacity (MW)	Off-takers
Coal Group						
TLI	100%	Pagbilao (Luzon)	Coal-fired	700	700	Bilaterals/WESM
PEC	50%	Pagbilao 3 (Luzon)	Coal-fired	400	200	Bilaterals
TSI	100%	TSI Plant (Mindanao)	Coal-fired	260	260	Bilaterals
TVI	80%	TVI Plant (Visayas)	CFB	300	240	Bilaterals/WESM
CEDC	26.4%	Cebu Energy (Visayas)	CFB	216	57	Bilaterals/WESM
GN Power Mariveles	78.32%	Mariveles Project (Luzon)	Coal-fired	632	495	Bilaterals/WESM
STEAG Power	34%	STEAG Power Plant (Mindanao)	Coal-fired	210	71	NPC (2031)
Oil Group						
CPPC	60%	CPPC Plant (Visayas)	Bunker-C fired power plant	66	40	Distribution utility
EAUC	100%	EAUC Plant (Visayas)	Bunker-C fired power plant	44	44	Bilaterals
SPPC	20%	SPPC Plant (Mindanao)	Bunker-C fired power plant	55	11	N/A
TMI	100%	Power Barge Mobile 1 (Mindanao)	Barge-mounted power plant	96	96	Bilaterals
		Power Barge Mobile 2 (Mindanao)	Barge-mounted power plant	96	96	Bilaterals
TMO	100%	Power Barges Mobile 3-6 (Luzon)	Barge-mounted power plant	200	200	Distribution utility
WMPC	20%	WMPC Plant (Mindanao)	Bunker-C fired power plant	100	20	Bilaterals

Generation Company	Percentage Ownership	Plant Name (Location)	Project Type	Net Sellable Capacity (MW)	Attributable Net Sellable Capacity (MW)	Off-takers
Cotabato Light	99.94%	Bunker Cotabato (Mindanao)	Bunker-C fired power plant	7	7	N/A
Total				3,382*	2,537*	

* Sum figures will differ due to rounding effect.

Oil Group

Therma Marine, Inc. (TMI)

TMI, a wholly-owned Subsidiary of TPI, owns and operates Power Barges Mobile 1 (previously known as PB 118) and Power Barges Mobile 2 (previously known as PB 117), which have a total generating capacity of 200 MW. Power Barges Mobile 1 is currently moored at Barangay San Roque, Maco, Davao De Oro, while Power Barges Mobile 2 is moored at Barangay Sta. Ana, Nasipit, Agusan del Norte. The company was incorporated on November 12, 2008.

The 192 MW dependable capacities of TMI are currently fully contracted and sold to various cooperatives, industrial and commercial customers in Mindanao under ESAs, all of which are approved by ERC. TMI is now registered as a WESM Trading Participant beginning January 8, 2020 in anticipation of WESM in Mindanao.

Therma Mobile, Inc. (TMO)

TMO, a wholly-owned Subsidiary of TPI, operates four barge-mounted power plants located at the Navotas Fish Port, Manila, which it acquired on May 27, 2011. The barge-mounted power plants have an installed generating capacity of 231 MW. TMO operates with a net available capacity of 165 MW. The company was incorporated on October 20, 2008.

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. 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. TMO signed a PSA with Meralco for a term of one year beginning April 26, 2019.

East Asia Utilities Corporation (EAUC)

EAUC, a wholly-owned Subsidiary of TPI, is the owner and operator of a 44-MW Bunker C-fired power plant within MEPZ I, Lapu-Lapu City, Cebu. The company supplies the power requirements of the MEPZ I locators, and began supplying power through the WESM on December 26, 2010, EAUC was incorporated on February 18, 1993.

EAUC has received awards by the DENR-EMB for its commendable role in the Metro Cebu Airshed Governing Board, and by IEMOP for its exemplary compliance in the spot market.

Therma Power Visayas, Inc. (TPVI)

TPVI, a wholly-owned Subsidiary of TPI, is the project company that was awarded the winning bid for the privatization of the 25.3 hectare Naga Power Plant Complex (NPPC) located at Naga City, Cebu. The company was incorporated on October 8, 2007.

Following protracted legal proceedings, on May 23, 2018, PSALM issued a Certificate of Effectivity of the Notice of Award originally issued on April 30, 2014 in favor of TPVI. Thereafter, 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 44-MW diesel plant, which DOE has endorsed as a committed power project.

Cebu Private Power Corporation (CPPC)

CPPC owns and operates a 70-MW Bunker C-fired power plant located in Cebu City. The company was incorporated on July 13, 1994. It is one of the largest diesel-powered plants on the island of Cebu. Commissioned in 1998, the CPPC plant was constructed pursuant to a BOT contract to supply 62 MW of power to Visayan Electric.

CPPC is a joint venture company between AboitizPower and the Vivant Group. As of March 31, 2020, AboitizPower beneficially owns 60% of CPPC.

CPPC entered into a PPA with Visayan Electric that expired in 2013. A new PSA was signed between Visayan Electric and CPPC and is awaiting ERC approval. ERC has allowed Visayan Electric to continue drawing power from CPPC under the same terms and conditions of the expired PPA until ERC approves the new PSA. CPPC has been awarded by IEMOP for its exemplary regulatory compliance in the WESM.

Southern Philippines Power Corporation (SPPC)

SPPC owns and operates a 55-MW Bunker C-fired power plant in Alabel, Sarangani, a town outside General Santos City in Southern Mindanao. The company was incorporated on March 15, 1996.

As of March 31, 2020, AboitizPower has a 20% equity interest in SPPC, a joint venture company among AboitizPower, Alsing Power Holdings, Inc., and Tomen Power (Singapore) Pte. Ltd.

Western Mindanao Power Corporation (WMPC)

WMPC owns and operates a 100-MW Bunker C-fired power station located in Zamboanga City, Zamboanga Peninsula in Western Mindanao. The company was incorporated on March 15, 1996.

As of March 31, 2020, AboitizPower has a 20% equity interest in WMPC, a joint venture company among AboitizPower, Alsing Power Holdings, Inc., and Tomen Power (Singapore) Pte. Ltd.

Coal Group

Therma Luzon, Inc. (TLI)

TLI, a wholly-owned Subsidiary of TPI, is the first IPPA in the country, and assumed the role of the registered trader of the contracted capacity of the 700-MW (2x350 MW) Pagbilao coal-fired thermal power plant located in Pagbilao, Quezon (the "Pagbilao Plant"). TLI was incorporated on October 20, 2009.

As the IPPA, TLI is responsible for procuring the fuel requirements of, and selling the electricity generated by, the Pagbilao Plant. The Pagbilao Plant is currently owned and operated by TeaM Energy Corporation (TeaM Energy). Under the IPPA agreement, TLI has the right to receive the transfer of Pagbilao Unit 1 and Unit 2 at the end of the Energy Conversion Agreement. Over the years, TLI's capacity was contracted to various cooperatives, private distribution utilities, directly connected customers, and to affiliate RES.

Pagbilao Energy Corporation (PEC)

PEC owns and operates the 400-MW Unit 3 project within the Pagbilao Power Station, located in Pagbilao, Quezon. PEC is a joint-venture between AboitizPower and TeaM Energy, through their respective Subsidiaries, TPI and TPEC Holdings Corporation. The Pagbilao Unit 3 Project is not covered by either TLI's IPPA with PSALM or TeaM Energy's BOT contract with NPC/PSALM. Pagbilao Unit 3 commenced operations in March 2018.

Through TPI, AboitizPower has 50% equity interest in PEC, while TPEC Holdings Corporation owns the remaining 50% as of March 31, 2020.

The output of Pagbilao Unit 3 is sold to TLI and TPEC.

Therma South, Inc. (TSI)

TSI, a wholly-owned Subsidiary of TPI, owns and operates the 300-MW (2x150MW) CFB coal-fired power plant located in Davao City and Sta. Cruz, Davao del Sur. TSI was incorporated on November 18, 2008. Commercial operations for Unit 1 and Unit 2 began on September 2015 and February 2016, respectively.

TSI contributes to the continuing growing power requirements of Mindanao by providing stable and cost-effective base load power. TSI supplies power to various private distribution utilities and energy cooperatives. TSI seeks to sustain the positive impact it has brought to its host communities through various educational, livelihood, and enterprise development programs, benefitting children, students, small and medium enterprise owners, and its employees.

Therma Visayas, Inc. (TVI)

TVI is the project company for the construction of the 2x150 MW CFB coal-fired power plant located in Toledo City, Cebu. In May 2014, TVI signed an engineering, procurement, and construction contract with Hyundai Engineering Co., Ltd. and Galing Power Energy Co., Inc.

AboitizPower, through TPI, effectively owns 80% equity interest of TVI as of March 31, 2020. The remaining 20% is held by Vivant Group.

TVI has PSAs with Visayan Electric and RES Affiliates – AESI, AdventEnergy, and Prism Energy, Inc.

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

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

Cebu Energy is 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, for the purpose of constructing three units of 82-MW CFB coal-fired power plant situated within the Toledo Power Complex in Barangay Daanlungsod, Toledo City, Cebu. The first unit was commissioned in February 2010, while the second and third units were commissioned on the second and fourth quarters of 2010, respectively. Cebu Energy declared commercial operations on February 26, 2011, and is the first commercial clean-coal facility in the country.

To date, Cebu Energy is the owner of the 3x82 MW CFB coal-fired power plant, with the primary purpose of engaging in the business of power generation, wholesale of electric power to NPC, private electric cooperatives, and other entities, and carrying on of all businesses incidental thereto.

Cebu Energy consistently ensures delivery of the highest level of service, and actively undertakes accreditations on Quality Management System (ISO 9001:2015), Environmental Management System (ISO 14001:2015), and Occupational Health and Safety Management System (OHSAS 18001:2007).

Cebu Energy provides power to the province of Cebu and its neighboring province, Bohol. Likewise, Cebu Energy has an existing ASPA with NGCP to help maintain a reliable electric Grid system.

As of March 31, 2020, 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 as of March 31, 2020.

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)

STEAG Power is the owner and operator of a 210 MW (net) coal-fired power plant located in PHIVIDEA Industrial Estate in Misamis Oriental, Northern Mindanao. The company was incorporated on December 19, 1995. The STEAG Power Plant was built under a BOT arrangement and started commercial operations on November 15, 2006.

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

As of March 31, 2020, 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.

STEAG Power has a 25-year PPA with NPC, which is backed by a Performance Undertaking issued by the Philippine government.

AA Thermal, Inc.

On May 2, 2019, AboitizPower completed the acquisition of 49% voting stake and 60% economic stake in AA Thermal, Inc., AC Energy Inc. (AC Energy)'s thermal platform in the Philippines.

The AA Thermal platform initially consists of AC Energy's limited partnership interests in GMCP and GNPD, where AboitizPower, through TPI, already holds direct partnership interests.

GNPower Mariveles Coal Plant Ltd. Co. (GNPower Mariveles or 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 on January 29, 2010 and was declared commercially available in 2013.

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 PPAs with highly-rated distribution utilities and Contestable Customers, through its designated RES, GNPower Ltd. Co.

In October 2016, TPI acquired 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.). Following the receipt of approvals from Board of Investments (BOI) and 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.

On January 10, 2020, GMCP became a duly registered personal information controller with National Privacy Commission (NPC).

GNPower Dinginin Ltd. Co. (GNPower Dinginin or GNPD)

GNPD is a limited partnership organized and established on May 21, 2014 with the primary purpose of developing, constructing, operating, and owning a 2x668 MW (net) supercritical coal-fired power plant to be located at Mariveles, Bataan.

GNPD started the construction of Unit 1 in September 2016 with target delivery in the second quarter of 2020 for Unit 1. The partnership also proceeded with the expansion of the power plant and achieved its financial closing for Unit 2 in December 2017 and with expected target delivery in the fourth quarter of 2020. To date, GNPD has signed numerous Power Purchase and Sale Agreements with highly-rated distribution utilities and RES.

GNPD's construction is 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 on December 31, 2018, TPI directly owns a 45% partnership interest in GNPD. As of March 31, 2020, AboitizPower owns 72.50% effective partnership interest in GNPD.

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

On December 19, 2019, GNPD became a duly registered personal information controller with NPC.

On December 27, 2019, GNPD renewed its registration with the Freeport Area of Bataan (FAB). As a FAB Registered Enterprise, GNPD is entitled to the incentives granted under Republic Act (RA) No. 9728, the organic law creating the FAB.

Other Generation Assets

Cotabato Light maintains a stand-by 4.45-MW Bunker C-fired power plant capable of supplying approximately 14.16% of its requirements as of December 31, 2019.

Future Projects

AboitizPower 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 its 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, 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, the Company believes that 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 and five economic zones across Luzon, Visayas and Mindanao.

In 2019, the wholly-owned Distribution Utilities and Visayan Electric undertook a rebranding initiative to modernize the look and feel of the brands and visually show their relation to AboitizPower. The implementation phase for the transition to the rebranded look is currently ongoing, and is expected to be completed by year-end.

The Distribution Utilities' earnings contribution to AboitizPower's business segments in 2019 is equivalent to 24%. The Distribution Utilities had a total customer base of 1,030,726 as of end-2019, compared to 995,828 in 2018, and 954,300 in 2017.

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		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Davao Light	2,633,920	2,468,192	2,317,985	454	421	404	420,666	404,574	384,434
Cotabato Light	173,114	165,409	153,973	31	31	29	43,449	41,681	41,110
Visayan Electric	3,500,781	3,159,032	2,938,532	601	547	522	450,088	437,823	422,814
SFELAPCO	714,948	665,425	623,607	140	134	116	112,091	107,536	101,942
Subic Enerzone	329,633	423,939	517,558	62	100	106	3,473	3,343	3,267
Mactan Enerzone	117,433	123,276	114,272	22	22	21	87	85	83
Balamban Enerzone	101,885	100,554	91,273	27	27	27	34	31	31
Lima Enerzone	249,394	224,175	197,908	44	39	33	834	755	619
Malvar Enerzone	51	N/A	N/A	0.06	N/A	N/A	4	N/A	N/A
Total	7,821,159	7,330,002	6,955,108	1,382	1,320	1,258	1,030,726	995,828	954,300

Visayan Electric Company, Inc. (VECO)

Visayan Electric is the Aboitiz Group's first involvement in the power industry, with the acquisition by some family members of 20% ownership interest in the early 1900s. To date, Visayan Electric is the second largest privately-owned distribution utility in the Philippines in terms of customer size and annual MWh sales.

Visayan Electric supplies electricity to a region covering 674 square kilometers (sq. kms.) in the island of Cebu with a population of approximately 1.7 mn. Visayan Electric has 19 power substations and one mobile substation that serve the electrical power needs of various cities, municipalities, and barangays in the island and province of Cebu.

Visayan Electric, directly and through its predecessors-in-interest, has been in the business of distributing electricity in Cebu since 1905. In 1928, Visayan Electric Company, S.A. was granted a 50-year distribution franchise

by the Philippine Legislature. The franchise has been renewed in September 2005 for a period of 25 years or until September 2030.

As of 2019, Visayan Electric's total systems loss is at 6.00%. This includes a feeder loss level of 4.38%, which is below the government-mandated feeder loss cap of 6.25%.

As of March 31, 2020, AboitizPower directly held a 55.26% equity interest in Visayan Electric. 34.81% is owned by the Vivant Group.

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 various cities and municipalities in Davao, with a population of approximately 1.8 mn and a total area of 3,561 sq. kms.

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. The most recent renewal of the franchise was in September 2000 for a period of 25 years, or until September 2025.

52.29% of Davao Light's power supply mix is from renewable energy sources, including NPC-PSALM, Hedcor Sibulan, and Hedcor's Talomo plant.

In 2019, Davao Light has upgraded certain substations and its associated 13.8 kV distribution feeders, as well as various distribution lines in different zones in Davao City. This is to increase capacity, reliability, and flexibility in the sub-transmission and distribution network of Davao Light's franchise and cater to the growing power demand of customers and the thriving economy. The company has also completed the construction and upgrade of a total of 8.2 circuit kilometers of 13.8 kV line and 6 circuit kilometers of 69 kV line. Its Underground Distribution System (UDS) project, which was started in 2019, is slated for completion by 2020.

The growth in demand resulted in total sales of 2,633,920 MWh as of December 2019. Davao Light recorded a total growth in energy sales for 2019 of 6.71% and increase of demand of 7.73%.

As of 2019, Davao Light's total systems loss is at 7.32%. This includes a feeder loss of 4.28%, which is below the government-mandated feeder loss cap of 6.25%.

AboitizPower has a 99.93% equity interest in Davao Light as of March 31, 2020.

Cotabato Light and Power Company (Cotabato Light)

Cotabato Light supplies electricity to Cotabato City and portions of the municipalities of Sultan Kudarat, Maguindanao, with a land area of 191 sq. kms. Incorporated in April 1938, Cotabato Light's original 25-year franchise was granted by the Philippine Legislature through RA No. 3341 in June 1939. The most recent renewal of the franchise was in June 2014, for another 25 years or until 2039.

Cotabato Light also maintains a standby 4.45-MW Bunker C-fired plant capable of supplying approximately 14.16% of its franchise area requirements. The 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 2019, Cotabato Light's total systems loss is at 8.08%. This includes a feeder loss of 7.36%, which is above the government-mandated government-mandated feeder loss cap of 6.25%. Cotabato Light is continuously innovating its strategies and processes to reduce its system losses.

As of March 31, 2020, AboitizPower directly owned a 99.94% equity interest 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. The most recent

renewal of its franchise was in March 2010 for a period of 25 years.

SFELAPCO's franchise in the the City of San Fernando, Pampanga covers an area of 78.514 sq. kms. As of December 31, 2019, it includes 597.466 and 997.026 circuit-kilometers on its 13.8-kV and 240-volt distribution lines, respectively. SFELAPCO supplies various barangays in certain cities and municipalities of Pampanga.

As of 2019, SFELAPCO's systems loss is at 4.86%. This includes a feeder loss of 3.34%, which is below the government-mandated feeder loss cap of 6.25%.

As of March 31, 2020, AboitizPower had an effective equity interest of 43.727% in SFELAPCO.

Subic EnerZone Corporation (Subic Enerzone)

On June 3, 2003, Subic Enerzone was incorporated as a joint venture owned by a consortium including Davao Light, AEV, and SFELAPCO, among others, to undertake management and operation of the SBFZ power distribution utility.

As of February 29, 2020, Subic Enerzone served a total of 3,346 customers, consisting of 82 industrial locators, 1,167 commercial locators, 1,975 residential customers, 103 streetlights and 19 industrial locators under RES.

As of 2019, Subic Enerzone's systems loss is at 3.54%. This includes a feeder loss of 3.17%, which is below the government-mandated feeder loss cap of 6.25%.

As of March 31, 2020, AboitizPower owned, directly and indirectly through Davao Light, a 99.98% equity interest in Subic Enerzone.

Mactan Enerzone Corporation (Mactan Enerzone)

Mactan Enerzone was incorporated on February 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).

Mactan Enerzone sources its power from SN Aboitiz Power-Magat and Green Core Geothermal Incorporated pursuant to a CSEE.

In 2019, Mactan Enerzone served a total of 53 captive industrial locators, 28 captive commercial locators, and 3 industrial locators under RES.

As of 2019, Mactan Enerzone's total systems loss is at 0.96 %. This includes a feeder loss of 0.42%, which is below the government-mandated feeder loss cap of 6.25%.

As of March 31, 2020, AboitizPower owned a 100% equity interest of Mactan Enerzone.

Balamban Enerzone Corporation (Balamban Enerzone)

Balamban Enerzone was incorporated in February 2007 when CIPDI, a joint venture between AboitizLand and 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 located in Balamban, Cebu.

In 2019, Balamban Enerzone served a total of 16 captive industrial customers, 12 captive commercial customers, and six contestable industrial customers.

As of 2019, Balamban Enerzone's total systems loss is at 0.42%. This includes a feeder loss of 0.16%, which is below the government-mandated feeder loss cap of 6.25%.

As of March 31, 2020, AboitizPower directly owned a 100% equity interest of Balamban Enerzone.

Lima Enerzone Corporation (Lima Enerzone)

Lima Enerzone was incorporated as Lima Utilities Corporation on June 5, 1997 to serve and provide locators within the Lima Technology Center (LTC) with a reliable and stable power supply.

In 2019, Lima Enerzone served a total of 93 captive industrial locators, 15 captive commercial locators, 710 captive residential customers, and 16 industrial locators under RES.

As of 2019, Lima Enerzone's total systems loss is at 5.24%. This includes a feeder loss of 0.61%, which is below the government-mandated feeder loss cap of 6.25 %.

As of March 31, 2020, AboitizPower directly owned a 100% equity interest of Lima Enerzone.

Malvar Enerzone Corporation (Malvar Enerzone)

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

As of 2019, Malvar Enerzone's total systems loss is at 14.79%. This consists of a feeder loss of 14.79%, which is above the government-mandated feeder loss cap of 6.25 % due to the ongoing substation construction and very low load factor for all locators in LISP IV.

As of March 31, 2020, AboitizPower directly owned a 100% equity interest of Malvar Enerzone.

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 commercial operations of Open Access, large-scale customers are allowed to obtain electricity from RES licensed by ERC.

Aboitiz Energy Solutions, Inc. (AESI)

AESI is engaged in the business of a retail energy supplier and energy consolidator. It was granted a license to act as a RES valid until October 28, 2022. The company was incorporated on August 11, 1998.

At the start of commercial operations of Open Access on June 26, 2013, AESI served 42 customers. For the year 2019, AESI supplied retail electricity to a total of 212 customers, with total energy consumption of 2,107.09 mn kWh. As of March 31, 2020, AboitizPower owned a 100% equity interest of AESI.

Adventenergy, Inc. (AdventEnergy)

AdventEnergy was specifically formed to serve Contestable Customers who are located in economic zones.

AdventEnergy differentiates itself from competition by sourcing most of its electricity requirements from a renewable source. As a result, an increasing number of companies are opting to source a part, if not the majority, of their electricity supply from AdventEnergy as an environmental initiative.

During 2019, AdventEnergy supplied retail electricity to 79 customers with a total consumption of 1,409.82 mn kWh.

As of March 31, 2020, AboitizPower owned a 100% equity interest of AdventEnergy.

Prism Energy, Inc. (Prism Energy)

Prism Energy was incorporated in March 2009 as a joint venture between AboitizPower and Vivant Corporation.

It was granted a license to act as a RES valid until May 22, 2022.

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 2019, Prism Energy supplied retail electricity to 48 customers with a total energy consumption of 242.87 mn kWh.

As of March 31, 2020, AboitizPower directly owned a 60% equity interest in Prism.

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

SN Aboitiz Power-RES is the retail arm of the SN Aboitiz Power Group. SN Aboitiz Power-RES is a joint venture between ARI and SN Power. As of March 31, 2020, its 60% equity interest is owned by MORE with the remaining 40% owned by SN Power Philippines.

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.

In 2019, the company contributed strongly to the SN AboitizPower Group's financial bottomline, with a net revenue of ₱565 mn compared to ₱114 mn in 2018. This was driven by successful buy contracts booked under SN Aboitiz Power-RES.

(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:

	2019	2018	2017
Gross Income	₱126,216	₱131,572	₱119,391
Operating Income	28,856	36,497	34,174
Total Assets	₱409,933	₱389,662	₱361,477

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

Comparative amounts of revenue contribution and corresponding percentages to total revenue by business group are as follows:

	2019		2018		2017	
Power Generation	₱84,379	53%	₱85,580	54%	₱78,252	31%
Power Distribution	48,029	30%	46,989	29%	44,392	54%
Retail Electricity Supply	24,566	15%	26,191	16%	19,971	14%
Services	1,965	1%	1,098	1%	1,407	1%
Total Revenue	158,939	100%	159,858	100%	144,021	100%
Less: Eliminations	(32,723)		(28,286)		(24,630)	
Net Revenue	₱126,216		₱131,572		₱119,391	

Note: Values are in Million Pesos.

(iii) Distribution Methods of the Products or Services

Power Generation Business

The AboitizPower's Generation Companies sell their capacities and energy through bilateral PSAs, private distribution utilities, electric cooperatives, RES, or other large end-users; and through the WESM. There are also Subsidiaries and Affiliates selling ancillary services through ASPAs with NGCP. The majority of AboitizPower's generation companies have transmission service agreements with NGCP for transmission of electricity to the Grid.

Distribution Utilities Business

Ancillary Services are necessary to help ensure a reliable and stable Grid, which co-exist with the energy market or WESM. NGCP signs ASPA with qualified generators to fulfill specific ancillary service requirements per Grid. Currently, SN Aboitiz Power-Magat, SN Aboitiz Power-Benguet, TMI, and TLI have ASPAs with NGCP. The SN Aboitiz Power Group delivers regulating, contingency, and dispatchable reserves, blackstart service and reactive power support, through its three power plants, namely Ambuklao Plant, Binga Plant, and Magat Plant. TLI's Pagbilao plants are also delivering contingency reserves to the Luzon Grid under its ASPA. On March 26, 2018, ERC approved TMI's ASPA with NGCP for a maximum period of five years. TMI provides both contingency and dispatchable reserves to the Mindanao Grid on a non-firm basis.

In addition, the Hedcor Tudaya Hydro 2, Hedcor Irisan Hydro 1, Hedcor Sabangan, and Hedcor Manolo Fortich 1 plants, all in commercial operations, have been approved for inclusion in the FIT system for run-of-river HEPPs. Hedcor, Hedcor Tudaya, Hedcor Sabangan, and Hedcor Bukidnon, 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 RESA. Currently, Hedcor Bukidnon and Hedcor are applying for FIT eligibility of the 27.38MW Manolo Fortich 2 and 20.4MW La Trinidad Project plants, respectively.

AboitizPower's Distribution Utilities have exclusive 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.

With the exception of Malvar Enerzone, all of AboitizPower's Distribution Utilities have entered into transmission service contracts with NGCP for the use of NGCP's transmission facilities to receive power from PSALM to their respective independent power producers to their respective customers. All customers that connect to the Distribution Utilities' distribution lines are required to pay a tariff approved by ERC.

Retail Electricity Supply Business

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 maintain a portfolio of energy-based supply contracts from renewable and non-renewable sources to secure reliable and affordable electricity for its customers. These electricity supply contracts involve a mix of fixed rate and margin based electricity fees that are updated year on year to ensure that supply is maintained at competitive rates.

(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

AboitizPower continues to face competition in both the development of new power generation facilities and the acquisition of existing power plants. Competition for financing these activities, as well as the demand for use of renewable energy sources, remains to be a challenge to AboitizPower's growth and portfolio of assets.

The continued robust economic growth of the Philippine economy, the presence of a market to sell, such as WESM, and the country's growing energy needs have attracted many competitors, including multinational development groups and equipment suppliers, to explore opportunities in electric power generation projects in the Philippines. Accordingly, competition for and from new power projects may increase in line with the expected long-term economic growth of the Philippines.

In particular, AboitizPower is expected to face competition from leading multinationals such as AES Corporation, TeM Energy, The Electricity Generating Public Company Limited (EGCO), and Korea Electric Power Corporation, as well as power generation facilities owned or controlled by Filipino-owned companies such as Global Business Power Corporation, AC Energy, First Gen Corporation, DMCI Holdings, Inc., Meralco PowerGen Corporation, and SMC Global Power.

With the commencement of retail competition and Open Access, these foreign and local generation companies have already set up their own RES business, which include Direct Power RES, and Ecozone Power Management Inc. RES. Of these, the largest player in terms of number of registered Contestable Customers is MPower RES.² The main strength of this largest player is its association with the country's largest distribution utility, MERALCO, and the goodwill that comes from its size and dominance.

Retail Electricity Supply Business

Based on ERC's Competitive Retail Electricity Market Monthly Statistical Data as of November 2019, there are 32 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 31.61%. AboitizPower, through its RES companies, has the second-largest market share at 19.69%,³ with contracted capacity of 756.89 MW⁴ as of November 2019.

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 franchises to distribute electricity in the areas covered by its franchises.

(vi) Sources of Raw Materials and Supplies

Power Generation Business

The Generation Companies produce energy using the following fuel types based on attributable net selling capacity: 17% hydropower, 8% geothermal, 1% solar, 59% coal, and 15% oil. In 2019, renewable fuel sources comprised 73% of attributable net selling capacity, while thermal accounted for 27%.

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 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 PGPC. The terms of the steam supply are governed by a Geothermal Resource Sales Contract 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 years.

² Based on ERC's Competitive Retail Electricity Market Report released in August 2019.

³ Excluding SFELAPCO which is 20.284% owned by AboitizPower.

⁴ Excluding SFELAPCO which is 20.284% owned by AboitizPower.

Oil-fired plants use Bunker-C fuel to generate electricity. SPPC and WMPC source fuel from Pilipinas Shell Petroleum Corporation and Phoenix Petroleum, respectively. Each of EAUC, CPPC, TMI, and TMO has a fuel supply agreement with Shell and Phoenix Petroleum. 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. GMCP, STEAG Power, and CEDC also have long-term coal supply agreements.

Power Distribution Business

The rates at which the Distribution Utilities purchase electricity from affiliated Generation Companies are established pursuant to bilateral agreements. These agreements are executed after the relevant Generation Company has successfully bid for the right to enter into a PSA with a Distribution Utility. These agreements are entered into on an arms'-length basis, on commercially reasonable terms, and are approved by ERC.

To address long-term power supply requirements, Davao Light and Cotabato Light entered into 25-year PSCs with TSI for 100 MW and 5 MW, respectively, and started drawing their contracted capacity in September 2015. In June 2016, Davao Light and TSI filed a Joint Manifestation with ERC stating that they agreed to supplement and modify their supply contract to 108 MW.

In anticipation of higher demand and lower allocation from PSALM, Davao Light entered into a 10-year PSC with San Miguel Consolidated Power Corporation (SMCPC) for a supply of 60MW in 2016. SMCPC began supplying the 60-MW contracted capacity in February 2018. Davao Light also renewed its Contract to Supply Electric Energy (CSEE) with PSALM for a period of three years from 2018, 2019, and 2020 for 133 MW, 140 MW and 140 MW, respectively. To cover its peak demand requirement for 2018 to 2021, Davao Light has Non-Firm ESAs with TMI and WMPC for up to 45MW and 60MW, respectively.

To address long-term power supply requirement, Visayan Electric entered into a 25-year Electric Power Purchase Agreement (EPPA) with CEDC in October 2009 for the supply of 105 MW. In December 2010, Visayan Electric signed a five-year PSA with GCGI for the supply of 60 MW at 100% load factor which was extended for another ten years in October 2014. Visayan Electric also has a PPA with CPPC which expired in 2013. A new PSA has since been signed is pending for ERC approval. ERC has allowed Visayan Electric to continue drawing power from CPPC under the same terms and conditions of the expired PPA until ERC approves the 2013 PSA. Visayan Electric also has a 15-year PSA with TVI for the supply of 150 MW beginning 2018.

Malvar Enerzone has a power supply contract with Batangas II Electric Cooperative, Inc. to meet the ecozone's power requirements until its electricity demand is stable.

The provisions of the Distribution Utilities' PPAs are governed by 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. Distribution Utilities also enter into PSAs with various generation companies.

Transmission Charges

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, 2024
Lima Enerzone	July 25, 2022

Distribution Utility	Valid until
Mactan Enerzone	January 25, 2020*
Balamban Enerzone	January 25, 2020*
SFELAPCO	December 25, 2023
Cotabato Light	August 25, 2023
Visayan Electric	January 25, 2024
Subic Enerzone	August 25, 2023

* Ongoing applications with NGCP for renewal of their TSAs.

The Distribution Utilities have negotiated agreements with NGCP in connection with the security deposit to secure their obligations to the NGCP under the TSAs. Malvar Enerzone has already applied and submitted the requirements for connection to the Grid.

(vii) Major Customers

Power Generation Business

As of December 31, 2019, out of the total electricity sold by AboitizPower's Generation Companies, approximately 95% is covered by bilateral contracts with, among others, private distribution utilities, electric cooperatives, and industrial and commercial companies. The remaining, approximately 5%, is sold by the Generation Companies through the WESM.

Retail Electricity Supply Business

As of February 29, 2020, AboitizPower's RES business has approximately 312 Contestable Customers with active contracts, 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.

Power Distribution Utilities

AboitizPower's Distribution Utilities have wide and diverse customer bases. As such, the Company believes that 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; and
- (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 like military camps. Streetlights have a different rate category and are thus monitored independently.

(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.

No other transaction, without proper disclosure, was 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.

The Company's employees are required to promptly disclose any business and family-related transactions with the Company to ensure that potential conflicts of interest are determined and brought to the attention of management.

The Company's RPT Committee has the mandate to ensure that related party transactions are taken on an arms' length basis and within market rates, with sufficient documentation, and coursed through all appropriate levels of approval necessary. The Company's current RPT Policy continues to ensure that RPTs are conducted at arms-length and at market prices, and underwent the appropriate approval process.

(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					Economic Life/Term of COC	Date of Issuance
		Name	Type	Location	Capacity	Fuel		
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

Title of Document	Issued under the Name of	Power Plant					Economic Life/Term of COC	Date of Issuance
		Name	Type	Location	Capacity	Fuel		
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 City	960 kW	Hydro	February 15, 2015 - February 14, 2020	May 4, 2016
		Talomo 3 – Unit 2			960 kW			
COC No. 18-12-M-00327L	Hedcor, Inc.	Ferdinand L. Singit 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 years	May 18, 2015
		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,	13.128 MW	Hydro	25 years	May 18, 2015

Power Plant								
Title of Document	Issued under the Name of	Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	Date of Issuance
		Sibulan B – Unit 2		Davao del Sur	13.128 MW			
COC No. 19-03-M-00346M	Hedcor Sibulan, Inc.	Tudaya 1	Hydroelectric Power Plant	Sta. Cruz, Davao del Sur	6.65 MW	Hydro	March 10, 2019- March 9, 2024	March 5, 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. 19-03-M-00013M	Hedcor Tudaya, Inc.	Tudaya 2 – Unit 1	Hydroelectric Power Plant	Sta. Cruz, Davao del Sur	5.362 MW	Hydro	April 11, 2019-April 10, 2024	March 5, 2019
		Tudaya 2 – Unit 2			2.775 MW	Hydro		
COC No. 15-09-M-00023L	Hedcor Sabangan, Inc.	Sabangan	Hydroelectric Power Plant	Brgy. Namatec, Sabangan, Mountain Province	14.96 MW	Hydro	25 years	September 29, 2015
COC No. 19-06-M-00174M	Hedcor Bukidnon, Inc.	Manolo Fortich 1	Hydroelectric Power Plant	Brgy. Santiago, Manolo Fortich, Bukidnon	45.936 MW	Hydro	June 18, 2019-June 17, 2024	June 18, 2019
COC No. 19-06-M-00175M	Hedcor Bukidnon, Inc.	Manolo Fortich 2	Hydroelectric Power Plant	Brgy. Dalirig, Manolo Fortich, Bukidnon	27.387 MW	Hydro	June 18, 2019-June 17, 2024	June 18, 2019
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, MEPZ 1,Lapu-Lapu City, Cebu	49.60 MW	Bunker C	June 11, 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		
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. 15-11-M-	SN Aboitiz Power – Magat, Inc. (Magat	Magat Hydroelectric Power Plant – Unit 1	Hydroelectric Power Plant	Ramon, Isabela and A. Lista, Ifugao	90 MW	Hydro	25 years	November

Power Plant								
Title of Document	Issued under the Name of	Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	Date of Issuance
2860L	Hydroelectric Power Plant)	Magat Hydroelectric Power Plant – Unit 2			90 MW			11, 2015
		Magat Hydroelectric Power Plant – Unit 3			90 MW			
		Magat Hydroelectric Power Plant – Unit 4			90 MW			
		Magat Hydroelectric Power Plant	Blackstart		600 kW	Diesel	25 years	
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	Diesel 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		

Power Plant								
Title of Document	Issued under the Name of	Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	Date of Issuance
COC No. 15-03-S-00013M	STEAG State Power, Inc.	N/A	Diesel Engine	Phvidec Industrial Estate, Villanueva, Misamis Oriental	400 kW	Diesel	25 years	March 25, 2015
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 years	May 4, 2015
		Makban – Bay, Plant A			63.2 MW			
		Makban – Bay, Plant D			20.0 MW			
		Makban – Bay, Plant D			20.0 MW			
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 years	May 4, 2015
		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 years	May 4, 2015
		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 years	November 26, 2015
		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 years	November 26, 2015
		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 years	March 30, 2016
			Blackstart		1.68 MW	Diesel	5 years	
COC No. 16-03-M-	Therma Marine, Inc.	Mobile 2	Diesel Power Plant	Brgy. Nasipit, Agusan del	100.33 MW	Diesel	25 years	March 30, 2016

Power Plant								
Title of Document	Issued under the Name of	Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	Date of Issuance
00286bbM			Blackstart	Norte	1.68 MW	Diesel	5 years	
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 years	September 1, 2015 - August 31, 2020
		Unit 2	Coal Fired Power Plant	Brgy. Binugao, Toril District, Davao City	150 MW	Coal	25 years	January 19, 2016 - August 31, 2020
COC No. 19-09-S-03902V	Therma Visayas, Inc.	N/A	Diesel Power Plant	Brgy. Bato, Toledo City, Cebu	1.275 MW	Diesel	September 20, 2019 - September 19, 2024	September 20, 2019
COC No. 19-06-M-00176V	Therma Visayas, Inc.	Therma Visayas Circulating Fluidized Bed Coal-Fired Power Plant	Circulating Fluidized Bed Coal-Fired Power Plant	Sitio Looc, Brgy. Bato, Toledo City, Cebu	353.94 MW	Coal	April 15, 2019 - April 14, 2024	June 26, 2019
COC No. 19-07-M-00040L	TeaM Energy Corporation	Pagbilao Coal Fired Power Plant	Coal Fired Thermal Power Plant	Isla Grande, Ibabang Polo, Pagbilao, Quezon	751.4 MW	Coal	July 20, 2019 - July 19, 2024	July 9, 2019
			Black Start		800 kW	Diesel		
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
			Blackstart		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		

* Awaiting issuance of renewal of COC from ERC.

Distribution Business

Under 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 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 PEZA in order to operate within the economic zone.

All distribution utilities are required to submit to 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 (IRR) of EPIRA.

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

Distribution Utility	Franchise	Term	Expiry
Visayan Electric	RA No. 9339	25 years from effectivity of RA No. 9339. (RA No. 9339 was approved on Sept. 1, 2005)	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, or from September 24, 2005 to September 24, 2030	
Davao Light	RA No. 8960	25 years from effectivity of RA No. 8960 (Lapsed into law September 7, 2000.)	Valid until September 7, 2025
	ERC CPCN Decision dated February 26, 2002, ERC Case No. 2001-792	25 years, or from September 7, 2000 to September 7, 2025	
Cotabato Light	RA No. 10637	25 years from effectivity of RA No. 10637, as amended (RA No. 10637 was approved on June 16, 2014.)	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, or from June 17, 2014 or until June 16, 2039	
SFELAPCO	RA No. 9967	25 years from effectivity of RA No. 9967 (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)	25 years, or from March 24, 2010 to March 23, 2035	
Subic Enerzone	Distribution Management Service Agreement (DMSA) between Subic Enerzone and joint venture of AEV- Davao Light	Notarized on May 15, 2003. Term of the DMSA is 25 years.	Valid until May 15, 2028.

Mactan Enerzone, Balamban Enerzone, Lima Enerzone, and Malvar Enerzone which operate the power distribution utilities in MEPZ II, WCIP, LTC, and LISP4 respectively, are duly registered with PEZA as Ecozone Utilities Enterprises.

Retail Electricity Supply Business


Like power generation, the business of supplying electricity is not considered a public utility operation under EPIRA, but is considered a business affected with public interest. As such, 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 ERC. With the implementation of Open Access in 2013, AboitizPower's RES Subsidiaries, AESI, AdventEnergy, SN Aboitiz Power – RES, and Prism Energy, obtained separate licenses to act as RES and Wholesale Aggregator.

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 (Philippine IPO), and their pending trademark applications abroad.

Philippine IPO

Trademarks/ Description	Owner	Registration No./ Date Issued	Status
"A Better Future" word mark (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	4-2010-004383/ November 11, 2010	Registered
"Better Solutions" word mark (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	4-2010-004384/ November 11, 2010	Registered
"AboitizPower" word mark (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	4-2010-004385/ November 11, 2010	Registered
"AboitizPower Spiral and Device" device mark with color claim (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	4-2010-004380/ February 10, 2011	Registered
"Cleanergy" word mark (Class No. 40)	Aboitiz Power Corporation	4-2001-007900/ January 13, 2006	Registered
"Cleanergy" word mark for the additional goods and services (Class Nos. 39 and 42)	Aboitiz Power Corporation	4-2019-000850/ June 9, 2019	Registered
"Cleanergy Get It and Device" device mark with color claim (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	4-2010-004381/ November 11, 2010	Registered
"Cleanergy Got It and Device" device mark (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	4-2010-004382/ November 11, 2010	Registered
"AboitizPower and Device" device mark with color claim (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	4-2010-004379/ February 10, 2011	Registered
Subic EnerZone Corporation and Logo trademark (Class No. 39)	Subic EnerZone Corporation	4-2006-007306/ August 20, 2007	Registered
Subic EnerZone Corporation and Logo Word mark and device (Class No. 39)	Subic EnerZone Corporation	4-2006-007305/ August 20, 2007	Registered
"Subic EnerZone Corporation" word mark (Class No. 39)	Subic EnerZone Corporation	4-2006-007304/ June 4, 2007	Registered
"Cotabato Light" Logo (Class No. 39)	Cotabato Light and Power Corporation	4-2019-502915/ May 29, 2019	Registered
"Davao Light" Logo (Class No. 39)	Davao Light and Power Corporation	4-2019-502917/ May 29, 2019	Registered
"Balamban Enerzone" Logo (Class No. 39)	Balamban Enerzone Corporation	4-2019-502910/ May 29, 2019	Registered
"Mactan Enerzone" Logo (Class No. 39)	Mactan Enerzone Corporation	4-2019-502911/ May 29, 2019	Registered
"Lima Enerzone" Logo (Class No. 39)	Lima Enerzone Corporation	4-2019-502912/ May 29, 2019	Registered
"Malvar Enerzone" Logo (Class No. 39)	Malvar Enerzone Corporation	4-2019-502913/ May 29, 2019	Registered
"Subic Enerzone" Logo (Class No. 39)	Subic Enerzone Corporation	4-2019-502914/ May 29, 2019	Registered
"Visayan Electric" Logo (Class No. 39)	Visayan Electric Company, Inc.	4-2019-015288/ August 29, 2019	Registered
"MORE" Logo (Class 35)	Manila-Oslo Renewable Enterprise, Inc.	4/2018/00018077/ February 21, 2019	Registered
"SN ABOITIZ POWER" Logo GROUP (Class 35 & 40)	Manila-Oslo Renewable Enterprise, Inc., SN Aboitiz Power-Magat, Inc., and SN Aboitiz Power- Benguet, Inc.	4/2018/00018076	Registered

Trademarks/ Description	Owner	Registration No./ Date Issued	Status
"SN ABOITIZ POWER-BENGUET, INC." Logo	SN Aboitiz Power-Benguet, Inc.	4/2014/00005209/ December 29, 2016	Registered
"NURTURE NATURE, NURTURE LIFE" Logo	SN Aboitiz Power-Benguet, Inc.	4/2011/00001049/ May 19, 2011	Registered
"SNAP ABOITIZ POWER-MAGAT, INC." Logo	SN Aboitiz Power-Magat, Inc.	4/2014/00005208/ March 9, 2017	Registered
"THE POWER TO MAKE A DIFFERENCE" Logo	SN Aboitiz Power-Magat, Inc.	4/2011/001048/ May 26, 2011	Registered
 Logo	SN Aboitiz Power-Magat, Inc.	4/2017/00018969/ June 7, 2018	Registered

International Trademarks (Madrid Protocol)

AboitizPower has the following registered international trademarks:

Trademarks	Country of Application
AboitizPower Word Mark (Class Nos. 39, 40, 42)	World Intellectual Property Office (WIPO)
AboitizPower Word Mark (Class Nos. 30, 40, 42)	Vietnam
AboitizPower Word Mark (Class Nos. 39, 40, 42)	Indonesia
Cleanergy Word Mark (Agenda Nos. J00.2015.02.7275-77) (Class Nos. 39, 40, 42)	Indonesia
Cleanergy Get It Device (Class Nos. 39, 40, 42)	WIPO
Cleanergy Get It Device (Class Nos. 39, 40, 42)	Vietnam
Cleanergy Get It Device (Class Nos. 39, 40, 42)	Indonesia
AboitizPower	Myanmar
Cleanergy	Myanmar
Cleanergy Get It	Myanmar
Cleanergy Got It	Myanmar

The abovementioned trademarks are also in the process of being registered in Malaysia, Vietnam, Indonesia, and the WIPO.

(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

AboitizPower and its Subsidiaries are subject to the laws generally applicable to all Philippine corporations registered with the SEC, such as corporation law, tax laws, and the Local Government Code. All Philippine corporations are also subject to labor laws and social legislation, including RA No. 11199 or the Social Security Act of 2018, RA No. 10606 or the National Health Insurance Act of 2013, RA No. 11223 or the Universal Health Care Act, RA No. 9673 or the Home Development Mutual Fund Law of 2009, the Philippine Labor Code and its implementing rules, and DOLE-mandated work-related programs.

The Aboitiz Group closely monitors its compliance with the laws and government regulations affecting its businesses.

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

RA No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion ("TRAIN Law") was signed into law by President 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, ₱100, and ₱150 per metric ton, respectively, in 2018, 2019, and 2020, covering both domestic and imported coal.

Furthermore, the TRAIN Law repeals Section 9 of RA No. 9511 or the National Grid Corporation of the Philippines Act, which removes VAT exemptions on transmission charges and sale of electricity by cooperatives duly registered under the Cooperative Development Authority (CDA).

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 with BIR, 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.

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 TRAIN law is the first package of the Comprehensive Tax Reform Program of the Duterte Administration.

In addition, House Bill No. 4157, referred to as the Corporate Income Tax and Incentive Rationalization Act ("CITIRA Bill" or "Package 2") was passed and approved on third and final reading in the House of Representatives on September 13, 2019. The CITIRA Bill is the result of the re-filing of the Tax Reform for Attracting Better and Higher Quality Opportunities (TRABAHO) Bill from the previous 17th Congress. The bill also seeks to reform the country's fiscal incentives to make it performance-based, targeted, time-bound, and transparent. This means that incentives will be granted based on the number and quality of jobs that will be created, the investments made on research and development and skills training, the capital invested for countrywide infrastructure development, among other criteria. A counterpart bills is currently undergoing deliberations at the committee level in the Senate.

2. Revised Corporation Code

RA No. 11232, also known as the Revised Corporation Code (the "Code"), was signed into law on February 20, 2019 and took effect on February 23, 2019. Among the salient features of the Revised Corporation Code are:

- (a) Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies SEC that it elects to retain its specific corporate term under its current Articles of Incorporation.
- (b) A corporation vested with public interest must submit to its shareholders and to SEC an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee.
- (c) The Code allows the creation of a "One Person Corporation" except for banks and quasi-banks, pre-need, trust, insurance, public and publicly-listed companies, among others. This restriction also applies with respect to incorporations as close corporations.
- (d) Material contracts between a corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.

- (e) The right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or *in absentia* if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or *in absentia* are deemed present for purposes of quorum. When attendance, participation, and voting are allowed by remote communication or *in absentia*, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.
- (f) In case of transfer of shares of listed companies, SEC may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with SEC rules.

The Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

3. The Philippines Competition Act

RA No. 10667 (the Philippine Competition Act or the Act) was signed into law on July 21, 2015 and took effect on August 8, 2015. The IRR of the Act was issued on June 3, 2016. This Act aims to codify anti-trust laws in the Philippines and it provides the competition framework in the country. The Philippine Competition Act was enacted to provide free and fair competition in trade, industry, and all commercial economic activities.

To implement its objectives, the Philippine Competition Act provides for the creation of a Philippine Competition Commission (“PCC”), an independent quasi-judicial agency to be composed of five commissioners. Among PCC’s powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, PCC must apply for a warrant with the relevant court.

The Philippine Competition Act prohibits anti-competitive agreements between or among competitors, and mergers and acquisitions which have the object or effect of substantially preventing, restricting, or lessening competition. It also prohibits practices which involve abuse of dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

The Philippine Competition Act also introduces the pre-notification regime for mergers and acquisitions, which requires covered transactions to be notified to PCC for its approval.

The merger control regime under the Philippine Competition Act provides that, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity (UPE) of the acquiring or the acquired entities (Size of Party); and (b) the value of the transaction as determined in the IRR (Size of Transaction), meet the designated threshold; while parties to a joint venture transaction shall also be subject to the notification requirement if in addition to meeting the Size of Party test, either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture, meet the thresholds.

PCC also has released its “Guidelines on the Computation of Merger Notification Thresholds”, providing the method for calculation of the aggregate value of assets and gross revenues from sales for the purposes of determining whether a proposed merger or acquisition is notifiable to PCC.

The new thresholds for the notification requirements as provided in PCC Resolution No. 02-2020, effective March 1, 2020, are as follows:

Test	Old Threshold	New Threshold (effective March 1, 2020)
Size of Person Test	₱5.6 bn	₱6 bn
Size of Transaction Test	₱2.2 bn	₱2.4 bn

The new thresholds shall not applicable to: a) transactions that are already pending review by the PCC; b) notifiable transactions consummated before March 1, 2020; and c) transactions already subject of a decision by PCC.

Violations of the Philippine Competition Act and its IRR carry administrative and criminal penalties. A transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of 1 to 5% of the value of the transaction. Criminal penalties for entities that enter into these defined anti-competitive agreements include: (i) a fine of not less than ₱50 mn but not more than ₱250 mn; and (ii) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100 mn to ₱250.0 mn may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On September 15, 2017, PCC published the 2017 Rules of Procedure (“Rules”) which apply to investigations, hearings, and proceedings of PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by PCC. The Rules also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On September 10, 2019, the Supreme Court issued A.M. No. 19-08-06-SC, or the *Rule on Administrative Search and Inspection under the Philippine Competition Act* (“Search and Inspection Rule”). The Search and Inspection Rule governs the application, issuance and enforcement of an inspection order in relation to administrative investigations of alleged violations of the Philippine Competition Act, its implementing rules and regulations, and other competition laws.

4. Foreign Investments Act of 1991

RA No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991 (“FIA”), liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Eleventh Regular Foreign Investment Negative List (the “Negative List”). This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. Nationalized activities include, among others, land ownership, telecommunications, mining, and the operation of public utilities.

In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens. While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against foreigners owning buildings and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40%. A corporation with more than 40% foreign equity may be allowed to lease land for a period of 25 years, renewable for another 25 years.

In addition, under the Philippine Constitution, only citizens of the Philippines or corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens may engage in activities relating to the exploration, development and utilization of natural resources, which covers the utilization of natural resources for the operation of renewable energy power plants.

For the purpose of complying with nationality laws, the term “Philippine National” is defined under the FIA as any of the following:

- (a) a citizen of the Philippines;
- (b) a domestic partnership or association wholly-owned by citizens of the Philippines;

- (c) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- (d) a corporation organized abroad and registered to do business in the Philippines under the Code, of which 100% of the capital stock outstanding and entitled to vote is wholly-owned by Filipinos; or
- (e) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

In SEC Memorandum Circular No. 08 dated May 20, 2013, or the Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly Nationalized Activities, it is provided that for purposes of determining compliance with the nationality requirement, the required percentage of Filipino ownership shall be applied both to: (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors. A petition for *certiorari* questioning the constitutionality of SEC Memorandum Circular No. 8 dated May 20, 2013 was filed in June 2013. In *Jose M. Roy III v. Chairperson Teresita Herbosa* (G.R. No. 207246) dated April 18, 2017, SC affirmed the validity of SEC Memorandum Circular No. 08 dated May 20, 2013.

In the 2014 case of *Narra Nickel Mining and Development Corporation, et.al vs. Redmont Consolidated Mines Corp* (G.R. No. 195580) and its corresponding motions for reconsideration (the “Narra Nickel Case”), SC affirmed that the Grandfather Rule, wherein shares owned by corporate shareholders are attributed either as Filipino or foreign equity by determining the nationality not only of such corporate shareholders, but also such corporate shareholders’ own shareholders, until the nationality of shareholder individuals is taken into consideration, is to be used jointly and cumulatively with the Control Test, which merely takes into account the nationality of the listed shareholders of the corporation. Such joint and cumulative application shall be observed as follows: (i) if the corporation’s Filipino equity falls below 60%, such corporation is deemed foreign-owned, applying the Control Test; (ii) if the corporation passes the Control Test, the corporation will be considered a Filipino corporation only if there is no doubt as to the beneficial ownership and control of the corporation; and (iii) if the corporation passes the Control Test but there is doubt as to the beneficial ownership and control of the corporation, the Grandfather Rule must be applied.

5. 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.

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 IRR took effect on September 9, 2016, mandating all Philippine 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) implementation a privacy and data protection policy; and (v) establishment of 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 National Privacy Commission. The IRR, furthermore provides the only instances when data sharing is allowed, to wit: (a) data sharing is authorized by law, provided that there are adequate safeguards for data privacy and security, and processing adheres to principles of transparency, legitimate purpose and proportionality; (b) in the private sector, data sharing for commercial purposes is allowed upon (i) consent of data subject, and (ii) when covered by a data sharing agreement; (c) data collected from parties other than the data subject for purpose of research shall be allowed when the personal data is publicly available; and (d) data sharing among government agencies for purposes of public function or provision of a public service shall be covered by a data sharing agreement.

In 2017, AboitizPower launched its data privacy compliance program which includes the implementation of Information Security Management System (ISMS) for the entire Aboitiz Group. In the last years, the Group and its Business Units have been able to establish a fundamental awareness of data privacy principles, including ISMS philosophies, through the development and implementation of Data Privacy Policies, manuals, and supporting guidelines. The Aboitiz Group has since began to build each SBU's business continuity resiliency, especially with regard to Information Security and Data Breach Management.

6. Registration under Board of Investments (BOI)

Under Executive Order (EO) No. 226, otherwise known as the Omnibus Investments Code, as amended, a BOI-registered enterprise enjoy certain incentives, both financial and non-financial, provided such enterprise invests in preferred areas of investment enumerated in the Investment Priorities Plan annually prepared by the Government. However, prior to registration with BOI, the enterprise must first satisfy the minimum equity required to finance the project applied equivalent to 25% of the estimated project cost, or as may be prescribed by BOI. Such incentives include: (i) income tax holiday; (ii) exemption from taxes and duties on imported spare parts; (iii) exemption from wharfage dues and export tax, duty, impost and fees; (iv) reduction of the rates of duty on capital equipment, spare parts and accessories; (v) tax exemption on breeding stocks and genetic materials; (vi) tax credits; (vii) additional deductions from taxable income; (viii) employment of foreign nationals; (ix) simplification of customs procedure; and (x) unrestricted use of consigned equipment.

Policies and Regulations Relating to the Power Industry

1. WESM in Mindanao

On May 4, 2017, 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:

- (a) Establishment of Mindanao WESM Transition Committee, which will be one of the committees under the PEMC Board;
- (b) 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 ERC, and trial operations of the WESM, among others;
- (c) Conduct of the Trial Operation Program for the WESM;
- (d) Automatic termination of IMEM; and
- (e) Implementation of an Interim Protocol to govern the dispatch and scheduling of power generation plants, while the WESM is still not operational.

WESM in Mindanao was originally targeted to start in October 2018, but was deferred because some conditions precedent for full commercial operations were not yet complied. Trial operations were conducted in 2018 to ensure the readiness of eventual WESM participants in Mindanao. In September 2019, the DOE and the IEMOP announced that commercial operations of the WESM in Mindanao is targeted on January 26, 2020. However, ERC is yet to promulgate the new Price Determination Methodology which is one of the conditions precedent to commence full commercial operations.

2. Independent Electricity Market Operator (IEMOP)

On February 4, 2018, DOE issued Circular No. 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 IMO, its guiding principles, composition, including a board composed of at least five members, its functions, 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. 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.

Currently, the IEMOP is under legislative review by the House Committee on Energy specifically on its roles and functions as well as the legal basis for its establishment. This is in response to several House Resolutions calling for the review of the IEMOP in aid of legislation.

3. 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 IRR. A summary of the significant proposed amendments are as follows:

- (a) Classification of power projects as one of national significance and imbued with public interest;
- (b) Exemption from VAT on the sale of electricity by generation companies;
- (c) 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;
- (d) 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;
- (e) Grant of access to electric cooperatives over the missionary electrification fund collected through universal charges;
- (f) 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;
- (g) Regulation of generation, transmission, distribution, and supply rates to allow Return-on-Rate-Base (RORB) up to 12%;
- (h) Classification of power generation and supply sectors as public utilities, which would be required to secure legislative franchises;
- (i) 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;
- (j) 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;
- (k) 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;
- (l) 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;
- (m) 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;
- (n) Prohibition on distribution utilities, except rural electric cooperatives to recover systems losses and placing a 5% cap on recoverable system loss;
- (o) Imposition of a uniform franchise tax for distribution utilities equivalent to 3% of gross income in lieu of all taxes;
- (p) Grant of authority for NPC to generate and sell electricity from remaining assets;
- (q) 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
- (r) Creation of a consumer advocacy office under the organizational structure of ERC.

4. 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 Performance-based Regulation (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 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.

ERC has also implemented a Performance Incentive Scheme (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 Visayan Electric and Davao Light ended on June 30, 2014. In addition, the second regulatory period of Subic Enerzone and SFELAPCO ended on September 30, 2015. The reset process for the subsequent regulatory period, 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 RDWR. Said paper aims to revisit various matters relating to the reset process. ERC has solicited comments from industry participants and has been holding public consultations on the Issues Paper.

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:

- (a) Cotabato Light: April 1, 2017 to March 31, 2021
- (b) Davao Light and Visayan Electric: July 1, 2018 to June 30, 2022
- (c) SEZ and SFELAPCO: October 1, 2019 to September 30, 2023

On November 21, 2016, ERC posted for comments the draft Regulatory Asset Base (RAB) Roll Forward Handbook for Privately Owned Electricity Distribution Utilities. Public consultations were conducted on said document.

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.

On June 2019, ERC posted for comments its draft Rules for Setting Distribution Wheeling Rates and Issues Paper for the Regulatory Reset of the First Entry Group (MERALCO, Cagayan de Oro Electric and Dagupan Electric). Various public consultations were held in the month of July 2019. However, during the July 29, 2019 PBR public consultation, MSK called the attention of ERC to act first on its 2015 petition on rate methodology before proceeding with the reset process. Thus, ERC put resolving the MSK petition in its priority list and resumed public hearings in September 2019. ERC also conducted Power 101 and PBR briefing sessions to various other consumer groups who said that they cannot intelligently comment on the PBR rules without understanding the concepts.

Due to the rules change on PBR, all AboitizPower Distribution Utilities have not undergone the third regulatory period.

5. ERC Regulation on Systems Loss Cap Reduction

In April 2018, ERC issued Resolution No. 10, Series of 2018 entitled *“A Resolution Clarifying the System Loss Calculation Cap and Providing the Effectivity of the Rules for Setting the Distribution Loss Cap”*. 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.

Under the ERC resolution, the DSL cap for private utilities was set at 6.5% 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. As of 2019, the DSL cap is already set at 6.25%. The aforementioned caps are exclusive of sub-transmission and substation losses. The aforementioned rules also provide for a performance incentive scheme (PIS), which is a price-linked reward for distribution utilities, with the goal of reducing the DSL passed on to customers and to promote efficiency in distribution systems in the long term.

The rules allow distribution utilities to use an alternative method in determining an individualized DSL cap that it shall apply subject to the approval of ERC. The individualized cap has two components: one for technical loss (determined using load flow simulations on the distribution utilities' 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 an Application (dated May 18, 2018) for the Individualized Distribution System Loss Cap, requesting, among others, that it be exempted from the 6.5% cap pending the filing and approval of its application for Individualized DSL cap of 7.48% in Technical Loss and 1.77% in Non-Technical Loss and sought approval to use the previous 8.5% DSL cap instead. The case is still pending with ERC to date.

6. Competitive Selection Process

On June 11, 2015, DOE promulgate Department Circular No. DC2015-06-0008 (“2015 DOE Circular”) which mandated all distribution utilities to undergo competitive selection process (“CSP”) in securing PSAs after the effectivity of the said circular. The 2015 DOE Circular also authorized ERC to adopt a set of guidelines for the implementation of the CSP. The 2015 DOE Circular took immediate effect following its publication on June 30, 2015.

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”* (“ERC CSP Rules”). 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 CSPs. For PSAs which were already executed but were not yet filed with the ERC and those that were still in the process of negotiation during the time of the effectivity of the ERC CSP Rules, the relevant distribution utility already had to comply with the CSP requirement before its PSA application would be accepted by the ERC. The ERC CSP Rules took immediate effect following its publication on November 7, 2015.

ERC Resolution 13, Series of 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, extended the date of the effectivity of the CSP requirement from November 7, 2015 to April 30, 2016. It further stated that all PSAs executed on or after the said date would be required, without exception, to comply with the provisions of the ERC CSP Rules.

On February 1, 2018, DOE promulgated DC No. DC2018-02-0003 (“2018 DOE Circular”) entitled *“Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreements for the Captive Market.”* Through this Circular, DOE issued its own set of guidelines (“DOE CSP Rules”) for the procurement by distribution utilities of PSAs for the Captive Market.

Under the DOE CSP Rules, all PSAs shall be procured through CSP, except for the following instances: (1) generation project owned by the distribution utility funded by grants or donations; (2) negotiated procurement of emergency power supply; (3) provision of power supply by any mandated Government-Owned and

Controlled Corporation (GOCC) for off-grid areas prior to, and until the entry of New Power Providers (NPP); and (4) provision of power supply by the PSALM through bilateral contracts. A PSA may also be entered into by direct negotiation if the CSP fails twice. The DOE CSP Rules took effect upon its publication on February 9, 2018.

The validity of ERC CSP Rules and ERC Resolution No. 1, Series of 2016, was challenged before the SC on the ground that ERC, in issuing the said resolutions, amended the 2015 DOE Circular and effectively postponed the date of effectivity of the CSP requirement. Consequently, on May 3, 2019, the SC in the case of *Alyansa Para sa Bagong Pilipinas, Inc. v. ERC* (G.R. No. 227670), declared the first paragraph of Section 4 of the ERC CSP Rules and ERC Resolution No. 1, Series of 2016, as void *ab initio*. The SC further ruled that all PSAs submitted to ERC on or after June 30, 2015 shall comply with the CSP and that upon compliance with the CSP, the power purchase cost resulting from such compliance shall retroact to the date of the effectivity of the complying PSA, but in no case earlier than June 30, 2015, for purposes of passing on the power purchase cost to the consumers.

7. Adopting a General Framework Governing the Provision and Utilization of Ancillary Services in the Grid

On December 4, 2019, DOE issued Department Circular No. DC2019-12-0018 entitled “Adopting a General Framework governing the utilization of Ancillary Services (AS) in the Grid” (“AS Circular”). The policy seeks to ensure the reliability, quality and security of the supply of electricity by adhering to principles that will provide the safe and reliable operation of the grid by taking into account the entry of emerging technologies and the intermittency of variable renewable energy generating resources.

Included in the policy is the creation of an Ancillary Services Technical Working Group (AS-TWG) that will render technical assistance and advice to DOE in developing further policies on AS. One of the main functions of the AS-TWG is to review the Philippine Grid Code (PGC) (2016 edition) to address issues on the implementation of new AS categories and Primary Response requirement. The circular orders the System Operator to ensure optimal procurement of the required Ancillary Services.

Pending the harmonization of AS-related issuances and review of the relevant provisions of PGC 2016, the classification and required levels of AS shall be in accordance with the AS categories prior to PGC 2016.

According to the AS Circular, prior to the commercial operation of the Reserve Market, the SO shall ensure compliance with its obligation to procure the required level and specifications of AS in line with the following:

- (a) Regulating, Contingency, and Dispatchable Reserves shall be procured through firm contracts only;
- (b) Reactive Power Support AS and Black Start AS shall be procured through firm contracts only; and
- (c) The protocol for the central scheduling of energy and contracted reserves in the WESM shall still apply, in accordance with the WESM Rules and relevant Market Manuals.

Upon the commercial operation of the Reserve Market, the following shall govern the procurement of AS:

- (a) SO shall procure Regulating, Contingency, and Dispatchable Reserves through firm contracts and the Reserve Market provided that the contracted levels per reserve region shall be as follows:
 - (i) Regulating Reserve - Equivalent to 50% of the Regulating Reserve requirement;
 - (ii) Contingency Reserve - Equivalent to 50% of the dependable capacity of the largest generating unit;
 - (iii) Dispatchable Reserve - Equivalent to 50% of the dependable capacity of the second largest generating unit

8. Ancillary Services Pricing and Cost Recovery Mechanism

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 Pricing and Cost Recovery Mechanism (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 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 Mechanism.

Currently, the existing cost-recovery mechanism for Ancillary Services shall continue to be implemented until a new mechanism is recommended by the AS-TWG and adopted by ERC.

9. Energy Efficiency and Conservation Act

RA No. 11285 or the Energy Efficiency and Conservation Act ("ECC") was signed into law on April 12, 2019. This act established a framework for introducing and institutionalizing fundamental policies on energy efficiency and conservation, including the promotion of efficient utilization of energy, increase in the utilization of energy efficiency and renewable energy technologies, and delineation of responsibilities among various government agencies and private entities.

Under the law, all government agencies, including government-owned corporations, are directed to ensure the efficient use of energy in their respective offices, facilities, transportation units, and in the discharge of their functions. DOE will also be authorized to develop a Minimum Energy Performance (MEP) standard for the commercial, industrial, and transport sectors, and energy-consuming products including appliances, lighting, electrical equipment, and machinery, among others. DOE is also tasked to prescribe labeling rules for all energy-consuming products, devices, and equipment.

DOE will develop and enforce a mandatory energy efficiency rating and labeling system for energy-consuming products, such as air conditioners, refrigeration units, and television sets, to promote energy-efficient appliances and raise public awareness on energy saving. The law also calls for fuel economy performance labeling requirements for vehicle manufacturers, importers, and dealers. LGUs are tasked to implement the Guidelines on Energy Conserving Design on Buildings for the construction of new buildings.

Under the ECC's IRR dated November 22, 2019, DOE can visit designated establishments to inspect energy-consuming facilities, evaluate energy-management systems and procedures, identify areas for efficiency improvement, and verify energy monitoring records and reports and other documents related to the compliance requirements within office hours and with an authorized representative of the establishment present. The IRR also calls for the commissioning of a certified conservation officer and energy manager to ensure compliance and be responsible for managing energy consumption, administering programs, and other responsibilities under the law.

10. Providing for the Framework Governing the Operations of Embedded Generators

On February 8, 2019, DOE promulgated Department Circular No. DC2019-02-0003 entitled "Providing for the Framework Governing the Operations of Embedded Generators". As its guiding principle the policy provides for the central dispatch by the System Operator on Embedded Generators with material impact to Grid operations for maintenance of transmission grid stability. The policy shall apply to the following:

- (a) Embedded Generators (EGs);
- (b) Distribution Utilities;
- (c) Metering Service Providers;

- (d) Market Operators;
- (e) Transmission Service Providers; and
- (f) System Operators;

The policy does not cover Self Generating Facilities, distributed generation for net metering, and off-grid generating facilities. As part of the licensing requirements under this circular, EGs shall secure COCs from ERC pursuant to existing guidelines on licensing of generation facilities.

EGs with the following characteristics are required to register in the WESM:

- (a) EGs with Pmax equal to or above regional thresholds:
 - (i) 10 MW in Luzon;
 - (ii) 5 MW in Visayas; or
 - (iii) 5 MW in Mindanao;
- (b) EGs that are below the regional Pmax threshold but have a contract outside their host distribution utility, intend to sell to the WESM, or inject power into the Grid; and
- (c) FIT-eligible renewable energy plants.

Nonetheless EGs in general may still register in the WESM on a voluntary basis.

All EGs shall comply with the Central Dispatch instructions issued by the System Operator, through the host distribution utility, in accordance with the PGC, Philippine Distribution Code, WESM Rules and Market Manuals, and other applicable dispatch guidelines. In line with this, the System Operator shall establish a dispatch protocol for EGs scheduled in the WESM and initiate necessary amendments to the existing Dispatch Protocol Manual and other relevant Market Manuals for the approval of DOE.

11. Energy Virtual One-Stop Shop Act

RA No. 11234 or the Energy Virtual One-Stop Shop Act (EVOSS Law) was signed into law by President Duterte on March 8, 2019 and became effective on March 29, 2019. DOE issued the IRR for the EVOSS Law on June 24, 2019. Under the EVOSS Law, prospective power generation, transmission or distribution companies can apply, monitor and receive all the necessary permits, and even pay for charges and fees, through the online platform called Energy Virtual One-Stop Shop (EVOSS) once it takes effect, cutting down the lengthy permitting process for the development of power projects. The EVOSS online system will be managed and maintained by DOE, while its operations will be monitored by the EVOSS Steering Committee.

EVOSS applies to all new generation, transmission, and distribution projects throughout the country as well as government agencies and other relevant entities involved in the permitting process. The system provides a secure and accessible online processing system; recognizes the legal effect, validity, and enforceability of submitted electronic documents; and develop an online payment system for all fees for securing permits or certifications. The system enables government agencies involved in pending power projects to operate under a streamlined permitting process utilizing a uniform application template and in compliance with mandated processing timelines as identified in the law. The entire process will be using a system that utilizes electronic documents and monitors permit status via an online system.

The promulgation of the EVOSS law, along with the implementation of the online system it mandates, is expected to substantially hasten the development of power projects. It has the potential to address delays brought about by lengthy government permitting processes and ultimately encourages the private sector to invest more in the power sector.

12. Prescribing Revised Guidelines for Qualified Third Party

On November 22, 2019, DOE promulgated Department Circular No. DC 2019-11-0015 also known as the “Revised Guidelines for Qualified Third Party”. The Qualified Third Party (QTP) Guideline Policy is an initiative that was prescribed in the EPIRA, which shall assist the distribution utilities in ensuring and accelerating the total electrification of the country.

The policy provides revisions to the existing guidelines covering the qualifications and participation of QTPs in the provision of electric services to “Unviable Areas” within the respective franchise areas of distribution

utilities and electric cooperatives. As part of the Scope of the Revised QTP Guidelines, the policy shall apply to the provision of electricity services in defined as unviable areas, which include unserved and underserved electricity customers, within the franchise areas of distribution utilities.

13. Providing a Framework for Energy Storage System in the Electric Power Industry

On September 18, 2019, DOE promulgated Department Circular No. DC2019-08-0012 also known as “Providing a Framework for Energy Storage System in the Electric Power Industry”, which governs the regulation and operation of energy storage systems (ESS). The increasing penetration of Variable Renewable Energy (VRE) in the country has prompted the need for the recognition of ESS as one of the technologies to manage intermittent operations of the VRE-generating plants' output thereby ensuring system stability. The issuance of the circular further hastens the entry of Energy Storage Systems as part of the modernization of the Philippine power sector. It finally answers questions relating to who should own and operate energy storage systems in the Philippines. The circular addresses policy gaps by providing a framework for the implementation and roll out of ESS in the country.

The circular applies to power industry participants, including power generation companies owning and/or operating ESS. The covered technologies include battery energy storage system; compressed air energy storage; flywheel energy storage; pumped-storage hydropower; and other emerging technologies that may be identified, qualified, and approved by DOE as ESS. The rules are also applicable to customers and end-users owning and/or operating ESS, which include distribution utilities; and directly connected customers. The circular also applies to qualified third parties, transmission network providers, system operators, market operators, and PEMC.

14. Guidelines Governing the Issuance of Operating Permits to Renewable Energy Suppliers Under the Green Energy Option Program

In July 18, 2018, DOE issued Department Circular No. DC2018-07-0019 also known as the “Rules Governing the Establishment of the Green Energy Option Program (GEOP) in the Philippines.” This sets the guidelines for consumers or end-users, renewable energy suppliers, and network service providers, among other stakeholders, in facilitating and implementing such energy source under the EPIRA.

GEOP is a renewable energy policy mechanism issued pursuant to the RE Law that provides end-users the option to choose renewable resources as their sources of energy.

Under this issuance, all end-users with a monthly average peak demand of 100kW and above for the past 12 months may opt to voluntarily participate in the GEOP. Those with an average peak demand below 100 kW may also participate in the GEOP, but only after DOE, in consultation with NREB and industry stakeholders, is able to determine that the technical requirements and standards are met by the end-user. End-users with new connections can also opt to participate in the Program and choose renewable energy resources for their energy/electricity needs, provided their average peak demand meets the threshold provided in the GEOP Rules.

The participation of the end-users in the GEOP will be governed by a supply contract between the end-user and the renewable energy supplier, and conform with ERC rules on distributed energy resources and generation facilities.

GEOP is presently available to end-users in Luzon and Visayas only, until such time that DOE, in consultation with the NREB and industry stakeholders, determines the readiness of the Mindanao market.

Other provisions of the GEOP include the establishment of the GEOP Oversight committee, as well as the ERC issuing regulatory framework particularly in setting the technical and interconnection standards and wheeling fees, to affect and achieve the objectives of GEOP. With regard the billing mechanism, the GEOP Rules provide that a “dual billing system” may be adopted by the end-user availing of the program.

15. Promulgating the Renewable Energy Market Rules

On December 4, 2019, DOE issued Department Circular No. DC2019-12-0016, entitled “*Promulgating the Renewable Energy Market (REM) Rules*”, thereby officially starting the Renewable Portfolio Standards (RPS) compliance process.

The REM Rules establishes the basic rules, requirements and procedures that govern the operation of the Renewable Energy Market, which seeks to:

- (a) Facilitate the efficient operation of the REM;
- (b) Specify the terms and conditions entities may be authorized to participate in the REM;
- (c) Specify the authority and governance framework for the REM;
- (d) Provide for adequate sanctions in cases of breaches of the REM Rules; and
- (e) Provide timely and cost-effective framework for resolution of disputes among REM Members and the Renewable Energy Registrar (“Registrar”).

The REM is a market for the trading of Renewable Energy Certificates (RECs) in the Philippines, intended as a venue for Mandated Participants obligated by RPS to comply with their RPS requirements. REM’s objective is to accelerate the development of the country’s renewable energy resources.

The RPS Transition Period defines Year 0 as 2018 and the RPS Compliance Year 1 shall be the year 2020, and the intervening period shall be the Transition Period.

The REM Rules will be administered and operated by the Renewable Energy Registrar. Moving forward, operational issues may still arise on who will be the RE Registrar.

16. Feed-in-Tariff System

Pursuant to the RE Law, the FIT system is an energy supply policy aimed to accelerate the development of emerging renewable energy sources by providing incentives, such as a fixed tariff to be paid for electricity produced from each type of renewable energy resource over a fixed period not less than 12 years.

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:

	FIT Rate (₱/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. In Resolution No. 1, Series of 2017, ERC set the degressed FIT rates for hydro and biomass plants at ₱5.8705/kWh and ₱6.5969/kWh, respectively. 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.

As the fund administrator of the FIT Allowance (FIT-All), Transco filed application before the ERC asking for provisional authority to implement a FIT-All rate of ₱0.2278/kWh for CY2020. On January 28, 2020, ERC released a decision authorizing Transco to collect a FIT-All rate of ₱0.0495/kWh, lower than the applied ₱0.2471/kWh rate for Calendar Year (CY) 2019. Prior to this decision, the last approved FIT-All rate is ₱0.2226/kWh for CY2018.

(xii) Amount Spent on Research and Development Activities

AboitizPower and its Subsidiaries do not allot specific amounts or fixed percentages for research and development. All research and development 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

The Safety Health Environment and Security (SHES) group of AboitizPower oversees the SHES programs and activities within its operational control from the corporate center, business units, to facility teams. This includes the accounting of all environmental impacts. For the Generation Group, the facilities include: (1) APRI's Tiwi-MakBan plants, (2) SacaSun San Carlos plant, (3) the Benguet, Bakun, Sabangan, Sibulan A, B, and Tudaya A), Tudaya B, Manolo Fortich, and Talomo HEPPs, (4) SN AboitizPower Group's Ambuklao, Magat, and Maris plants, (5) Oil Group's Cebu, Mactan, Mobile 1, Mobile 2, Mobile 3-6, and Naga plants, and (6) Coal Group's Davao and Toledo plants. In 2019, the reporting boundary of the SHES group expanded to include AboitizPower's Distribution Utilities, namely, Cotabato Light, Davao Light, Visayan Electric, Balamban Enerzone, Mactan Enerzone, Lima Enerzone, and Subic Enerzone.

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

The alignment to international best practices in all power plants and distribution utilities are exemplified with a 100% achievement of ISO certification for the management systems of Quality, Environment, Occupational Health and Safety.

In 2019, the total environmental management expenses increased to ₱51 mn, which is a 132% increase compared with previous year (₱22 mn). This consists of ₱4.6 mn for APRI, ₱10mn for Hedcor, ₱15.4 mn for the Coal Group, ₱1.8 mn for the SN AboitizPower Group; ₱12.4 mn for the Oil Group, and a total of ₱7 mn for the Distribution Utilities.

Of the ₱51 mn total environmental management expenses, ₱12.5 mn was allocated for capital expenditure (capex) aimed at improving pollution prevention and control. The following projects were implemented: (1) improvement of SN AboitizPower-Magat HEPP's Sewage Treatment Plant (STP); (2) improvement and total rehabilitation of SN AboitizPower-Benguet HEPP's STP; (3) installation of STP for domestic waste at CPPC; (4) Coal Group's installation of flowmeter at Toledo plant's seal pit to comply with NWRB requirements; (5) APRI Makban's automation of one unit of Continuous Ambient Monitoring System; (6) upgrade of Visayan Electric's hazardous waste storage; (7) multiple installation of Davao Light's power transformer oil catch basin as oil spill containment; and (8) installation of material recovery facility at Cotabato Light.

Operation expenditure (opex) projects were also implemented to improve environmental management practices on site, such as: (1) APRI's energy conservation program which resulted to 5% reduction of electricity consumption for its offices; (2) Hedcor's enhanced waste management program resulting to 65% reduction on the volume of residual wastes in 2019 as compared to the previous year; (3) SN AboitizPower-Benguet's waste minimization through construction of Eco Composting Receptacles which lead diversion of compostable waste into organic fertilizers instead of disposal to landfills; and (4) the Enerzone's Race-to-Reduce program which resulted in reduction of paper, water, electricity, and fuel consumption as compared to previous years.

AboitizPower also supports environmental initiatives that go beyond its compliance requirements. The Company takes part in AEV's A-Park program, various coastal and river clean-up activities, and biodiversity initiatives. In the year 2019, the Company has planted a total of 460,000 trees at an expanse of 960 hectares with the help of almost 3,000 volunteers. AboitizPower organized and conducted 49 coastal and river clean-up activities, wherein over 13,000 kilograms of wastes were collected. Furthermore, AboitizPower supports a number of biodiversity initiatives, such as the Mt. Malinao Biodiversity Assessment supported by APRI, Adopt-a-River supported by Cotabato Light, and Adopt-an-Estero Project at San Isidro Buhangin supported by Davao Light.

AboitizPower and its Subsidiaries received a total of 107 awards, certifications and citations in 2019. SN AboitizPower-Benguet and SN AboitizPower-Magat received the National Silver Award and National Bronze Award, respectively, during the 11th DOLE Gawad Kaligtasan at Kalusugan (GKK) Awarding Ceremony on December 11, 2019. DOE's Safety & Health Association of the Philippines Energy Sector (SHAPES) Inc. recognized SN AboitizPower as Hall of Famer in the 2019 SHAPES Corporate Outstanding Safety & Health Excellence Award.

AboitizPower and its Subsidiaries did not incur any major sanctions for violation of environmental standards and law in 2019. 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 428 employees as of February 29, 2020. These include executives, managers, 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 29, 2020:

Business Group	Number of Employees				Rank & File	Unionized Employees	Expiry of CBA
	Total	Executives	Managers	Supervisors			
Aboitiz Power	428	79	70	78	201	0	N/A
Generation Companies							
Run-of-River Hydros	595	14	25	74	482	143	September 19, 2022 (Hedcor)
Large Hydros	187	17	31	36	103	0	N/A
Geothermal	282	7	19	49	207	42	February 28, 2022 (APRI)
Solar	6	0	0	2	4	0	N/A
Oil	420	12	31	192	185	0	N/A
Coal	1,445	26	90	317	1,012	154	December 31, 2018* (GMCP)
RES	7	0	2	1	4	0	N/A
Distribution Utilities	880	17	73	143	647	357	December 31, 2016** (Visayan Electric) July 2, 2024 (Cotabato Light) June 15, 2021 (Davao Light) May 9, 2024 (SFELAPCO)
Total No. of Employees	4,250	172	341	892	2,845	696	

*The union has filed for voluntary dissolution on January 23, 2020 with DOLE.

**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.

Risk Management, or the regular review of Risk Management Plans, is being conducted at least twice a year across the Group for Strategic Risks. Business Units review their Operational Risks management plans more frequently.

Risk management is integrated in the Company's strategic planning process, where teams identify the risk areas that could have an impact to the Company's strategic objectives. The Risk Management Team integrates Environment, Social and Governance (ESG) in the risk assessment process, including the enhancement of business continuity plans to ensure that climate change-related risks are properly mitigated.

Following the Group Risk Management governance structure, the Top Risks are regularly presented and discussed with Senior Management and the Board of Directors.

1. Project Risks

As AboitizPower continues to grow its generation portfolio, the Company has identified project risks as a top risk. This risk is largely driven by delays in commercial operations, as well as late completion and delivery of the transmission lines that will enable full dispatch of the plants in the pipeline.

Project risk management plans are thoroughly defined and regularly reviewed for each project, in order to track issues related to quality, safety, compliance, schedule and resources. This ensures that identified risk control measures and recovery actions are implemented. Appropriate project insurance coverage, as well as periodic performance reviews of selected partners, reputable contractors and third-party suppliers are also in place in the Company's projects.

To further mitigate project risks, delivery of transmission lines are closely coordinated with NGCP. Operational readiness reviews are performed to ensure that new generating units are ready for commercial operations prior to going on-line. Project post-mortem reviews are also conducted to determine key learnings that can be applied to ongoing and future projects in the pipeline.

To address challenges in land procurement, conversion, permitting, right-of-way, and other land-related issues, constant collaboration with partners, contractors, regulatory agencies, host communities, and other key stakeholders is undertaken in alignment with project execution timelines.

2. Regulatory Risks

The electric power industry is characterized by a constantly evolving regulatory environment. Any shortcoming in regulatory compliance poses negative consequences in both the net income and reputation of each Business Unit and the Group.

To anticipate and proactively respond to changes in regulation, the Regulatory Affairs Team of AboitizPower constantly collaborates with DOE and ERC to work towards a sound and sustainable regulatory and policy environment. Similarly, the Safety, Health, Environment and Security (SHES) Team keeps abreast with environmental laws and coordinates with DENR on matters pertaining to environmental compliance.

These teams, among others, actively participate in consultative processes and public consultations to provide feedback and positions on proposed laws and regulations. The Company's participation likewise ensures that its interpretation of such laws and regulations is aligned with the regulators. This is done in cooperation with organized industry groups such as the Philippine Independent Power Producers Association (PIPPA) and Philippine Electric Plant Owners Association (PEPOA). Regular dialogues are conducted with host communities, media, non-government organizations, and the academe, to educate and update various groups about the power industry.

AboitizPower has transitioned its Legal Team to strategically focus on compliance and to continually improve the overall compliance process. The Company is institutionalizing a compliance framework across the different business and corporate support units, and is formalizing compliance reporting requirements among the Group's compliance officers. AboitizPower has also implemented the Aboitiz Unified Compliance Management System, a Group-wide initiative that is based on the Governance, Risk and Compliance (GRC) framework.

3. Reputation Risk

AboitizPower is cognizant that its reputation is its single most valuable asset, and a competitive advantage that allows the Company to earn, maintain, and strengthen the trust of its stakeholders. The Company knows that its reputation today took generations to build and sustain, hence the need to protect and enhance it progressively is imperative.

Today's operating environment is characterized by increasing corporate governance standards, heightened public consciousness due to social media, and greater scrutiny from key stakeholders. Reputation risks result from the occurrence of or failure to mitigate other risks.

AboitizPower continues to strengthen Stakeholder Engagement activities with all its stakeholders, including its customers, employees, shareholders, lenders and insurers, regulators, host communities, and LGUs. One of the key engagement channels is DOE's Energy Regulation 1-94 (ER 1-94) which allows host communities to reap financial benefits for their contribution to power plants. AboitizPower's assumption of the fund's administration functions has hastened fund remittance and utilization for local electrification, development and livelihood, and environment enhancement projects of host communities.

As part of the technical working group that is developing the framework on Environment, Social and Governance (ESG), the Company will effectively embed ESG and address ESG-related issues in its risk management process, as it embraces the energy trilemma of availability, affordability, and environmental sustainability.

4. Information Security Risks

AboitizPower recognizes the vulnerabilities of global information security breaches and the increasingly complex challenges of digital transformations. Management recognizes that information security threats should be addressed in order to avoid potential breaches, which can adversely disrupt operations and customer services, and result in serious impacts to the organization's bottom line and its reputation.

AboitizPower further strengthens its security and resilience against information security breaches through the ongoing implementation of the Information Security Management System (ISMS) guided by the ISO 27001:2015 standard. In 2019, the Company focused on defining and rolling out information security governance in addition to addressing the gaps between current practices and minimum standards. It will continue embedding the ISMS discipline in all three pillars of Information and Operational Systems Security: People, Process, and Technology.

In alignment with the Group-wide Cyber Security Program, specific governance, standards, and projects for Operational Technology Security in generation and distribution facilities are ongoing for phased implementation starting 2020.

In efforts to achieve the desired Level 4 in Cyber Security Maturity and build an information security risk-aware culture within the Company, business continuity plans on loss of technology scenarios are in place, annually tested, reviewed, and improved. AboitizPower keeps pace with current information security threat landscape, solutions, and best practice in order to further strengthen prevention, detection, and comprehensive response to security threats.

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

The loss of facilities caused by natural calamities such as earthquakes, windstorms, typhoons, and floods could result in significant business interruptions within AboitizPower. Interruptions may be caused by other factors such as critical equipment breakdown, failures in software, network, and applications, fires and explosions,

hazardous waste spills, workplace fatalities, terrorism, and other serious risks. Planned maintenance and overall outage management of AboitizPower's generation facilities and its critical equipment and operational technology infrastructure and systems are governed by asset management standards based on global best practice.

AboitizPower's generation facilities have all achieved asset management certifications based on ISO 55001:2014 standard. Recently commissioned plants will also be lined up for certification.

On the other hand, distribution network availability and reliability targets have consistently been aligned with the performance bands set by ERC as part of the RDWR.

All Business Units have also achieved OSHAS 18001 certification, a British standard which is focused on controlling occupational health and safety hazards. AboitizPower companies are also transitioning to the ISO 45001 standard to drive a risk-based culture with more proactive approaches toward mitigating risks before they happen. To further reinforce industrial fire safety, an in-house training program on Fixed Fire Fighting Systems of the U.S. National Fire Protection Association was conducted for operations, maintenance, and safety personnel.

Group insurance facilities that leverage on the Company's portfolio of generation and distribution assets, supported by risk modelling and quantification, are also in place. AboitizPower ensures that its Business Units have the right insurance solutions to achieve the optimal balance between retaining or transferring risks versus lowering the Total Cost of Insurable Risk (TCOIR). As such, business interruption insurance is procured to cover any potential loss in gross profits that may result from a major damage to critical assets.

Business Units periodically review, test, develop, update, and improve their Business Continuity Plans to ensure that they remain relevant with current business conditions, and address the uncertainties and issues faced by the Company.

Some of these enhancements include: (a) typhoon preparedness; (b) regular emergency drills and simulation exercises on various scenarios related to other natural and man-made calamities; and (c) post-incident investigations to ensure that employees are able to respond effectively and safely as planned.

To further improve its existing Business Continuity Management (BCM) framework and practices, AboitizPower has rolled out a three-year roadmap of Business Continuity initiatives, which conforms to ISO 22301:2012 standards and requirements.

6. Financial Risks

In the course of its operations, AboitizPower and its Subsidiaries are 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 impact to the Group's net income, these risks would also constrain any expansion and growth projects. Furthermore, defaulting on existing loans and other financial obligations will consequently put the Company's reputation at risk.

To address these risks, the Company carries out the following actions:

- (a) Regular monitoring of the Company's cash position;
- (b) Issuance of retail bonds;
- (c) Maintaining good relationships with the banks; and
- (d) Implementation of the Group's Financial Risk Management Framework, which is a collaboration of the Group Risk and Treasury teams and designed to ensure a consistent approach in identifying, assessing, quantifying and mitigating financial risks across the Group.

7. Competition Risk

Increasingly competitive market conditions create downward pressure on contract rates and increasing levels of commercial risk, to wit: (a) generation companies are required to participate in a transparent and competitive bidding of power supply requirements of distribution utilities and electric cooperatives through the CSP; and (b) spot prices are expected to continue to be volatile. As such, fixed pricing may potentially increase exposure to fuel and forex risk, while the inability to contract at favorable rates and commercial terms may result in further exposure to higher levels of spot market volatility.

As AboitizPower endeavors to market and contract project capacities from investments ahead of time, as well as renew expiring contracts from existing capacities, it also maximizes energy trading opportunities in the spot market. Striking this balance requires a combination of portfolio pricing and contracting strategies, and hedging of coal and forex exposure on fixed contracts. This is to ensure that plant operations are optimized, and that revenue and cash flow streams are managed.

8. Talent Risk

AboitizPower gears for further growth by shifting towards renewable energy sources and increasing its presence in the international market, while ensuring the availability and reliability of existing power plants. Both growth and operational excellence thrusts demand for organic subject matter experts of critical assets.

The risk on the readiness and availability of talents for these critical posts is inevitably increasing. Thus, talent attraction, optimization, and retention strategies are of utmost importance. In 2019, the Company integrated Strategic and Operational Workforce Planning in the Organizational Planning processes to enable the identification of current and future talent needs. This will help shape the people strategy of AboitizPower. Some of the key people initiatives currently being implemented and/or designed are: employer branding, succession management, job rotation, management trainee, and employee engagement programs.

9. Emerging Risks

Embedded in the risk management process is the continuous identification and monitoring of emerging risks. These are 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. These potential risks could be triggered by the fast-changing landscapes in the political, economic, social, technological, environmental, and legal environs surrounding the Company's operations.

For Aboitiz Power, one such major risk particularly is that of climate change. Subject matter experts, management and functional committees are constantly on close watching brief along their areas of expertise on environmental issues and their developing impact on businesses. The Company likewise anticipates that availability of insurance and financing for coal plants will become more challenging, which it will address with its portfolio mix changing towards renewables over the long term.

Such risks are captured and validated in the semi-annual risk assessment process and during the environmental scans of the annual organizational planning process of AboitizPower. These emerging risks are then communicated to the Group Risk Management Team for further study and analysis, and are reported 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 ₱10 billion (bn) 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 (PDTCT) 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: (a) seven-year bonds with a fixed interest rate of 5.205% per annum; and (b) 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
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" bonds were 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. AboitizPower has been paying interest to its bond holders since October 2017.

Use of Proceeds

As of December 31, 2017, the proceeds of the Series “A” 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

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 of ₱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 & Investment Corporation (BDO Capital) as Issue Manager, BDO Capital, 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 are listed with PDEX.

AboitizPower received the aggregate amount of ₱7.5 bn as proceeds from the offer and sale of the Series “B” bonds and ₱2.5 bn for the Series “C” bonds. AboitizPower has been paying interest to its bond holders since January 2019 for the Series “B” and Series “C” bonds.

Use of Proceeds

As of September 30, 2019, the proceeds of the Series “B” and Series “C” bonds were utilized for the following projects:

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	1,378,076
TOTAL	₱10,200,000	₱10,200,000

Note: Amounts are in thousands

Series “D” Bonds issued in October 2019

Series “D” bonds, with an aggregate amount of ₱7.5 bn and an oversubscription of ₱5 bn, were issued on October 14, 2019. The Series “D” bonds have an interest rate of 5.2757% per annum, and will mature in 2026. Interest is payable quarterly in arrears on January 14, April 14, July 14, and October 14 of each year, or the subsequent banking day without adjustment if such interest payment day is not a banking day.

AboitizPower appointed BDO Capital and First Metro Investment Corporation as Joint Issue Managers, Joint Bookrunners and Joint Lead Underwriters, and BDO Unibank - Trust and Investments Group as Trustee, and PDTC as the Registry and Paying Agent of the transaction. The Series “D” bonds received the highest possible rating of PRS “Aaa” from PhilRatings and is listed with PDEX.

The Company received the aggregate amount of ₱7.25 bn as proceeds from the offer and sale of the Series “D” bonds. AboitizPower has been paying interest to its bond holders since January 2020 for the Series “D” bonds.

Use of Proceeds

As of December 31, 2019, the proceeds of the Series “D” bonds were utilized for the following projects:

Name of Project	Projected Usage (Per Prospectus)	Actual Usage
Repayment of short-term loan	₱7,161,972	₱7,250,000
Bonds issuance cost	88,028	-
TOTAL	₱7,250,000	₱7,250,000

Note: Amounts are in thousands.

Item 2. Properties

The Company’s head office is located at 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 ₱209.52 as of end-2019, as compared to ₱207.11 bn as of December 31, 2018. The breakdown of the Company’s Property, Plant and Equipment as of December 31, 2019 and December 31, 2018 is as follows:

Property, Plant and Equipment	2019	2018
Land	₱ 1,785,250	₱ 1,541,756
Buildings, Warehouses and Improvements	37,218,328	21,356,246
Powerplant, Equipment and Streamfield Assets	141,948,261	168,443,359
Transmission, Distribution and Substation Equipment	21,295,812	19,458,140
Transportation Equipment	1,626,721	1,570,064
Office Furniture, Fixtures and Equipment	1,174,643	1,052,237
Leasehold Improvements	2,793,542	2,774,370
Electrical Equipment	7,788,861	5,685,213
Meter and Laboratory Equipment	2,265,372	1,892,174
Tools and Others	1,228,993	1,335,213
Construction in Progress	6,311,485	37,835,549
Right-of-use Assets	37,864,618	-
Less: Accumulated Depreciation and Amortization	50,645,980	52,699,469
Less: Accumulated Impairment	3,134,440	3,134,440
TOTAL	₱209,521,466	₱207,110,412

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

Subsidiary	Description	Location/Address	Condition
Hedcor	Hydropower plants	Kivas, Banengneng, Benguet; Beckel, La Trinidad, Benguet, Bineng, La Trinidad, Benguet; Salangan, 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	In use for operations
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
Visayan Electric	Industrial land, buildings/ plants, equipment, and machineries	Jakosalem Street, Cebu City and J. Panis Street, Cebu City	In use for operations
Lima Enerzone	Industrial land, buildings/plants, equipment, and machineries	Lipa City and Malvar, Batangas	In use for operations
Balamban Enerzone	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 involved in various legal proceedings in the ordinary conduct in their businesses. The Company believes that none of these legal proceedings to which AboitizPower or its Subsidiaries, associates, and joint ventures are subject will have a material effect on the Company's financial position and results of operations.

Visayan Electric, for example, received several assessments of real property taxes (RPT) on its electric posts, transformers, wires, machineries, air-conditioning units, and water pumps. Visayan Electric 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. Further, Section 270 of the Local Government Code of 1991 (LGC) provides that the collection of RPT is mandatory within five years from the date they become due, and that failure to collect the RPT within the said period will bar collection thereof.

To date, Visayan Electric has one remaining RPT case with Cebu City with assessments amounting to ₱208mn covering the period from 1989 to 2019, pending before the Cebu City Assessor's Office. In the event that the case is decided against Visayan Electric, the company can file an appeal with the Local Board of Assessment Appeals (LBAA), without prejudice to subsequent appeals allowed under existing rules governing the appeals process.

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

GR No. 244450 and GR No. 244659 (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. NPC intervened in the proceedings before the LBAA arguing that: (i) the liability for the payment of RPT over the machineries is assumed by NPC under Section 8.6(b) of the Bakun PPA dated November 24, 1996; and (ii) NPC is exempted from the payment of RPT under Section 234 of the 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 NPC could not invoke the exception under Section 234 of the LGC because the machineries covered by the assessment are not yet owned by NPC.

NPC appealed the ruling of the LBAA to the Central Board of Assessment Appeals (CBAA), which appeal was docketed as CBAA Case No. L-57/59. The Province of Benguet, through the Office of the Governor, and LHC negotiated 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, CBAA dismissed the appeals of LHC and NPC for lack of merit. LHC then filed its Motion for Reconsideration. The CBAA noted both LHC and NPC's motions, and gave the Province of Benguet ten days 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). The CTA En Banc (CTA EB) ordered the parties to submit additional documents in support of the Joint Motion for Judgment, and 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.

In March 2016, the CTA EB denied LHC's Motion to Resolve the Joint Motion for Judgment based on Compromise. The CTA EB also denied LHC's subsequent Motion for Reconsideration.

On December 12, 2016, LHC filed with the SC a Petition for Certiorari assailing the above resolutions of the CTA. On June 7, 2017, the SC dismissed LHC's Petition for Certiorari and in December 2019, issued the Entry of Judgment.

On January 16, 2020, the Municipal Treasurer of Bakun issued RPT Bills for the period covering 2002 to 2019 amounting to ₱284,448,073.24.

On February 3, 2020, LHC wrote to the Provincial Governor requesting for the amendment of the RPT Bills to align with the MOA dated December 20, 2012 by and between LHC and the Province of Benguet. In the same letter, LHC also cited EO No. 88, Series of 2019, which reduced the liability for RPT of IPPs such as LHC with BOT Agreements with Government Owned and Controlled Corporations (GOCCs) to an amount equivalent to the tax due if computed at 15% assessment level and condoned all interest and penalties for all years up to 2018.

LHC is awaiting the Provincial Government's response.

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

LHC has an RPT dispute with the Province of Ilocos Sur and the Municipality of Alilem since 2003 when the Municipality assessed LHC for RPT over the portions of the Bakun Hydro Electric Plant located within the territorial jurisdiction of the Municipality. LHC protested the assessment, with NPC intervening in the proceedings since it had contractually assumed the obligation to pay RPT in the PPA. LHC escalated the protest to the CTA EB on the issue of which between NPC and LHC is obligated to pay the RPT. The CTA EB ruled that LHC, being the actual, direct and exclusive user of the subject properties, is the one obligated to pay RPT. This ruling was sustained by the SC with finality in a resolution dated September 24, 2018.

Meanwhile in 2014, while the case was pending before the CTA EB, then President Aquino issued EO No. 173, which reduced the liability for RPT of IPPs such as LHC to an amount equivalent to the tax due if computed at 15% assessment level and condoned all interest and penalties for all years up to 2014. More EOs of the same nature were subsequently issued, the latest being, EO No. 88 Series of 2019, dated August 13, 2019 ("EO 88") issued by President Duterte.

With the finality of the SC's determination that it is liable to pay RPT, LHC wrote to Gov. Singson on December 18, 2018 signifying its willingness to settle the outstanding RPT obligation, but at the reduced amount pursuant to the EOs. There was no response until August 13, 2019, when LHC received a Notice of Tax Delinquency from the Municipality with respect to four properties, computed based on an 80% assessment level. LHC received a second Tax Delinquency Notice on September 18, 2019 for seven other properties. The second tax delinquency notice covered the lodging house, admin buildings, warehouses, tunnel steel lining and industrial switchyard. Thereafter, the Municipality of Alilem issued warrants of levy for the properties covered by the notices, and scheduled them for auction sale.

LHC filed two separate "Petitions for Prohibition and Mandamus with prayer for TRO and Preliminary Injunction" to cover the two notices of auction sale, challenging the correctness of the amount assessed as RPT and to prevent the auction sale of the assets. The actions also sought the enforcement of the EOs directing the reduction of RPT on property, machinery and equipment actually and directly used by IPPs under BOT contracts (however denominated), and condoning related RPT interest and penalties.

The RTC of Tagudin, Ilocos Sur acting on both Petitions, issued two TROs enjoining the Municipality of Alilem from selling at public auction LHC's real properties for a period of 20 days, which has since expired. LHC, on its part, filed its Position Paper on December 12, 2019 and Supplemental Position Paper December 19, 2019, in compliance with the aforesaid court orders. The case is now submitted for decision.

The public auction will not result in an outright transfer of ownership nor possession of the auctioned assets to the Municipality of Alilem. Under Section 179 of the LGC, LHC has a period of one year from the occurrence of the auction sale within which to redeem the auctioned assets. During this redemption period, LHC retains possession of the auctioned assets, and remains entitled to the rentals and other income arising therefrom.

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 ERC and Meralco with the SC, 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 Sections 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 SC, 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 SC for another 60 days, or until April 22, 2014. On April 22, 2014, the SC 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 SC ordered other power industry participants (DOE, ERC, PEMC, PSALM, and the generation companies) to respond to Meralco's counter-petition.

The SC 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, 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 March 31, 2020, these cases before the SC are still pending resolution and the SC 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 after having been non-operational for five years. 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.

In its letter dated January 30, 2015, the PEMC Board of Directors denied TMO's request for reconsideration and confirmed its earlier findings. On February 13, 2015, TMO filed a Notice of Dispute with 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 a petition for TRO 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 appealed the RTC decision before the Court of Appeals (CA) and 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 SC to assail the December 14, 2015 CA Decision. TMO filed its Comment to PEMC's Petition for Review and PEMC filed a Reply. In its March 29, 2017 Resolution, the SC noted TMO's Comment and PEMC's Reply.

As of March 31, 2020, PEMC's Petition is still pending before the SC.

SC G.R. Nos. 244449 and 244455-56 entitled "*Energy Regulatory Commission vs. Therma Mobile, Inc. Manila Electric Company and AP Renewables, Inc.*", 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 SC case, the Investigation Unit of ERC ("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, 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 ERC-IU to terminate and close the investigation.

On May 20, 2015, 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, and TMO committed Physical Withholding, and thus recommended the filing of cases for Anti-Competitive Behavior against TMO and Meralco.

On June 23, 2015, ERC ordered Meralco and TMO to file their respective Answers to the Complaint. On August 24, 2015, TMO filed its Answers praying for the dismissal of the Complaints.

In its Manifestation dated October 7, 2016, 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 ERC has no jurisdiction over anti-competitive behavior cases, and that jurisdiction is with 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, ERC denied Meralco's and TMO's motions to dismiss for lack of jurisdiction. TMO filed its Motion for Reconsideration, which the ERC subsequently denied in its Order dated June 20, 2017.

On September 18, 2017, TMO filed a Petition for Certiorari with the CA, praying that the CA: (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 ERC Orders.

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, which the CA denied. Thereafter, 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 CA denied the motions for reconsideration filed by TMO, Meralco and APRI and the motion for partial reconsideration filed by the ERC.

Subsequently, ERC filed a Petition dated February 21, 2019 with the SC via Rule 45 of the Rules of Court. In the Petition, ERC challenged the CA Decision and Resolution insofar as the CA ruled that the Philippine Competition Act ("PCA") repealed the parts of the EPIRA that granted jurisdiction to ERC over anti-competition matters in the energy sector, and that PCC has original and exclusive jurisdiction over anti-competition matters, including those affecting the energy sector after the effectivity of the PCA.

In a Resolution dated July 30, 2019, the SC directed the respondents to file their Comments on ERC's Petition. On November 25, 2019, TMO filed its Manifestation with the SC.

As of March 31, 2020, ERC's Petition is still pending with the SC.

SC G.R. Nos. 244449 and 244455-56 entitled "*Energy Regulatory Commission vs. Therma Mobile, Inc. Manila Electric Company and AP Renewables, Inc.*", Supreme Court;

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

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, 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, 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 filed a 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*.

In its Manifestation dated October 7, 2016, ERC-IU manifested the resignation of Atty. Isabelo Tomas as IO and the appointment of new IOs. 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. ERC denied APRI's Motion to Dismiss, and APRI's subsequent Motion for Reconsideration.

On September 19, 2017, APRI filed a Petition for Certiorari (with application for TRO and Writ of Preliminary Injunction) with the CA (CA G.R. SP. No. 152613), praying for the CA to: (i) issue a TRO commanding 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 ERC Orders, 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. Thereafter, 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 the CA's Decision dated May 23, 2018.

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

Subsequently, ERC filed a Petition dated February 21, 2019 with the SC via Rule 45 of the Rules of Court. In the Petition, ERC challenged the CA Decision and Resolution insofar as the CA ruled that the PCA repealed the parts of the EPIRA that granted to ERC jurisdiction over anti-competition matters in the energy sector, and that the PCC has original and exclusive jurisdiction over anti-competition matters including those affecting the energy sector after the effectivity of the PCA.

In a Resolution dated July 30, 2019, the SC directed the respondents to file their Comments on ERC's Petition. On November 4, 2019, APRI filed its Comment with the SC. As of March 31, 2020, ERC's Petition is still pending with the SC.

Consolidated Regulated Price Case (ERC vs. Various Generation Companies and PEMC) G.R. Nos. 246621-30, Petition for Review on Certiorari, Supreme Court;

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

ERC conducted an investigation on the alleged collusion by the generation companies to raise the WESM prices. Subsequently, 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. ERC also declared the imposition of regulated prices for such billing periods and directed 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 SC.

Pursuant to the ERC Order, on March 18, 2014, 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.

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. 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. In an Omnibus Resolution dated March 29, 2019, the CA denied the motions for reconsideration by ERC and Meralco, as well as the motions for reconsideration filed by several entities that wanted to intervene in the case.

In June 2019, ERC, Meralco, and several entities filed their Petitions for Review on Certiorari with the SC, asking the latter to reverse and set aside the CA Decision dated November 7, 2017 and the CA Omnibus Resolution dated March 29, 2019. They also prayed that the SC reinstate the ERC Orders.

In September to October 2019, the SC issued Resolutions denying the Petitions for Review on Certiorari filed by several entities, including Calco Industries Inc., Paperland, Alyansa ng mga Grupong Haligi at Teknolohiya Para sa Mamamayan (AGHAM), Ateneo de Manila University, Citizenwatch, Riverbanks Dev’t. Corp., Steel Angles Shapes & Sections Manufacturers, for failure to show any reversible error on the part of the CA in promulgating the Decision dated November 7, 2017 and Omnibus Resolution dated March 29, 2019.

In a Resolution dated September 11, 2019, the SC required respondents to file their Comments to ERC’s Petition for Review on Certiorari. On January 28, 2020, TMO and TLI filed their Consolidated Comment (to the Petition for Review on Certiorari dated June 13, 2019); whereas APRI filed its Comment (on the Petition for Review on Certiorari dated June 13, 2019) on February 11, 2020.

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 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 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 ERC.

As of March 31, 2020, 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 were as follows:

	2020		2019		2018	
	High	Low	High	Low	High	Low
First Quarter	₱35.00	₱23.45	₱39.20	₱33.70	₱41.80	₱37.50
Second Quarter	N/A	N/A	₱38.00	₱34.15	₱39.70	₱34.25
Third Quarter	N/A	N/A	₱40.35	₱34.10	₱38.20	₱33.45
Fourth Quarter	N/A	N/A	₱40.40	₱33.00	₱35.50	₱31.20

The closing price of AboitizPower common shares as of March 31, 2020 is ₱26.30 per share.

(2) Holder

As of March 31, 2020, AboitizPower has 587 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 31, 2020 are as follows:

Name	Number of Shares	Percentage
1) Aboitiz Equity Ventures Inc.	5,657,530,774	76.88%
2) PCD Nominee Corporation Filipino	1,028,832,249	13.98%
3) PCD Nominee Corporation Foreign	389,177,197	5.29%
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 and Power Co.	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) Danel C. Aboitiz	4,528,696	0.06%
16) Arrayanes Corporation	4,146,243	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	7,193,967,444	97.76%
Other Stockholders	164,636,863	2.24%
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 2018 to the first quarter of 2020 are shown in the table below:

Year	Cash Dividend Per Share	Total Declared	Declaration Date	Record Date	Payment Date
2020 (regular)	₱1.18	₱8.68 bn	3/6/2020	3/20/2020	4/3/2020
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

There are no restrictions that limit the payment of dividends on common shares to stockholders of record as of March 23, 2020.

(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, 2019 compared with the year ended December 31, 2018, 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.

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, 2019 versus Year Ended December 31, 2018

The table below shows the comparative figures of the top five key performance indicators for 2019 and 2018.

Key Performance Indicators	2019	2018
<i>Amounts in thousands of ₱s, except for financial ratios</i>		
SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	3,813,962	4,356,825
EBITDA	45,005,022	51,490,894
CASH FLOW GENERATED:		
Net cash flows from operating activities	39,356,962	37,287,900
Net cash flows used in investing activities	(34,060,584)	(7,243,119)
Net cash flows used in financing activities	(14,376,055)	(19,155,753)
Net (Decrease)/Increase in Cash & Cash Equivalents	(9,079,677)	10,889,028
Cash & Cash Equivalents, Beginning	46,343,041	35,699,631
Cash & Cash Equivalents, End	37,433,929	46,343,041
CURRENT RATIO	1.50	1.89
DEBT-TO-EQUITY RATIO	2.07	1.85

Share in net earnings in associates and joint ventures declined by 12% in 2019 compared to 2018 due to lower income contributions from SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat) and GNPDP Dinginin Ltd. Co. (GNPD). The lower share in net earnings of GNPDP was mainly due to a foreign exchange (forex) gain recorded in 2018 as against a forex loss reported in 2019. SN Aboitiz Power-Magat's lower income contribution was primarily driven by a reduction in volume sold due to reduced water levels in 2019.

Consolidated EBITDA decreased by 13% in 2019, mainly due to an increase in cost of purchased power, lower spot market revenues, and lower plant availability across the Power Generation Group.

During 2019, cash and cash equivalents decreased by ₱8.91 bn, due to cash flows used for the acquisition of AA Thermal, Inc. (AA Thermal) and investment in GNPDP for the ongoing construction of its 1x668 MW supercritical coal-fired power plant in Bataan.

Current ratio at the end of 2019 was at 1.50x, down from previous year's 1.89x. This is due to the reduction in cash and cash equivalents and the increase in currently maturing debt.

Debt-to-equity ratio as of December 31, 2019 was at 2.07, higher than the 1.85 recorded at the end of 2018 due to the availing of new debts during 2019.

Results of Operations

Net income for 2019 decreased 20% Year-on-Year (YoY), from ₱21.71 bn in 2018 to ₱17.32 bn in 2019, which translated to earnings per share of 2.35. In 2019, there was higher cost of purchased power, lower spot market revenues, and lower plant availability of the Power Generation Group. The Company also recognized non-recurring gains of ₱702 mn, mainly due to net foreign exchange gains from the revaluation of dollar-denominated debts and derivatives, Aseagas, Inc.'s VAT recoveries, and gain on land appraisal. Without these one-off gains, the Company's core net income for 2019 was ₱16.62 bn, 30% lower than the ₱23.8 bn recorded during 2018.

Power Generation and Retail Electricity Supply (RES)

The Power Generation Group and RES' income contribution for 2019 was ₱15.28 bn, down 23% YoY. The decline was largely driven by the higher volume and cost of purchased power, lower spot market revenues, and lower plant availability. Spot market prices were high in the first half of 2019. During this period, the Group purchased replacement power due to outages, and contracted ahead in preparation for Therma Visayas, Inc.'s (TVI) incoming capacity. Plant availability was also lower versus the same period last year due to outages from the Group's local facilities.

As of year-end 2019, AboitizPower's net sellable capacity stood at 3,455 MW.

Power Distribution

The power distribution group's earnings contribution increased slightly by 1% YoY, from ₱4.05 bn in 2018 to ₱4.10 bn in 2019.

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 decreased by 20% from ₱21.71 bn in 2018 to ₱17.32 bn in 2019. 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 2018	₱21,707,603
Decrease in operating revenues	(5,936,927)
Increase in operating expenses	(1,703,881)
Increase in interest income	411,618
Increase in interest expense	(1,965,488)
Decrease in share in net earnings of associates and joint ventures	(542,863)
Decrease in other income - net	4,775,698
Higher provision for taxes	(289,875)
Decrease in income attributable to non-controlling interests	866,792
Total	4,384,926
Consolidated Net Income Attributable to Equity Holders of the Parent for 2018	₱17,322,677

Operating Revenues

(5% decrease from ₱131.57 bn to ₱125.64 bn)

The 5% decrease in operating revenues was driven by: (i) lower plant availability, (ii) expiration of contracts with customers of Therma Marine, Inc. (TMI) and Thermal Mobile, Inc. (TMO), and (iii) lower average selling price on the Power Generation Group and RES power supply contracts. This was partly offset by higher electricity sales from the Company's Distribution Utilities.

The lower plant availability due to outages resulted to a reduction in the volume (capacity and energy) sold to customers. Likewise, this limited the Group's capacity available to sell to the spot market.

Operating Expenses

(2% increase from ₱96.78 bn to ₱97.36 bn)

Operating expenses increased by 2% during 2019, driven by the increase in depreciation and amortization cost (14%) due to the start of operations of TVI and the full year of operations for both Hedcor Bukidnon, Inc. (Hedcor Bukidnon) and Pagbilao Energy Corporation (PEC). The cost or purchased power and operations and maintenance expenses also increased during the year.

Interest Income

(47% increase from ₱ 880 mn to ₱ 1,292 mn)

The increase in interest income during 2019 was primarily due to the Company's higher cash investments and higher interest income from Therma South, Inc. (TSI), TVI, Hedcor Bukidnon and AP Renewables, Inc. (APRI).

Interest Expense and Other Financing Costs

(16% increase from ₱12.08 bn to ₱14.05 bn)

Interest expense increased in 2019 due to the full-year impact of the ₱10.20 bn in retail bonds issued by the Company in October 2018 and the interest on the Company's ₱7.25 bn retail bonds issued in October 2019. The proceeds from the bonds were used to pay for short-term borrowings and general corporate purpose.

Share in Net Earnings of Associates and Joint Ventures

(12% decrease from ₱4.36 bn to ₱3.81 bn)

Share in net earnings of associates and joint ventures declined by 12% in 2019, mainly due to lower income contributions from SN Aboitiz Power-Magat and GNPD. SN Aboitiz Power-Magat's lower income contribution was primarily driven by a reduction in volume sold due to reduced water levels in 2019. The lower share in net earnings of GNPD was mainly due to a forex gain recorded in 2018 as against a forex loss reported in 2019.

Other Income (Expenses) – net

(Increase from ₱1.29 bn other expense to ₱3.48 bn other income)

The change from an expense position in 2018 to an income position in 2019 was mainly due to lower net forex losses YoY. This movement was due to favorable movements of the Philippine Peso against U.S. Dollar in 2019 versus 2018.

Provision for Taxes

(10% increase from ₱2.93 bn to ₱3.2 bn)

The increase was due to lower net deferred tax benefit arising from deferred taxes on unrealized forex gain.

Net Income Attributable to Non-controlling Interests

(23% decrease from ₱3.73 bn to ₱2.86 bn)

The decrease was due to a decline in the operating results of GMCP combined with a reduction in the Company's non-controlling ownership in GMCP after the acquisition of non-controlling interests in May 2019.

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

Total assets (as of December 31, 2019 compared to December 31, 2018) increased by ₱20.81 bn, or 5% YoY. The major movements of the accounts leading to the increase were as follows:

- a) Cash and cash equivalents decreased by 19% during 2019. This was due to cash flows used for: (i) acquisition of AA Thermal, (ii) investment in GNPD for its on-going power plant construction, (iii) funding of the Group's capital expenditures, and (iv) debt service. The decrease in cash and cash equivalents was partially offset by operating cash flows and proceeds from the Company's retail bonds issuance in 2019.
- b) Property held for sale of ₱676 mn as of December 31, 2018 pertains to transmission assets was sold to NGCP in February 2019.
- c) Other current assets were lower by 16% (from ₱13.21 bn in 2018 to ₱11.04 bn in 2019) mainly driven by the decrease of TSI's restricted cash. The maintenance of a cash reserve forms part of TSI's compliance with the covenants on its project debt.
- d) Investments and advances increased by ₱26.54 mainly as a result of capital infusions for the AA Thermal acquisition and GNPD plant construction.
- e) Property, plant and equipment (PPE) slightly increased by 1% (from ₱207.11 bn in 2018 to ₱209 bn in 2019) mainly due to the recognition of right-of-use assets on the Group's leases resulting from the adoption of Philippine Financial Reporting Standards (PFRS) 16, *Leases*.

- f) Derivatives assets were down by ₱211 mn in 2019, primarily due to fair value changes on GMCP's interest rate swaps.
- g) Financial assets at fair value through profit or loss went down to ₱4 mn in 2019 from ₱101 mn. This was mainly due to the sale of Parent' Company's financial assets at Fair Value through Profit and Loss (FVPL).
- h) Deferred income tax assets increased by 25% (from ₱2.23 bn in 2018 to ₱2.80 bn in 2019), driven by deferred tax benefits recognized by TMO on its net operating loss and Therma Luzon, Inc. (TLI) on its unrealized forex loss.
- i) Other noncurrent assets increased by ₱2.86 bn or 27% YoY. The increase was due to restricted cash of a Subsidiary that arose from its receipt of proceeds from a damage claim against its contractors, which claim is currently under dispute. This was partly offset by decrease in input VAT and reversal of prepaid rent against lease liabilities upon adoption of PFRS 6, *Leases*.

Liabilities

Consolidated liabilities increased by 9% YoY, from ₱253.09 bn as of end-2018 to ₱276.83 bn as of end-2019. The major movements of the accounts leading to the increase were as follows:

- a) Derivatives liabilities (current and non-current portions) increased by ₱2.31 bn in 2019, due to fair value changes on the Group's foreign currency forward contracts and commodity swap contracts.
- b) Income tax payable increased by 15% YoY (from ₱439 mn in 2018 to ₱506 mn in 2019), mainly due to expiration of the income tax holidays enjoyed by certain Subsidiaries and a corresponding higher current income tax provision.
- c) Long-term debt (current and non-current portions) increased by 13% YoY (from ₱158.06 bn in 2018 to ₱177.97 bn in 2019), primarily due to the ₱7.25 bn bonds issuance in October 2019.
- d) Lease liabilities (current and noncurrent portions) decreased by ₱2.10 bn, since TLI made timely payments on its obligation with PSALM.
- e) Long-term obligation on power distribution system (PDS) decreased by 8% as regular annual payments were made.
- f) Customers' deposits increased by ₱513 mn or 9% primarily, driven by growth in customer base of the Distribution Utilities.
- g) Other noncurrent liabilities went up from ₱3.18 bn in 2018 to ₱6.81 bn in 2019, mainly due to receipt of proceeds from a damage claim against contractors, which claim is now under dispute.

Equity

Equity attributable to equity shareholders of the Parent Company decreased by 2% YoY (from ₱127.71 bn at year-end 2018 to ₱125.54 bn at year-end 2019), after the declaration of dividends in 2019, net of comprehensive income recognized.

- a) Cumulative translation adjustments decreased by ₱1.52 bn due to downward effect of changes in the fair value of foreign currency forward and commodity swap contracts designed as cash flow hedges; and translation effect of GMCP and Luzon Hydro Corporation (LHC) for the current period.
- b) Share in cumulative translation adjustments of associates and join ventures decreased by ₱475 mn, mainly due to translation effect of GNPD.
- c) Acquisition of non-controlling interests for the period pertains to the difference between the purchase price and fair value of net assets acquired in the acquisition of additional partnership interest in GMCP.

Material Changes in Liquidity and Cash Reserves of Registrant

Cash generated from operations of ₱39.36 bn continued to provide a source of liquidity during 2019, growing by ₱2.07 bn as compared to 2018.

Net cash flows used in investing activities increased to ₱34 bn in 2019 from ₱7 bn in 2018, mainly due to funding for the AA Thermal acquisition.

Despite the cash used to fund acquisition of additional partnership interest in GMCP, the net cash outflows from financing activities amounting to ₱14.38 in 2019 is still lower than 2018. This is due to higher debt availed in 2019.

As of December 31, 2019, the Group's cash and cash equivalents decreased to ₱37.43 bn, compared to ₱46.34 bn as of year-end 2018.

Financial Ratios

Current assets decreased by 13% while current liabilities increased by 10%. The current ratio at year-end 2019 was at 1.50x, versus 1.89x at year-end 2018.

Consolidated debt to equity ratio at year-end of 2019 was at 2.07 versus 1.85 as of year-end 2018, as the Company's liabilities have been higher during the year.

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

AboitizPower is focused on addressing the needs of its markets, namely: (1) reliable supply, at a (2) reasonable cost, and with (3) minimal impact on the environment and communities. The Company believes that there is no single technology that completely addresses the country's energy requirements; and that to address the deficiency, a mix of power generation technologies is necessary. 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 power generation projects (see Part I Item 1.(a)(i) on Principal Products and Services - Generation of Electricity on page 47 of the Company's Information Statement), where target commercial operation dates for each project are discussed per Business Unit). The Company is on track to reach its target net attributable capacity of 4,000 MW by 2020 with the entry of GNPowr Dinginin.

AboitizPower's goal is to grow its capacity to more than 9,000 MW by 2029, which the Company expects will be sourced from a portfolio of renewables and selective baseload builds. In terms of renewable energy, the Company aims to maximize opportunities from the implementation of the Renewable Portfolio Standards (RPS) by DOE starting in 2020. In line with DOE's aspirational goal of a 35% increase in renewable energy utilization by 2030, RPS is a market-based policy that mandates power distribution utilities, electric cooperatives, and RES to source an agreed portion of their energy supply from renewable energy facilities. The Company will continue to pursue its international aspirations with focus on renewable energy projects in Vietnam, Indonesia, and Myanmar. With all of these combined, it is expected that the Company's portfolio ratio will be close to a 50:50 Cleanenergy (renewable energy) and Thermal energy mix by the end of the current decade.

AboitizPower believes that it is well-positioned to take advantage of opportunities arising from developments in the power industry. The Company expects its financial condition 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, together with its partners, has allotted ₱41 bn for capital expenditures in 2020, almost 80% of which is for new businesses such as GNPowr Dinginin. The remaining balance is allocated mainly for operating and expansion initiatives.

Other known trends, events, uncertainties which may have a material impact on AboitizPower have been discussed extensively in sections of the Company's Information Statement (e.g. for an extensive discussion on regulatory issues, see Part I Item 1(a) on Effects of Existing or Probable Government Regulations on the Business on page 78 of the Company's Information Statement).

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
<i>Amounts in thousands of ₱s, except for financial ratios</i>		
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 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 2017	₱20,416,442
Increase in operating revenues	12,180,781
Increase in operating expenses	(9,857,828)
Decrease in interest income	(46,927)
Increase in interest expense	(834,378)
Decrease in share in net earnings of associates and joint ventures	(341,039)
Decrease in other expenses	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 2018	₱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 were 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.

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
<i>Amounts in thousands of ₱s, except for financial ratios</i>		
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 GNPowder 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 GMCP, 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 GMCP, 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 GMCP's 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 GMCP, 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 GMCP 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 GMPC 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 GMCP's 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 GMCP's 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 GMCP.

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 GMCP 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 GMCP and GNPD; 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 GMCP's 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 GMCP and GNPD, 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 GNPow 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.

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 6, 2020 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 2020.

The Board of Directors discussed the Audit 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 2020.

The accounting firm of SGV has been AboitizPower's Independent Public Accountant for the last 21 years. Ms. Maria Veronica Andres 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 2020 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. Danel C. Aboitiz and Erramon I. 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	2019	2018
Audit Fees		
Audit Fees	₱500,000.00	₱460,000.00
Audit Related Fees	-	-
Total	500,000.00	460,000.00
Financial and Tax Due Diligence	4,000,000.00	4,470,000.00
Bond Related Fees	6,600,000.00	6,600,000.00
Total	10,600,000.00	11,070,000.00
Total Audit and Non-Audit Fees	₱11,100,000.00	₱11,530,000.00

SGV was engaged by the Company to audit its 2019 and 2018 annual financial statements. AboitizPower engaged SGV to conduct post reviews and other procedures for the purpose of issuing a comfort letter in connection with the issuance of the ₱7.3 bn Bonds in 2019 and ₱10.2 bn Bonds in 2018. In 2019 and 2018, 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 2019 and 2018 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 2019-2020

(1) Directors for 2019-2020

The Company currently has nine directors, three of whom are Independent Directors. Below is the profile of the directors for 2019-2020 with their corresponding positions, offices, and business experience held for the past five years. Except for Mr. Emmanuel V. Rubio who assumed his directorship on January 1, 2020, the directors were elected during AboitizPower's ASM to serve for a term of one year, and until their successors are duly elected and qualified.

ERRAMON I. ABOITIZ

Chairman of the Board of Directors

Age: 63

Citizenship: Filipino

Committee Memberships:

Member – Board Executive Committee (Chairman of the Committee since May 21, 2018 and Member since January 1, 2020)

– Board Audit Committee (since January 1, 2020)

– Board Corporate Governance Committee (since May 17, 2010)

Mr. Erramon I. Aboitiz was appointed as Chairman of the Board of AboitizPower effective January 1, 2020. He has been a Director of the Company since February 13, 1998 and has served as Chief Executive Officer from 1998 to May 2018. He was Chairman of the Board from May 2018 to September 2018, and served as President and Chief Executive Officer until December 2019.

Mr. Aboitiz is currently a Director of AEV, a publicly-listed company, a position he has held since 1994. He was AEV's Executive Vice President and Chief Operating Officer from 1994 to 2009, and President and Chief Executive Officer from 2009 to 2019. Mr. Aboitiz is also Chairman of the Board of Directors of the following companies: Manila-Oslo Renewable Enterprise, Inc. (MORE), San Fernando Electric Light and Power Co., Inc. (SFELAPCO), and CRH Aboitiz Holdings, Inc. (CRH Aboitiz). 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. He is Director of Aboitiz & Company, Inc. (ACO), AEV CRH Holdings, Inc. (AEV CRH), and the Philippine Disaster Recovery Foundation.

Mr. Aboitiz was awarded the Management Association of the Philippines Management Man of the Year and Ernst & Young's Entrepreneur of the Year both in 2011.

Mr. Aboitiz earned 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.

MIKEL A. ABOITIZ

Vice Chairman of the Board of Directors

Age: 65

Citizenship: Filipino

Committee Memberships:

Member – Board Corporate Governance Committee (since December 11, 2019)
– Board Executive Committee (since May 21, 2018)

Mr. Mikel A. Aboitiz was appointed Vice Chairman of AboitizPower effective January 1, 2020. He has been a Director since February 13, 1998, and was the Company's Chairman of the Board from September 2018 to December 2019.

Mr. Aboitiz was formerly Vice Chairman of City Savings Bank, Inc. from 2015 to 2016, and its 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 December 2018; and Trustee and 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

Director

Age: 66

Citizenship: Filipino

Committee Memberships:

Chairman – Board Risk and Reputation Management Committee (since May 16, 2011)
Member – Board Executive Committee (since December 11, 2018)

Mr. Enrique M. Aboitiz has served as Director of the Company since May 18, 2009. He was Chairman of the Board of Directors from 2009 to May 2018, and Vice Chairman from December 2018 to December 2019. 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.

EMMANUEL V. RUBIO

Director/President and Chief Executive Officer

Age: 55

Citizenship: Filipino

Committee Memberships:

Chairman – Board Executive Committee (since January 1, 2020)
Member – Board Risk and Reputation Management Committee (since January 1, 2020)

Mr. Emmanuel V. Rubio was appointed as President and Chief Executive Officer and Director of AboitizPower effective January 1, 2020. He previously served as the Company's Executive Vice President and Chief Operating Officer – Power Generation Group from 2014 to July 2018, and as Executive Vice President - Chief Operating Officer from June 2018 to December 2019.

Mr. Rubio is currently Chairman of Aboitiz Renewables, Inc. (ARI) the SN AboitizPower Group, and Therma Power, Inc. (TPI); Director of the Hedcor Group, MORE, Cotabato Light and Power Company (Cotabato Light), Davao Light & Power Co., Inc. (Davao Light), Cebu Private Power Corporation (CPPC), and various companies under the Coal Business Units, including Cebu Energy Development Corporation (Cebu Energy), STEAG State Power, Inc. (STEAG Power), Therma South, Inc. (TSI), Therma Visayas, Inc. (TVI), and Redondo Peninsula Energy, Inc. (RP Energy). He holds directorship and management positions in GNPowr Mariveles Coal Plant Ltd. Co. (GMCP) and GNPowr Dinginin Ltd. Co. (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, Inc. (Aboitiz Foundation).

Mr. Rubio is a graduate of Bachelor of 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 any other publicly-listed company.

JAIME JOSE Y. ABOITIZ

Director/Executive Vice President – Chief Operating Officer

Age: 58

Citizenship: Filipino

Committee Memberships:

Member – Board Risk and Reputation Management Committee (September 1, 2018)

– Board Executive Committee (May 21, 2018)

Mr. Jaime Jose Y. Aboitiz was Director of AboitizPower from 2004 to April 2007, and was re-elected as Director on May 18, 2009. He was appointed as the Company's Executive Vice President – Chief Operating Officer effective January 1, 2020. He was previously the Company's Executive Vice President and Chief Operating Officer-Power Distribution Group, a position which he held from August 2008 to December 2019.

Mr. Aboitiz is a member of the Board of Advisers of ACO; Chairman of the Board of Aboitiz Construction, Inc. (ACI), AboitizPower Distributed Energy, Inc. (APX1), AboitizPower Distributed Renewables, Inc. (APX2), Abovant Holdings, Inc. (Abovant), Cebu Industrial Park Developers, Inc. (CIPDI), Hedcor Group; and Director of ARI, Cotabato Light, Davao Light, Enerzone Group, SFELAPCO, Aboitiz Land, Inc. (AboitizLand), Tsuneishi Heavy Industries (Cebu), Inc. (THICI), Visayan Electric Company, Inc. (Visayan Electric), and Apo Agua Infraestructura, Inc. (Apo Agua). He holds Chairman and Director positions in various Oil Business Units, such as East Asia Utilities Corporation (EAUC), Therma Marine, Inc. (TMI), Therma Mobile, Inc. (TMO), Therma Power-Visayas, Inc. (TPVI); and Coal Business Units, such as AA Thermal, Inc. (AA Thermal), Pagbilao Energy Corporation (PEC), TSI, and TVI. He holds directorship and management positions in GMCP and its holding company.

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/Senior Vice President – Government Relations and Regulatory Affairs of AboitizPower

Age: 38

Citizenship: Filipino

Committee Memberships:

Member – Board Audit Committee (since January 28, 2020)

Mr. Danel C. Aboitiz was appointed as Director of AboitizPower on December 11, 2018, and as Senior Vice President – Government Relations and Regulatory Affairs of AboitizPower effective January 1, 2020.

Mr. Aboitiz is also Director of PEC, Cebu Energy, STEAG Power, Abovant, and RP Energy. He holds directorship and management positions in GMCP and GNPDP and their holding companies.

Mr. Aboitiz is also Director of various companies under AboitizPower's Oil Business Units, such as Therma Mobile, Inc. (TMO), Therma Power-Visayas, Inc. (TPVI), East Asia Utilities Corporation (EAUC), and Therma Marine, Inc. (TMI), and Coal Business Units, such as AA Thermal, TLI, TSI, and TVI. He also serves as a Member of the Board of Advisers of ACO and as Observer of CRH Aboitiz Holdings, Inc.

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 not connected with any government agency or instrumentality. He is not a Director of any other publicly-listed company.

ROMEO L. BERNARDO

Lead Independent Director

Age: 65

Citizenship: Filipino

Committee Memberships:

Chairman – Board Corporate Governance Committee (December 11, 2018)

Member – Board Audit Committee (since May 19, 2008)

– Board Risk and Reputation Management Committee (since May 18, 2015)

– Board Related Party Transactions Committee (since May 15, 2017)

Mr. Romeo L. Bernardo was elected Lead Independent Director of AboitizPower on May 15, 2017. He has been an Independent Director of the Company since May 19, 2008.

He 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 a Director of the following publicly-listed corporations: Globe Telecom, Inc. (Globe Telecom) and Bank of the Philippine Islands (BPI), and Independent Director of RFM Corporation and PHINMA Corporation. He is also currently affiliated in various capacities with the Foundation for Economic Freedom and World Bank Philippine Advisory Group.

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 (NPC) 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

Age: 74

Citizenship: Filipino

Committee Memberships:

Chairman – Board Audit Committee (since May 19, 2014)

Member – Board Risk and Reputation Management Committee (since May 19, 2014)

– Board Corporate Governance Committee (since May 19, 2014)

– Board Related Party Transactions Committee (since May 15, 2017)

Mr. Carlos C. Ejercito, has been an Independent Director of AboitizPower since May 19, 2014.

He is 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 16 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 Chairman of the Board of United Coconut Planters Bank, and a former Director of National Grid Corporation of the Philippines (NGCP). 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 Management Association of the Philippines.

Mr. Ejercito graduated cum laude from the University of the East with a degree in Bachelor of Science in Business Administration. He also completed the Management Development Program of Harvard Business School in 1983, and has completed the coursework for Masters in Business Administration at 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

Age: 56

Citizenship: Filipino

Committee Memberships:

Chairman – Board Related Party Transaction Committee (since May 21, 2018)

Member – Board Audit Committee since May 21, 2018)

– Board Corporate Governance Committee (since May 21, 2018)

– Board Risk and Reputation Management Committee (since May 21, 2018)

Mr. Eric Ramon O. Recto was elected as Independent Director of AboitizPower on May 21, 2018.

He currently holds positions in the following publicly-listed companies: Chairman of the Philippine Bank of Communications; Vice Chairman and President of Atok-Big Wedge Co., Inc.; Director of ISM Communications Corporation; and Independent Director in PH Resorts Group Holdings, Inc. He is also the Chairman of the Board and President of Bedfordbury Development Corporation; Vice Chairman of Alphaland 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 (Meralco) 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 AboitizPower's Amended Guidelines for the Nomination and Election of Independent Directors approved by the Board of Directors on March 23, 2017 (the "Guidelines").

Nominations for Independent Directors were opened beginning January 1, 2020 and the table for nominations was closed on February 15, 2020, in accordance with Section C(1) of the Guidelines. The period may be extended by unanimous vote of the Board Corporate Governance Committee for meritorious reasons.

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, and was last amended on January 31, 2019. All amendments to the Revised Manual were timely disclosed to all stockholders. The Board Corporate Governance Committee performs the functions of the Board Nominations and Compensation Committee. In 2019, Mr. Romeo L. Bernardo was the Chairman of the Board 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 ASM at which such nominee is to be elected. Independent Directors shall be elected in the ASM 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 for the 2020 ASM. 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. Adella Villegas, Ms. Catherine Alvarez, and Ms. Maricar Suico-Le, 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 February 19, 2020, the following were also nominated and qualified as candidates to the AboitizPower Board of directors for the ensuing year 2020-2021:

Erramon I. Aboitiz
Mikel A. Aboitiz
Enrique M. Aboitiz
Emmanuel V. Rubio
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 ASM on April 27, 2020 or not later than April 6, 2020.

All other information regarding the positions and offices by the abovementioned nominees are integrated in Item 9 (a)(1) above.

(2) Officers for 2019-2020

Below is the list of AboitizPower's officers for 2019-2020 with their corresponding positions and offices held for the past five years. Unless otherwise indicated, the officers assumed their positions during AboitizPower's organizational meeting in 2019 for a term of one year

ERRAMON I. ABOITIZ

Chairman of the Board

Refer to Item 9 (a)(1) for the profile of Mr. Erramon I. Aboitiz.

MIKEL A. ABOITIZ

Vice Chairman of the Board of the Board

Refer to Item 9 (a)(1) for the profile of Mr. Mikel A. Aboitiz.

EMMANUEL V. RUBIO

Director/ President and Chief Executive Officer

Refer to Item 9 (a)(1) for the profile of Mr. Emmanuel V. Rubio.

JAIME JOSE Y. ABOITIZ

Director/ Executive Vice President – Chief Operating Officer

Refer to Item 9 (a)(1) for the profile of Mr. Jaime Jose Y. Aboitiz.

DANEL C. ABOITIZ

Director/ Senior Vice President – Government Relations and Regulatory Affairs of AboitizPower

Refer to Item 9 (a)(1) for the profile of Mr. Danel C. Aboitiz.

LUIS MIGUEL O. ABOITIZ

Executive Vice President – Chief Strategy Officer

Mr. Luis Miguel O. Aboitiz, 55 years old, Filipino, was appointed as Executive Vice President – Chief Strategy Officer of AboitizPower on May 21, 2018. He also previously served as Director of the Company from September 2018 to December 2019, 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.

Mr. Aboitiz is also currently Senior Vice President of AEV, a publicly-listed company, a position which he held since 2015. He is also Director and First Vice President of ACO. He also serves as Director and President of MORE; and Director of Abovant, ARI, APX1, APX2, TPI, Pilmico Animal Nutrition Corporation (PANC), TSI, TLI, Aboitiz InfraCapital, Inc., Sacasun, STEAG Power, and UnionBank, a publicly-listed company. He 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. 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.

ANTON MARI G. PERDICES

Senior Vice President and Chief Operating Officer – Power Distribution Group

Mr. Anton Mari G. Perdices, 47 years old, Filipino, appointed as Senior Vice President and Chief Operating Officer – Power Distribution Group effective January 1, 2020.

He currently serves as Chairman of the Board of Visayan Electric, Cotabato Light, Davao Light, CPPC, Enerzone Group; President of APX1 and APX2; and President and Chief Executive Officer of Abovant. He is also Director of ACI, SFELAPCO, THICI, and a member of the Board of Advisers of ACO.

Mr. Perdices was previously the President and Chief Operating Officer of Visayan Electric, where he was instrumental in encouraging collaboration across the Power Distribution Group, decentralizing customer service centers, and improving overall customer satisfaction. Prior to joining Visayan Electric in 2014, Mr. Perdices was connected with the Aboitiz Group's construction business unit, where he was instrumental in building relationship with key stakeholders and developing risk management and quality control, keeping with the highest standard and requirements of the oil and gas industry.

Mr. Perdices holds a Bachelor of Business Administration degree in Management Information Systems from Loyola College in Maryland, U.S.A, and completed the Advanced Management Program from Harvard Business School in Boston, Massachusetts, U.S.A. He is a member of the Cebu City Water Advisory Committee. He is not a director of any publicly-listed company.

ALEXANDER B. COO

Chief Operating Officer – Renewable Power Generation Group

Mr. Alexander B. Co, 48 years old, Filipino, was appointed as the Company's Chief Operating Officer – Renewable Power Generation Group effective January 1, 2020, where he focuses on the various renewable business units which operate the Company's run-of-river hydros, large hydros, geothermal, and solar plants.

He is currently Chairman of the Board of San Carlos Sun Power Inc. (Sacasun), President and Chief Operating Officer of ARI and MORE, Chief Executive Officer of APRI, and Director of Hedcor Group and LHC. Mr. Co previously served as President and Chief Operating Officer of APRI and Sacasun, and Vice President for Corporate Services of the Oil Business Units.

Prior to joining the Aboitiz Group, Mr. Co held various positions in Linde Philippines, Inc. and Linde Phil (South), Inc., where he served as Managing Director from April 2015 to September 2016, National Sales and Marketing Director from 2013 to 2015, and General Manager from 2012 to 2013.

Mr. Co graduated cum laude with a Bachelor of Science Degree in Chemical Engineering from the University of Santo Tomas. He has completed the Executive Education course from INSEAD Singapore and the Linde Executive Management Program from Linde University, Munich, Germany. He is not connected with any government agency or instrumentality. He is not a director of any publicly-listed company.

MARIA VERONICA C. SO

Group Treasurer

Ms. Maria Veronica C. So, 47 years old, Filipino, was appointed as AboitizPower's Group Treasurer effective January 1, 2020. She is also Group Treasurer and First Vice President – Group Treasurer of AEV, a publicly listed company.

She joined the Aboitiz Group as AEV's Vice President – Treasury Services in 2017 and was promoted to First Vice President - Deputy Group Treasurer under AEV's Treasury Services Group on April 1, 2019.

Prior to joining the Aboitiz Group, Ms. So held various treasury and finance positions at Globe Telecom from 2001 to 2017.

Ms. So holds a Masters degree in Business Management from the Asian Institute of Management and a Bachelor of Science degree in Business Management from Ateneo de Manila University. She is not connected with any government agency or instrumentality. She is not a director of any 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

Ex-Officio Member – Board Executive Committee

Ms. Liza Luv T. Montelibano, 44 years old, Filipino, was appointed as Senior Vice President/Chief Financial Officer/Corporate Information Officer on May 16, 2016.

Ms. Montelibano joined the Company as Chief Financial Officer-Power Generation Group on January 2, 2014 until she was promoted as First Vice President/ Chief Financial Officer/ Corporate Information Officer on May 18, 2015.

Ms. Montelibano is Director and Senior Vice President-Finance of ARI, and Director and Treasurer/Chief Financial Officer of AA Thermal, and Director of Cotabato Light, Davao Light, MORE, Visayan Electric, Hedcor Group, LHC, Subic Enerzone, AboitizPower International Pte. Ltd., and Archipelago Insurance Pte. Ltd. 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 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, 60 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 has a wealth of experience in management, investment banking, and private equity investing, with almost 40 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.

JOSEPH TRILLANA T. GONZALES

First Vice President – General Counsel and Compliance Officer
Ex-Officio Member – Board Corporate Governance Committee

Mr. Joseph Trillana T. Gonzales, 53 years old, Filipino, was appointed General Counsel of AboitizPower on January 1, 2015. He was appointed as the Company's First Vice President – General Counsel and 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 a member of good standing of the Integrated Bar of the Philippines. 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, 50 years old, Filipino, has been Corporate Secretary of AboitizPower since March 1, 2018. Mr. Colayco is concurrently Senior Vice President - Chief Legal Officer/Chief Compliance Officer/Corporate Secretary of AEV, a publicly listed company. He first joined the Aboitiz Group as AEV's First Vice President and Chief Legal Officer on July 11, 2016 and was appointed as AEV's Corporate Secretary and Compliance Officer on March 1, 2018.

Mr. Colayco has practiced 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 Ateneo de Manila University, and a Master of Laws degree from New York University School of Law in New York, U.S.A. He is a member of good standing of the Integrated Bar of the Philippines. 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, 38 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 until 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 and Assistant 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 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 of 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.

SAMMY DAVE A. SANTOS

Assistant Corporate Secretary

Mr. Sammy Dave A. Santos, 35 years old, Filipino, was appointed Assistant Corporate Secretary of AboitizPower on November 5, 2019. He is currently an Associate General Counsel for Governance and Compliance Team of AEV since July 2017.

Mr. Santos currently serves as Corporate Secretary of various Subsidiaries of the Aboitiz Group, and Assistant Corporate Secretary of the Good Governance Advocates and Practitioners of the Philippines (GGAPP).

Mr. Santos has experience in practice areas of corporate law, corporate structuring, special projects, corporate housekeeping, corporate governance, and compliance for non-listed and publicly-listed companies. Prior to joining the Aboitiz Group, he was Legal Counsel for Alliance Select Foods International, Inc. from 2016 to 2017. He was also Counsel for the Privatization Group and Office of Special Concerns of the Department of Finance in 2016. He was a Junior Associate at the Law Firm of Quiason Makalinta Barot Torres Ibarra Sison & Damaso from 2014 to 2016.

Mr. Santos earned his Juris Doctor degree from the Ateneo Law School in 2013 and was admitted to the Philippine Roll of Attorneys in 2014. He also holds a degree of Master of Science in Industrial Economics from the University of Asia and the Pacific. He is a member of good standing of the Integrated Bar of the Philippines. He is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.

MARNIE F. MAÑALAC

Data Privacy Officer

Ex-Officio Member – Board Risk and Reputation Management Committee

Ms. Marnie F. Mañalac, 53 years old, Filipino, was appointed as Data Privacy Officer effective January 1, 2020. She is concurrently Vice President for Risk and Organizational Performance Management of the Company. Ms. Mañalac also assumed the position of *Ex-officio* member of the Company's Board Risk and Reputation Management Committee. Prior to her appointment, Ms. Mañalac was Assistant Vice President for Organizational Performance and Portfolio Management.

Prior to joining the Aboitiz Group, she was an Independent Consultant and Trainer on Advanced Cost and Performance Management from 2008 to 2015, and served as Head of Activity-Based Costing & Management under the President and Chief Operating Officer of Meralco, where she also held various positions from 1990 to 2008.

Ms. Mañalac obtained her Bachelor of Science Degree in Industrial Engineering from the University of the Philippines. She is a Professional Industrial Engineer and a Certified Management Accountant. She is not connected with any government agency or instrumentality. She is not a director of any publicly-listed company.

SATURNINO E. NICANOR, JR.

Group Internal Audit Head

Mr. Saturnino E. Nicanor, Jr., 57 years old, Filipino, was appointed as Group Internal Audit Head of AboitizPower on July 26, 2018. He is concurrently the Company's Assistant Vice President for Internal Audit, a position which he has held since July 2017. 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 2018, 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 31, 2020

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 31, 2020, 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 31, 2020, AEV owns 77.00% of the voting shares of AboitizPower. In turn, ACO owns, as of March 31, 2020, 48.59% 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 four most highly compensated executive officers, as well as other directors and officers during the last two completed fiscal years and the ensuing fiscal year, are as follows:

Name of Officer and Principal Position*	Year	Salary	Bonus	Other Compensation
Chief Executive Officer and the Four Most Highly Compensated Officers:				
1. ERRAMON I. ABOITIZ - President & Chief Executive Officer (Chairman starting Jan 1, 2020) 2. EMMANUEL V. RUBIO - Chief Operating Officer (President & CEO starting Jan 1, 2020) 3. LIZA LUV T. MONTELIBANO - Senior Vice President/Chief Financial Officer/Corporate Information Officer 4. LUIS MIGUEL O. ABOITIZ - Executive Vice President & Chief Strategy Office 5. JOSEPH TRILLANA T. GONZALES - First Vice President - General Counsel and Compliance Officer				
All above named officers as a group	Actual 2019	₱98,270,000.00	₱14,110,000.00	₱8,180,000.00
	Actual 2018	₱203,300,000.00	₱9,370,000.00	₱17,730,000.00
	Projected 2020	₱104,200,000.00	₱15,000,000.00	₱8,700,000.00
All other officers and directors as a group	Actual 2019	₱17,200,000.00	₱1,130,000.00	₱26,270,000.00
	Actual 2018	₱60,790,000.00	₱3,470,000.00	₱34,180,000.00
	Projected 2020	₱18,200,000.00	₱1,200,000.00	₱27,800,000.00

* The most highly compensated officers in 2018 were Messrs. Erramon I. Aboitiz, Antonio Moraza (retired on August 31, 2018), Juan Antonio E. Bernad (retired on December 31, 2018), Emmanuel V. Rubio, Jaime Jose Y. Aboitiz, and Christopher B. Sangster (separated on November 5, 2019).

The 2014 Amended By-Laws of the Company, as approved by the Securities and Exchange Commission (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 2020, the Company's Summary of Compensation of Executive Officers 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 April 22, 2019 ASM, the directors receive a monthly allowance of ₱150,000.00, while the Chairman of the Board receives a monthly allowance of ₱200,000.00. In addition, each director/member and the Chairmen of the Board and the Board Committees receive a per diem for every Board or Board Committee meeting attended as follows:

Type of Meeting	Directors	Chairman of the Board
Board Meeting	₱150,000.00	₱200,000.00

Type of Meeting	Members	Chairman of the Committee
Board Committee Meeting	₱100,000.00	₱130,000.00

In compliance with Section 29 of the Revised Corporation Code, the total compensation of each of the Company's directors as of December 31, 2019 is as follows:

Name of Director	Total Compensation Received as a Director⁵
MIKEL A. ABOITIZ⁶ <i>Chairman of the Board of the Board</i>	₱4,520,000.00
ENRIQUE M. ABOITIZ⁷ <i>Vice Chairman of the Board of the Board</i>	₱2,950,000.00
ERRAMON I. ABOITIZ^{*8} <i>President and Chief Executive Officer</i>	₱2,620,000.00
LUIS MIGUEL O. ABOITIZ^{*9} <i>Director/ Executive Vice President – Chief Strategy Officer</i>	₱2,330,000.00
JAIME JOSE Y. ABOITIZ[*] <i>Director/ EVP and Chief Operating Officer – Power Distribution Group</i>	₱2,710,000.00
DANEL C. ABOITIZ[*] <i>Director</i>	₱1,830,000.00
ROMEO L. BERNARDO <i>Lead Independent Director</i>	₱4,100,000.00
CARLOS C. EJERCITO <i>Independent Director</i>	₱4,140,000.00
ERIC RAMON O. RECTO <i>Independent Director</i>	₱3,820,000.00

** A portion of the director's compensation was paid to their nominating company.*

(2) Other Arrangements

Other than payment of the directors' per diem and monthly allowance as stated, 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

⁵ Consisting of the monthly allowance and per diem. Per diem is based on the directors' attendance in the Board and Board Committee meetings, and their Committee memberships for the period January 1 to December 31, 2019.

⁶ Mr. Mikel A. Aboitiz was Chairman of the Board until December 31, 2019. He was appointed Vice Chairman on January 1, 2020. He became a member of the Board Corporate Governance Committee on December 11, 2019 only. He was a member of the Board Audit Committee and Board Risk and Reputation Management Committees until December 31, 2019.

⁷ Mr. Enrique M. Aboitiz was Vice Chairman of the Board until December 31, 2019. He was a member of the Board Audit Committee until December 31, 2019.

⁸ Mr. Erramon I. Aboitiz was President and Chief Executive Officer of AboitizPower, until his appointment as Chairman of the Board on January 1, 2020. He was Chairman of the Board Executive Committee until December 31, 2019.

⁹ Mr. Luis Miguel O. Aboitiz was Director of AboitizPower and Member of the Executive Committee until December 31, 2019. He currently holds the position of Executive Vice President-Chief Strategy Officer, and is no longer a director or Board Committee member of the Company.

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 31, 2020

Title of Class of Shares	Name and 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 Ownership
Common	1. Aboitiz Equity Ventures Inc. (AEV) ¹⁰ 32nd Street, Bonifacio Global City, Taguig City (Stockholder)	Aboitiz Equity Ventures Inc. ¹¹	Filipino	5,657,530,774 (Record and Beneficial)	76.88%
Common	2. PCD Nominee Corporation (Filipino) ¹² 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 ¹³	Filipino	1,028,832,249 (Record)	13.98%
Common	3. PCD Nominee Corporation (Foreign) ¹⁴ 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 ¹⁵	Non-Filipino	389,177,197 (Record)	5.29%

AEV is the public holding and management company of the Aboitiz Group, one of the largest conglomerates in the Philippines. As of March 31, 2020, the following entities own at least five per centum (5%) or more of AEV:

Title of Class of Shares	Name and Address of Stockholder and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares and Nature of Ownership (Record and/or Beneficial)	Percentage of Ownership
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)	48.59%
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	899,514,597 (Record)	15.98%

¹⁰ AEV is the parent company of AboitizPower.

¹¹ Mr. Sabin M. 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.

¹² PCD Nominee Corporation (Filipino and Foreign) is not related to the Company. The beneficial owners of the shares held through a PCD participant are the beneficial owners thereof to the extent of the number of shares registered under the respective accounts with the PCD participant.

¹³ 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 own more than 5% of the Company's common shares.

¹⁴ *Supra* note 3.

¹⁵ *Supra* note 4.

Title of Class of Shares	Name and Address of Stockholder and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares and Nature of Ownership (Record and/ or Beneficial)	Percentage of Ownership
Common	3. Ramon Aboitiz Foundation, Inc. 35 Lopez Jaena St., Cebu City (Stockholder)	Ramon Aboitiz Foundation, Inc.	Filipino	426,804,093 (Record and Beneficial)	7.58%
Common	4. 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	413,033,108 (Record)	7.34%

(2) Security Ownership of Management as of March 31, 2020 (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	Erramon I. Aboitiz Chairman of the Board	1,300,001	Direct	Filipino	0.02%
		85,597,214	Indirect		1.16%
Common	Mikel A. Aboitiz Vice Chairman of the Board	1	Direct	Filipino	0.00%
		23,844,159	Indirect		0.32%
Common	Enrique M. Aboitiz Director	1,138,658	Direct	Filipino	0.02%
		0	Indirect		0.00%
Common	Emmanuel V. Rubio Director/President and Chief Executive Officer	89,130	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	Jaime Jose Y. Aboitiz Director/Executive Vice President – Chief Operating Officer	5,367,397	Direct	Filipino	0.07%
		4,719,302	Indirect		0.06%
Common	Daniel C. Aboitiz Director/Senior Vice President – Government Relations and Regulatory	4,081,636	Direct	Filipino	0.06%
		458,760	Indirect		0.01%
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	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	Luis Miguel O. Aboitiz Executive Vice President – Chief Strategy Officer	11,167,081	Direct	Filipino	0.15%
		3,437,362	Indirect		0.04%
Common	Anton Mari G. Perdices Senior Vice President and Chief Operating Officer – Power Distribution Group	1,787,364	Direct	Filipino	0.02%
		103,899	Indirect		0.00%
Common	Alexander B. Co Chief Operating Officer – Renewable Power Generation Group	0	Direct	Filipino	0.00%
		0	Indirect		0.00%

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	Veronica C. So Group Treasurer	0	Direct	Filipino	0.00%
		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	Joseph Trillana T. Gonzales First Vice President - 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	Sammy Dave A. Santos Assistant Corporate Secretary	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	Marnie F. Mañalac Data Privacy Officer and Vice President for Risk and Organizational Performance Management	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	143,193,887			1.95%

(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 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.

In October 2019, the Board of Directors approved the Revised Related Party Transactions (RPT) Policy in compliance with the SEC Memorandum Circular No. 10 series of 2019. The new rule focuses and regulates only material RPTs or RPTs amounting to ten percent (10%) or higher of a company's total assets. The new rule also specified an approval process for material RPTs and mandates publicly listed companies to notify the SEC of their RPTs that breach the threshold. The Company's current revised RPT Policy continues to ensure that RPTs are conducted at arms-length and at market prices, and underwent the appropriate approval process. The Company is considering further revisions its current RPT Policy in order to align it with best corporate governance practices.

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 2019 Integrated Annual Corporate Governance Report (IACGR) will be filed with the SEC on or before May 30, 2020. The 2019 IACGR will also available in the Company's website at www.aboitzpower.com. Other reports such as the Company's Annual Corporate Governance Reports and the 2018 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 2019 to March 2020 are as follows:

Date Reported	Disclosure Details
April 10, 2019	Signing of Facility Agreement with Various Banks to partially finance the Acquisition of AA Thermal, Inc.
April 16, 2019	Press Release: Therma Visayas power plant now online
April 22, 2019	Appointment of Officer
April 22, 2019	Press Release: Therma Mobile signs Power Supply contract with Meralco
April 22, 2019	Results of the 2019 Annual Stockholders' Meeting
April 22, 2019	Results of the 2019 Organizational Meeting
April 30, 2019	First Quarter 2019 Financial and Operating Results
May 2, 2019	Completion of the Acquisition of AA Thermal, Inc.
May 2, 2019	Press Release: AboitizPower Q1 net income dips by 6% to ₱3.6 bn

Date Reported	Disclosure Details
May 22, 2019	Press Release: Iloilo City gets Cleanergy from AboitizPower
June 4, 2019	Press Release: WalterMart strengthens partnership with AboitizPower
July 3, 2019	Press Release: Widus Hotel and Casino Clark promotes sustainable tourism, switches to AboitizPower's Cleanergy
July 25, 2019	Appointments for Third Tranche Bonds of the ₱30 bn Bonds
July 30, 2019	Second Quarter 2019 Financial and Operating Results
July 31, 2019	Press Release: AboitizPower posts P8.6-bn first half net income
August 5, 2019	Press Release: Nestlé pursues renewable energy with AboitizPower
August 23, 2019	Filing of Third Tranche of ₱30 bn Bonds with SEC
August 23, 2019	AboitizPower International Pte. Ltd. Acquisition of Dam Nai Wind Project in Ninh Thuan Province, Southern Vietnam
August 30, 2019	Receipt of "PR3 Aaa" Rating from the Philippine Rating Services Corporation for Third Tranche of ₱30 bn Bonds
September 30, 2019	Receipt of the Certificate of Permit to Offer Securities for Sale from SEC in relation to the Company's Application for the Issuance of the Third Tranche of the ₱30 bn Bonds
October 7, 2019	Updating of the Company's Contact Details
October 14, 2019	Listing with the Philippine Dealing and Exchange Corporation of the Third Tranche of the ₱30 bn debt securities program, equivalent to ₱7.25 bn
October 28, 2019	Resignation of Officer
November 5, 2019	Appointment of Officers
November 5, 2019	Third Quarter 2019 Financial and Operating Results
November 6, 2019	Press Release: AboitizPower posts ₱13.5 bn net income from January to September 2019
November 22, 2019	Luzon Hydro Corporation's Filing of Petition for Prohibition and Mandamus with prayer for Temporary Restraining Order (TRO) and Preliminary Injunction to enjoin the Municipality of Alilem from auctioning its real properties located in Alilem, Ilocos Sur
December 2, 2019	Issuance of a TRO in favor of Luzon Hydro Corporation
December 3, 2019	Luzon Hydro Corporation's Filing of another Petition to enjoin the Municipality of Alilem from auctioning another set of its real properties located in Alilem, Ilocos Sur
December 16, 2019	Issuance of another TRO in favor of Luzon Hydro Corporation in relation to another set of its real properties located in Alilem, Ilocos Sur
December 26, 2019	Changes in Officers
January 28, 2020	Matters Approved by the Board during its January 28, 2020 Board Meeting
February 19, 2020	Nominees to the Board of Directors for 2020-2021
March 6, 2020	Amendment of Articles of Incorporation
March 6, 2020	Amendment of By-Laws
March 6, 2020	Matters Approved by the Board during its March 6, 2020 Board Meeting
March 6, 2020	Declaration of Regular Cash Dividends
March 6, 2020	Notice and Agenda of AboitizPower's Annual Stockholders' Meeting on April 27, 2020
March 9, 2020	Full Year 2019 Financial and Operating Results
March 10, 2020	Press Release: AboitizPower posts ₱17.3 bn net income in 2019
March 16, 2020	AboitizPower's Response to SEC's Notice re COVID-19
March 19, 2020	Revised Notice and Agenda of AboitizPower's Annual Stockholders' Meeting on April 27, 2020
March 30, 2020	Filing of Fourth Tranche of ₱30 bn Bonds with SEC

(c) Sustainability Report - Please refer to Annex C (Reporting Template for Sustainability Report).

The 2019 Aboitiz Group Annual Report and Sustainability Report (the "2019 Integrated Annual Report") is available for download at the Company's website at <https://abotizpower.com/investor-relations/latest-annual-report/>.

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 April 14, 2020.

By:



EMMANUEL V. RUBIO
Principal Executive Officer



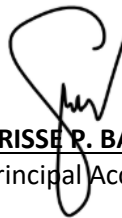
JAIME JOSE Y. ABOITIZ
Principal Operating Officer



LIZA LUV T. MONTELIBANO
Principal Financial Officer



MANUEL ALBERTO R. COLAYCO
Corporate Secretary



CHARISSE P. BACURIO
Controller/Principal Accounting Officer

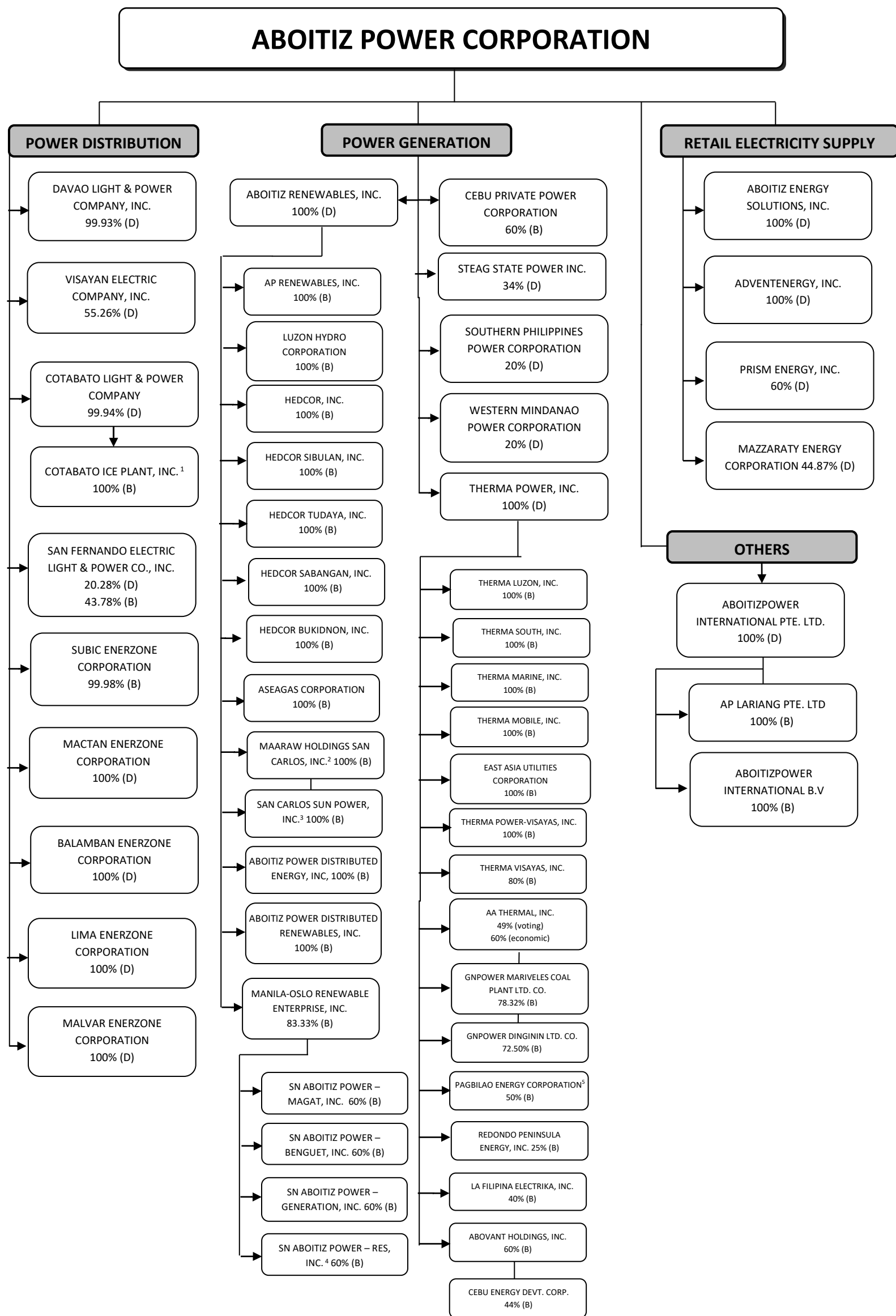
Before me, a notary public in and for the city named above, personally appeared:

NAME	GOVT ISSUED ID	DATE / PLACE OF ISSUE	CTC NO.	DATE / PLACE OF ISSUE
EMMANUEL V. RUBIO	Passport No. P3162364B	September 13, 2019 DFA Manila	07563412	January 15, 2020 Manila
JAIME JOSE Y. ABOITIZ	Passport No. P0268230B	January 16, 2019 DFA Manila	10983304	January 13, 2020 Cebu City
LIZA LUV T. MONTELIBANO	Passport No. P7070135A	May 7, 2018 DFA Manila	07562854	January 15, 2020 Manila
MANUEL ALBERTO R. COLAYCO	PhilHealth ID No. 01-052187303-0	-	-	-
CHARISSE P. BACURIO	Passport No. P7353282A	May 29, 2018 DFA NCR West	07563373	January 15, 2020 Manila

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 _____.

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 2020.

**Legend:**

B – Beneficial Ownership

D – Direct Ownership

¹ Other services² ARI has a 60% direct ownership in Maaraw San Carlos; AboitizPower International B.V. has a 40% direct ownership in Maaraw San Carlos³ ARI has a 75% direct ownership in Sacasun; AboitizPower International has 15% direct ownership in Sacasun⁴ Engages in Retail Electricity Supply Business⁵ Joint operations

AS OF MARCH 31, 2020

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	1	9	9	8	0	0	1	3	4	
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COMPANY NAME

[illegible]**PRINCIPAL OFFICE** (No. / Street / Barangay / City / Town / Province)[illegible]

Form Type

A	P	F	S
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Department requiring the report

C	R	M	D
---	---	---	---

Secondary License Type, If Applicable

N	/	A	
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COMPANY INFORMATION

Company's Email Address

ap_investor@aboitiz.com

Company's Telephone Number

(632) 8891-0307

Mobile Number

Not Available

No. of Stockholders

631

Annual Meeting (Month / Day)

4th Monday of April

Fiscal Year (Month / Day)

December 31**CONTACT PERSON INFORMATION**

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

Name of Contact Person

Liza Luv T. Montelibano

Email Address

liza.montelibano@aboitiz.com

Telephone Number/s

(02) 8886-2800

Mobile Number

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-out. 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.





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, 2019, 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 its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



ERRAMON I. ABOITIZ
Chairman of the Board



EMMANUEL V. RUBIO
President & Chief Executive Officer



LIZA LUV T. MONTELIBANO
SVP & Chief Financial Officer/Corporate Information Officer

Signed this 6th day of March 2020.

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
ERRAMON I. ABOITIZ	P2251997A 11082662	March 11, 2017; DFA Manila January 30, 2020; Cebu City
EMMANUEL V. RUBIO	P3162364B 07563412	September 13, 2019; DFA Manila January 15, 2020; Manila
LIZA LUV T. MONTELIBANO	P7070135A 07562854	May 7, 2018, DFA Manila January 15, 2020; Manila

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 10 2020.

Doc. No. 043;

Page No. 10;

Book No. 1;

Series of 2020


ATTY. CLARISSE ANN MARIE M. DE LA CRUZ
Notary Public for Taguig City
Notarial Commission No. 31
Until December 31, 2021
NAC Tower, 32nd St., Bonifacio Global City, Taguig City
PTR No. A-4684937; 02 January 2020; Taguig City
IBP No. 968268; Lifetime Member, Laguna Chapter
MCLE Compliance No. VI-0015599

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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2019 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.



- 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

Maria Veronica Andresa R. Pore

Partner

CPA Certificate No. 90349

SEC Accreditation No. 0662-AR-4 (Group A),

November 21, 2019, valid until November 20, 2022

Tax Identification No. 164-533-282

BIR Accreditation No. 08-001998-71-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125281, January 7, 2020, Makati City

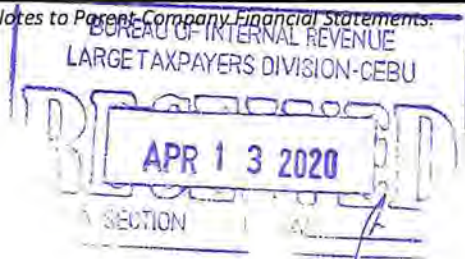
March 6, 2020



ABOITIZ POWER CORPORATION
PARENT COMPANY BALANCE SHEETS

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱4,210,064,412	₱11,875,188,311
Trade and other receivables (Note 5)	1,073,494,475	981,463,758
Derivative asset (Note 19)	—	855,000
Other current assets (Note 6)	889,854,388	941,778,180
Total Current Assets	6,173,413,275	13,799,285,249
Noncurrent Assets		
Investments and advances (Note 7)	120,634,208,641	88,931,823,265
Project development costs (Note 10)	623,339,367	388,468,001
Property and equipment (Note 8)	105,024,712	65,585,230
Derivative asset - net of current portion (Note 19)	80,134,271	—
Pension asset (Note 15)	—	38,061,504
Deferred income tax assets (Note 16)	—	101,466,266
Fair value through profit or loss (FVTPL) investment	—	97,535,436
Other noncurrent assets (Note 9)	16,375,794	89,121,203
Total Noncurrent Assets	121,459,082,785	89,712,060,905
TOTAL ASSETS	127,632,496,060	103,511,346,154
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 11)	627,503,138	356,110,573
Current portion of lease liabilities (Note 20)	13,886,300	—
Bank loans	—	4,700,000,000
Total Current Liabilities	641,389,438	5,056,110,573
Noncurrent Liabilities		
Long-term debts - net of deferred financing cost (Note 12)	50,079,825,067	22,997,821,292
Pension liability (Note 15)	219,744,469	—
Lease liabilities - net of current portion (Note 20)	37,715,847	—
Total Noncurrent Liabilities	50,337,285,383	22,997,821,292
Total Liabilities	50,978,674,821	28,053,931,865
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
Cash flow hedge reserve (Note 19)	80,134,271	—
Actuarial losses on defined benefit plan (Note 15)	(556,796,826)	(208,521,187)
Retained earnings (Note 13b)		
Appropriated	33,660,000,000	34,060,000,000
Unappropriated	23,522,985,155	21,658,436,837
Total Equity	76,653,821,239	75,457,414,289
TOTAL LIABILITIES AND EQUITY	₱127,632,496,060	₱103,511,346,154

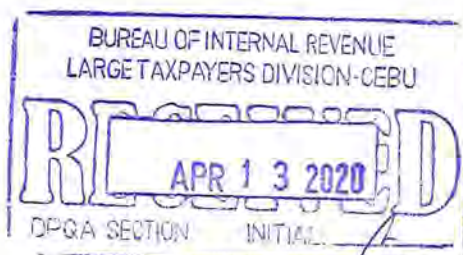
See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION
PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31		
	2019	2018	2017
REVENUE			
Dividends	₱13,985,410,862	₱9,736,042,939	₱9,792,258,034
Technical, management and other service fees (Note 17)	1,964,330,515	1,679,158,424	1,403,850,375
Interest income (Notes 4 and 17e)	163,380,755	137,277,764	147,551,430
	16,113,122,132	11,552,479,127	11,343,659,839
GENERAL AND ADMINISTRATIVE EXPENSES			
Interest and other financing charges (Notes 12 and 20)	2,547,531,855	1,042,597,749	674,025,682
Personnel (Note 14)	841,147,414	955,955,320	890,915,629
Service fees (Note 17)	114,024,341	63,850,939	82,072,061
Taxes and licenses	98,277,343	111,156,568	19,038,303
Professional fees (Note 17)	84,589,126	87,132,534	100,474,104
Transportation and travel (Note 17)	55,316,885	49,791,744	50,593,806
Depreciation and amortization (Notes 8 and 9)	35,961,127	23,345,806	22,220,782
Training	19,972,985	35,117,465	17,750,495
Entertainment, amusement and recreation	15,218,626	10,734,116	8,212,799
Advertising and sponsorships	11,935,333	17,017,558	22,272,248
Repairs and maintenance	7,583,781	6,518,422	6,839,603
Rent (Note 17)	7,027,319	27,559,033	28,159,917
Office supplies	6,106,790	3,515,178	5,013,861
Communication	3,756,593	2,647,639	2,982,031
Light and water	1,202,157	1,406,312	1,304,803
Project and bidding expenses (Note 10)	—	51,122,382	76,839,564
Others	9,621,206	7,770,467	8,917,061
	3,859,272,881	2,497,239,232	2,017,632,749
OTHER INCOME (CHARGES) - net			
Foreign exchange gains (loss) (Note 18)	104,238,709	(16,965,185)	69,842,921
Gain on redemption of preferred shares	—	—	19,558,250
Provision for impairment of investment in a subsidiary (Note 7)	—	(45,933,000)	(169,469,408)
Others	5,656,727	4,338,316	2,767,574
	109,895,436	(58,559,869)	(77,300,663)
INCOME BEFORE INCOME TAX	12,363,744,687	8,996,680,026	9,248,726,427
PROVISION FOR INCOME TAX (Note 16)	59,382,106	1,372,898	36,452,711
NET INCOME	12,304,362,581	8,995,307,128	9,212,273,716
EARNINGS PER COMMON SHARE (Note 13c)			
Basic and diluted, for net income for the year	₱1.67	₱1.22	₱1.25

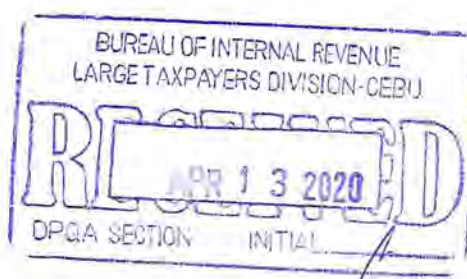
See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION**PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2019	2018	2017
NET INCOME	₱12,304,362,581	₱8,995,307,128	₱9,212,273,716
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gains (loss) on defined benefit plans (Note 15)	(258,909,416)	25,906,863	44,705,980
Income tax effect (Note 16)	(89,366,223)	(7,772,059)	(13,411,794)
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	(348,275,639)	18,134,804	31,294,186
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>			
Unrealized gain on AFS investments	—	—	2,685,599
Changes in fair value of cash flow hedge (Note 19)	80,134,271	—	—
Total other comprehensive income (loss) for the year, net of tax	(268,141,368)	18,134,804	33,979,785
TOTAL COMPREHENSIVE INCOME	₱12,036,221,213	₱9,013,441,932	₱9,246,253,501

See accompanying Notes to Parent Company Financial Statements.

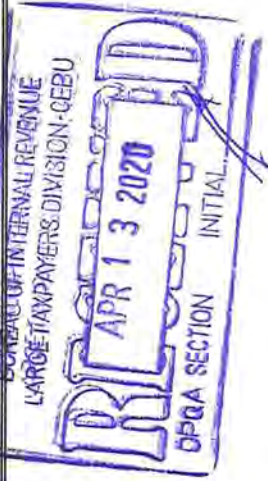


ABOITIZ POWER CORPORATION

**PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**

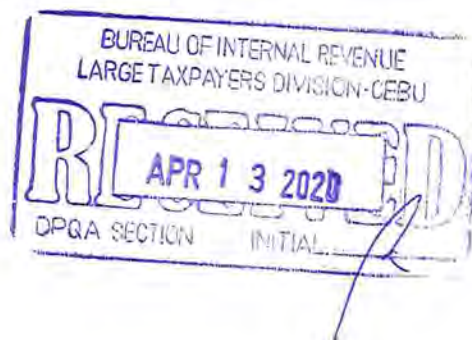
	Capital Stock (Note 13a)	Additional Paid-In Capital (Note 13a)	Cash Flow Hedge Reserve (Note 19)	Losses on Defined Benefit Plan	Retained Earnings (Note 13b)		Total
					Appropriated	Unappropriated	
Balances at January 1, 2019, as previously reported	₱7,358,604,307	₱12,588,894,332	₱—	(₱208,521,187)	₱34,060,000,000	₱21,658,436,837	₱75,457,414,289
Effect of adoption - PFRS 16 (Note 2)	—	—	—	—	—	(22,665,932)	(22,665,932)
Balances at January 1, 2019, as restated	7,358,604,307	12,588,894,332	—	(208,521,187)	34,060,000,000	21,635,770,905	75,434,748,357
Net income for the year	—	—	—	—	—	12,304,362,581	12,304,362,581
Other comprehensive income	—	—	80,134,271	(348,275,639)	—	—	(268,141,368)
Total comprehensive income	—	—	80,134,271	(348,275,639)	—	12,304,362,581	12,036,221,213
Cash dividends (Note 13b)	—	—	—	—	—	(10,817,148,331)	(10,817,148,331)
Appropriation during the year (Note 13b)	—	—	—	—	11,900,000,000	(11,900,000,000)	—
Reversal of appropriation (Note 13b)	—	—	—	—	(12,300,000,000)	12,300,000,000	—
Balances at December 31, 2019	₱7,358,604,307	₱12,588,894,332	₱80,134,271	(₱556,796,826)	₱33,660,000,000	₱23,522,985,155	₱76,653,821,239

	Capital Stock (Note 13a)	Additional Paid-In Capital (Note 13a)	Unrealized Valuation on AFS Investments	Losses on Defined Benefit Plan	Retained Earnings (Note 13b)		Total
					Appropriated	Unappropriated	
Balances at January 1, 2018, as previously reported	₱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	—	—	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 (Note 13a)	Unrealized Valuation on AFS Investments	Actuarial Losses on Defined Benefit Plan	Retained Earnings (Note 13b)		Total
					Appropriated	Unappropriated	
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

See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱12,363,744,687	₱8,996,680,026	₱9,248,726,427
Adjustments for:			
Interest and other financing charges (Notes 12 and 20)	2,547,531,855	1,042,597,749	674,025,682
Depreciation and amortization (Notes 8 and 9)	35,961,127	23,345,806	22,220,782
Provision for impairment of investment in a subsidiary (Note 7)	-	45,933,000	169,469,408
Project and bidding expenses (Note 10)	-	51,122,382	76,839,564
Gain on redemption of investments	-	-	(19,558,250)
Gain on disposal of financial assets at FVTPL	(1,250,542)	-	-
Losses (gain) on disposal of assets (Note 8)	(1,329,856)	1,253,111	418,659
Unrealized fair valuation loss (gain) on financial assets at FVTPL	(2,464,564)	1,839,395	-
Interest income (Notes 4 and 17e)	(163,380,755)	(137,277,764)	(147,551,430)
Unrealized foreign exchange losses (gain)	(605,762,999)	162,355,812	8,809,781
Operating income before working capital changes	14,173,048,953	10,187,849,517	10,033,400,623
Decrease (increase) in:			
Trade and other receivables	(123,992,097)	(428,309,647)	293,236,492
Other current assets	168,232,322	(2,764,943)	(145,859,575)
Pension asset	38,061,504	(3,730,594)	(16,196,106)
Increase (decrease) in:			
Trade and other payables	103,142,505	16,275,537	(171,627,870)
Pension liability	(39,164,947)	-	24,052,095
Net cash generated from operations	14,319,328,240	9,769,319,870	10,017,005,659
Income taxes paid	(168,612,212)	(173,434,916)	(159,547,151)
Net cash flows from operating activities	14,150,716,028	9,595,884,954	9,857,458,508
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	195,342,135	103,769,811	260,454,071
Decrease (Increase) in recoverable deposits	75,420,311	(75,710,456)	340,990
Proceeds from:			
Disposal of financial asset at FVTPL	101,250,542	-	-
Redemption on preferred shares (Note 7)	5,340,000	2,122,216,000	9,784,493,862
Disposal of property and equipment (Note 8)	4,344,811	5,998,846	1,966,529
Additions to:			
Investments and advances	(31,707,725,376)	(11,061,708,241)	(6,897,269,177)
Project development costs - net of transfers (Note 10)	(234,871,366)	(177,031,239)	(65,673,997)
Property and equipment (Note 8)	(29,851,823)	(14,283,786)	(39,018,488)
Computer software license (Note 9)	(4,535,865)	(93,500)	(20,982)
Net cash flows from (used in) investing activities	(31,595,286,631)	(9,096,842,565)	3,045,272,808
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debts (Note 12)	27,881,500,000	10,200,000,000	3,000,000,000
Availment of bank loans	-	4,700,000,000	-
Payments of:			
Cash dividends (Note 13b)	(10,817,148,331)	(10,228,459,986)	(10,007,701,858)
Bank loans	(4,700,000,000)	-	-
Interest and other financing charges	(2,301,301,047)	(878,938,176)	(699,256,650)
Transaction costs from availment of long-term debt	(431,396,357)	(121,924,252)	(32,938,058)
Lease liability (Note 20)	(17,825,560)	-	-
Net cash flows from (used in) financing activities	9,613,828,705	3,670,677,586	(7,739,896,566)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,830,741,898)	4,169,719,975	5,162,834,750
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	165,617,999	(120,700,812)	(51,319,781)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,875,188,311	7,826,169,148	2,714,654,179
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱4,210,064,412	₱11,875,188,311	₱7,826,169,148

See accompanying Notes to Parent Company Financial Statements



ABOITIZ POWER CORPORATION

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 and power distribution in the Aboitiz Group. As of December 31, 2019, Aboitiz Equity Ventures, Inc. (AEV, a publicly-listed Company incorporated in the Philippines) owns 76.98% of the Company. The Company's ultimate parent is Aboitiz & Company, Inc. (ACO).

The Company's registered office address is 32nd Street, Bonifacio Global City, Taguig City, Metro Manila.

The parent company financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) of the Company on March 6, 2020.

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

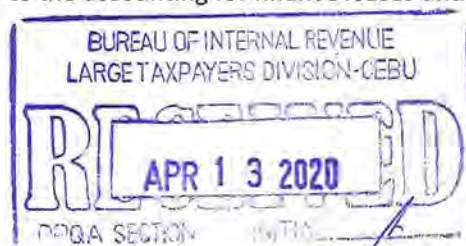
The parent company financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

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, 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

• PFRS 16, *Leases*

PFRS 16 was issued in January 2016 and it replaces Philippine Accounting Standard (PAS) 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. 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.



Lessor accounting under PFRS 16 is substantially unchanged from 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. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application without restating comparative information. The Company has elected to apply PFRS 16 transition relief to contracts that were previously identified as leases applying PAS 17 and IFRIC 4. The Company will therefore not apply PFRS 16 to contracts that were not previously identified as containing a lease applying PAS 17 and IFRIC 4.

The Company has elected to use the exemption proposed by the standard on the lease contracts for which the lease terms end within 12 months from the date of initial application. Lease payments on short term leases are recognized as expense on a straight-line basis over the lease term.

The effects of adoption on the financial statements are as follows:

	As at January 1, 2019
Increase (decrease) in balance sheets:	
Other current assets	(P5,021,619)
Property and, plant and equipment	46,702,778
Total Assets	P41,681,159
Lease liabilities	P64,347,091
Retained earnings	(22,665,932)
Total Liabilities and Equity	P41,681,159

Based on the above, as at January 1, 2019:

- Property and equipment were recognized amounting to P46.7 million representing the amount of right-of-use assets set up on transition date.
- Additional lease liabilities of P64.4 million were recognized.
- Prepayments of P5.0 million related to previous operating leases were derecognized.
- The net effect of these adjustments had been adjusted to retained earnings amounting to P22.7 million.

Prior to adoption of PFRS 16, the Company classified each of its leases (as lessee) at the inception dates as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the lease asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the lease property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payment



were recognized as rent expense in the statements of comprehensive income on a straight-line basis over the lease term. Any prepaid rent was recognized under "Other current assets."

Upon adoption of PFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

Leases previously accounted for as operating leases

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the following practical expedients provided by the standard:

- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics, and
- Apply the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application (short-term leases).

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

Operating lease commitments as at December 31, 2018	₱77,469,182
Incremental borrowing rate as at January 1, 2019	8.52%
Lease liabilities as at January 1, 2019	₱64,347,091

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

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

This amendment does not have an impact on the 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.

Since the Company's current practice is in line with these amendments, these amendments do not have any effect on its financial statements.

- 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). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such 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 associates and joint ventures, the amendments do not have an impact on its 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, *Income Taxes*, 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

The entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Company has assessed whether it has any uncertain tax position. The Company applies significant judgement in identifying uncertainties over its income tax treatments. The Company determined, based on its assessment, that it is probable that its uncertain tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the financial statements.

- *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.

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.

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.

Since the Company's current practice is in line with these amendments, these amendments do not have any effect on its financial statements.

New Standards and Interpretation Issued and Effective after December 31, 2019

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 financial statements.

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 is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after 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 - Classification and Measurement in Accordance with PFRS 9 (applicable in 2019 and 2018)

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, 2019 and 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 Fair Value through Other Comprehensive Income (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, 2019 and 2018.

Financial assets at Fair Value through Profit or Loss (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 are measured at FVTPL 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 which comprise of trade and other payables, bank loans, long-term debts and lease liability (see Note 18).

Reclassifications of financial instruments

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.

Financial Instruments - Initial Recognition and Subsequent Measurement in Accordance with PAS 39 (applicable in 2017)

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 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 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.

(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.

(c) HTM investments

HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Parent 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 Parent 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.

(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.

(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.

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 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 and interest rate swaps (IRS) to hedge its foreign currency risks and interest rate risk, respectively.

For the purpose of hedge accounting, the Company's hedge 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 Company 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 Company 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 Company 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 Company's hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedge

The effective portion of the gain or loss on the hedging instrument is recognized in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the parent company statement of income. The cash flow hedge reserve 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 Company uses IRS contracts to manage its floating interest rate exposure on its loans. The ineffective portion relating to these contracts are recognized in other operating income or expenses as realized gain or loss on derivative instruments.

The Company designated its IRS 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 profit or loss 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.

As of December 31, 2019 and 2018, the Company has derivative assets classified as financial asset at FVTPL (see Note 19).



Derecognition of Financial Assets and Liabilities

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 in Accordance with PFRS 9 (applicable in 2019 and 2018)

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.

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.

Impairment of Financial Assets in Accordance with PAS 39 (applicable in 2017)

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 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 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 consolidated statement of income) is removed from 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 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.

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.

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 comprises 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 cost 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.

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 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. The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end to ensure that the periods, residual values and method of depreciation are consistent with the expected pattern of economic benefit from the items of property and equipment.

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.

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.



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, 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.

Investments and advances

The Company performs impairment review on its investments and advances whenever an impairment indicator exists. This requires an estimation of the value in use of the investees. Estimating the value in use requires the Company to make an estimate of the future cash flows of the investees and to use a suitable discount rate to calculate the present value of those future cash flows. Impairment losses, if any, are recognized in the 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 "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. 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.

Leases (prior to adoption of PFRS 16)

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).

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 statement of income on a straight-line basis over the lease term.

Leases (upon adoption of PFRS 16)

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

Effective January 1, 2019, it is the Company's policy to classify right-of-use assets as part of property and equipment. Prior to that date, all of the Company's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the balance sheet. The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets only pertain to office spaces and are depreciated on a straight-line basis over the shorter of the lease term of 5 to 10 years and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.



In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases

The Company applies the short-term lease recognition exemption to its short-term leases of conference rooms (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

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 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.

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, 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 account profit nor taxable profit or loss.

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, 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.

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.

Earnings Per Common Share

Basic earnings per common share are computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after retroactive adjustments for any stock dividends declared and stock rights exercised during the year.

Diluted earnings per share amounts are calculated by dividing the net income for the year 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 Company does not have dilutive common stock equivalents.

3. Significant Accounting Judgment, Estimates and Assumptions

The preparation of the Company's parent company financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and related notes. The judgment, estimates and assumptions used in the parent company financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Company's parent company financial statements. Actual results could differ from such estimates. Judgments, estimates and assumptions 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 following items are those matters which the Company assess to have significant risk arising from judgement and estimation uncertainty:

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 under PFRS 9 in 2019 and 2018

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 under PFRS 9 in 2019 and 2018

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 under PFRS 15 in 2019 and 2018

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 under PFRS 15 in 2019 and 2018

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 under PFRS 15 in 2019 and 2018

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.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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 described below.

Measurement of expected credit losses under PFRS 9 in 2019 and 2018

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 2019 and 2018. Trade and other receivables amounted to ₱1.1 billion and ₱1.0 billion as of December 31, 2019 and 2018, respectively (see Note 5).



Inputs, assumptions and estimation techniques under PFRS 9 in 2019 and 2018

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 under PFRS 9 in 2019 and 2018

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 under PFRS 9 in 2019 and 2018

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.

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. No impairment loss recognized in 2019 and 2018. The aggregate carrying amount of the investments in and advances to subsidiaries and associates amounted to ₱120.6 billion and ₱88.9 billion as of December 31, 2019 and 2018, respectively (see Note 7).



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 2019 and 2018. The carrying amount of the Company's project development costs amounted to ₱623.3 million and ₱388.5 million as of December 31, 2019 and 2018, respectively (see Note 10).

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, 2019 and 2018, the net book values of property and equipment amounted to ₱105.0 million and ₱65.6 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, 2019 and 2018, the aggregate net book values of property and equipment amounted to ₱105.0 million and ₱65.6 million, respectively (see Note 8).

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, 2019, the carrying values of property and equipment and other current and noncurrent assets amounted to ₱105.0 million, ₱889.9 million, and ₱16.4 million, respectively. 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 (see Notes 6, 8, and 9).

Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure its lease liability. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates. The Company's lease liability amounted to ₱51.6 million as of December 31, 2019 (see Note 20).

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 ₱29.8 million in 2019, ₱41.9 million in 2018 and ₱50.0 million in 2017. Net pension liability amounted to ₱219.7 million as of December 31, 2019. Net pension asset amounted to ₱38.1 million as of December 31, 2018 (see Note 15).

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. Deferred income tax asset amounted to ₱130.3 million and ₱202.3 million as of December 31, 2019 and 2018, respectively (see Note 16).

No deferred income tax assets were recognized for deductible temporary difference and carryforward benefit from unused NOLCO and excess MCIT as disclosed in 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, 2019 and 2018.

4. Cash and Cash Equivalents

	2019	2018
Cash on hand and in banks	₱25,680,412	₱33,107,511
Short-term deposits	4,184,384,000	11,842,080,800
	₱4,210,064,412	₱11,875,188,311

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 Company and earn interest at the respective short-term deposits rates.

Interest income earned from cash in banks and short-term deposits amounted to ₱163.4 million, ₱137.3 million and ₱147.6 million in 2019, 2018 and 2017, respectively.

5. Trade and Other Receivables

	2019	2018
Trade (see Note 17)	₱1,027,767,981	₱617,445,732
Nontrade	18,428,595	18,406,566
Interest (see Note 17)	11,816,301	43,777,681
Dividends	—	288,579,777
Others	15,481,598	13,254,002
	₱1,073,494,475	₱981,463,758

Trade receivables are non-interest bearing and are generally on 30 days' term.

For terms and conditions relating to related party receivables, refer to Note 17.

6. Other Current Assets

	2019	2018
Prepaid tax	₱878,228,543	₱926,898,393
Others	11,625,845	14,879,787
	₱889,854,388	₱941,778,180



7. Investments and Advances

The details of the Company's investments and advances follow:

	2019	2018
<i>Investments in Subsidiaries</i>		
Therma Power, Inc. (TPI)	₱30,116,058,873	₱30,116,058,873
Aboitiz Renewables, Inc. (ARI)	25,172,988,814	25,172,988,814
Therma Visayas, Inc. (TVI)	7,118,681,570	7,118,681,570
Hedcor Bukidnon, Inc. (Hedcor Bukidnon)	2,997,000,000	2,794,460,000
Hedcor Sabangan, Inc. (Hedcor Sabangan)	1,732,643,142	1,732,643,142
Lima Enerzone Corporation (LEZ)	1,329,696,667	1,329,696,667
Hedcor, Inc. (HI)	974,875,000	605,125,000
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	665,438,202
Hedcor Tudaya, Inc. (HTI)	656,250,000	656,250,000
Mactan Enerzone Corporation (MEZC)	609,532,287	609,532,287
Balamban Enerzone Corporation (BEZC)	444,869,161	444,869,161
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	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
Malvar Enerzone Corporation (Malvez)	70,400,000	17,900,000
AP Renewable Energy Corporation (APREC)	25,000,000	25,000,000
Aboitiz Energy Solutions, Inc. (AESI)	21,000,000	21,000,000
Cebu Private Power Corporation (CPPC)	17,806,608	17,806,608
Prism Energy, Inc. (PEI)	12,648,600	12,648,600
AdventEnergy, Inc. (AI)	812,500	812,500
	75,122,161,354	74,497,371,354
<i>Investments in Associates</i>		
AA Thermal, Inc.	31,082,935,376	—
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)	163,935,000	169,275,000
Western Mindanao Power Corporation (WMPC)	79,099,377	79,099,377
Southern Philippines Power Corporation (SPPC)	45,776,067	45,776,067
	37,020,755,778	5,943,160,402
Less allowance for impairment loss	1,071,358,480	1,071,358,480
	111,071,558,652	79,369,173,276
<i>Advances</i>	9,562,649,989	9,562,649,989
	₱120,634,208,641	₱88,931,823,265



Investment in Malvez

The Company subscribed additional 47.61 million and 17.8 million Redeemable Preferred Shares (RPS) for ₱47.6 million and ₱17.8 million, in 2019 and 2018 respectively.

Investment in HI

The Company subscribed additional 369.75 million RPS for ₱369.75 million and 360.1 million RPS for ₱360.1 million in 2019 and 2018, respectively.

Investment in Hedcor Bukidnon

In 2019, the Company subscribed additional 202.5 million RPS for ₱202.5 million.

Investment in AA Thermal, Inc.

On May 2, 2019, the Company completed its acquisition of a 49% voting stake and a 60% economic stake in AA Thermal, Inc., AC Energy's thermal platform in the Philippines.

This follows the execution of a share purchase agreement for the transaction in 2018, and the completion of all conditions precedent. The Philippine Competition Commission approved the transaction last February 28, 2019. The transaction is valued at ₱30.2 billion, after adjustments.

AA Thermal has interests in GMCP, the owner and operator of an operating 2x316 MW coal plant in Mariveles, Bataan, and in GNPDP, the developer and owner of a 2x668 MW supercritical coal plant project in Dinginin, Bataan, which is currently under construction.

The completion of the transaction increases the Company's economic interests in GMCP, and GNPDP to 78.3%, and 70%, respectively.

In 2019, the Company subscribed additional RPS amounting to USD 18.1 million (₱929.3 million)

Investment in AAI

AAI redeemed shares attributable to the Company at 5,340 RPS for ₱5.34 million and 80,216 RPS for ₱80.2 million in 2019 and 2018, respectively at ₱1,000 per share

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 reclassified 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 TVI

The Company subscribed additional 8.8 million RPS for ₱5.38 billion in 2018.

Investment in ARI

In 2018, ARI redeemed shares attributable to the Company at 200.0 million RPS for ₱2.00 billion at ₱10 per share.

Advances

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.

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:

Name of Company	Nature of Business	2019		2018	
		Direct	Indirect	Direct	Indirect
TPI	Holding company	100.00%	—	100.00%	—
ARI	Holding company	100.00%	—	100.00%	—
TVI*	Power generation	—	80.00%	—	80.00%
Hedcor Bukidnon	Power generation	—	100.00%	—	100.00%
Hedcor Sabangan	Power generation	—	100.00%	—	100.00%
LEZ	Power distribution	100.00%	—	100.00%	—
HI	Power generation	—	100.00%	—	100.00%
Therma South	Power generation	—	100.00%	—	100.00%
Therma Mobile	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%	—	100.00%
MEZC	Power distribution	100.00%	—	100.00%	—
BEZC	Power distribution	100.00%	—	100.00%	—
SEZC	Power distribution	65.00%	34.98%	65.00%	34.98%
CLPC	Power distribution	99.94%	—	99.94%	—
RI**	Power generation	—	100.00%	—	100.00%
EAUC	Power generation	50.00%	50.00%	50.00%	50.00%
Malvez**	Power distribution	100.00%	—	100.00%	—
AP Int	Holding company	100.00%	—	100.00%	—
APREC**	Power generation	—	100.00%	—	100.00%
AESI	Retail electricity supplier	100.00%	—	100.00%	—
CPPC	Power generation	60.00%	—	60.00%	—
PEI	Retail electricity supplier	60.00%	—	60.00%	—
AI	Retail electricity supplier	100.00%	—	100.00%	—

*No commercial operations as of December 31, 2018.

** No commercial operations as of December 31, 2019



The percentage of the Company's ownership in associates is as follows:

Name of Company	Nature of Business	Percentage of Ownership	
		2019	2018
AAI	Service	49.25%	49.25%
AA Thermal, Inc.	Holding company	49.00%	—
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, 2019

	Transportation Equipment	Office Equipment	Communication Equipment	Leasehold Improvements	Right-of-use asset - Office Space	Total
Cost:						
Balances at beginning of year, as previously stated	₱70,562,199	₱38,119,555	₱752,009	₱39,504,153	₱—	₱148,937,916
Effect of adoption - PFRS 16 (see Note 2)	—	—	—	—	46,702,778	46,702,778
Balances at beginning of year, as restated	70,562,199	38,119,555	752,009	39,504,153	46,702,778	195,640,694
Additions	20,357,166	8,354,518	—	1,140,139	—	29,851,823
Disposals	(8,333,130)	(42,857)	—	—	—	(8,375,987)
Balances at end of year	82,586,235	46,431,216	752,009	40,644,292	46,702,778	217,116,530
Accumulated Depreciation:						
Balances at beginning of year	33,327,228	32,611,441	752,009	16,662,008	—	83,352,686
Depreciation	13,451,801	5,207,053	—	3,950,625	11,490,685	34,100,164
Disposals	(5,361,032)	—	—	—	—	(5,361,032)
Balances at end of year	41,417,997	37,818,494	752,009	20,612,633	11,490,685	112,091,818
Net Book Values	₱41,168,238	₱8,612,722	₱—	₱20,031,659	₱35,212,093	₱105,024,712

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	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



The Company recognized gain of ₱1.3 million on disposal of property and equipment in 2019 and loss of ₱1.3 million in 2018. 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 ₱42.9 million and ₱50.1 million as of December 31, 2019 and 2018, respectively, are still carried in the books of the Company and still in use.

9. Other Noncurrent Assets

	2019	2018
Computer software licenses	₱10,589,929	₱7,915,027
Recoverable deposits	5,785,865	81,206,176
	₱16,375,794	₱89,121,203

The rollforward analysis of computer software licenses is presented below:

	2019	2018
Cost:		
Balances at beginning of year	₱16,691,665	₱16,598,165
Additions	4,535,865	93,500
Balances at end of year	21,227,530	16,691,665
Accumulated amortization:		
Balances at beginning of year	8,776,638	7,174,155
Amortization for the year	1,860,963	1,602,483
Balances at end of year	10,637,601	8,776,638
Net book values	₱10,589,929	₱7,915,027

10. Project Development Costs

	2019	2018
Balances at beginning of year	₱388,468,001	₱262,559,144
Additions	234,871,366	177,031,239
Write-offs	—	(51,122,382)
Balances at end of year	₱623,339,367	₱388,468,001

Project development costs consist of rights, titles and interests for various power plant development projects.



11. Trade and other payables

	2019	2018
Trade payables (see Note 17)	₱45,852,175	₱55,903,519
Accrued interest (see Note 12)	380,430,960	212,180,900
Accrued taxes and fees	93,395,503	43,272,258
Output VAT	57,142,953	38,456,614
Nontrade payables	49,736,029	5,609,030
Others	945,518	688,252
	₱627,503,138	₱356,110,573

Trade payables are noninterest-bearing and generally on 30-day term. Accrued taxes and fees represent taxes withheld on compensation, benefits, interests 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. These have been fully paid in 2019.

Interest expense on bank loans amounted to ₱380.3 million and ₱140.9 million in 2019 and 2018, respectively.

Long-Term Debts

	Interest Rate	2019	2018
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	7,700,000,000
2018 10-year retail bonds	8.51%	2,500,000,000	2,500,000,000
2019 5-year long-term loan	LIBOR + 1.20%	15,190,500,000	—
2019 7-year retail bonds	5.28%	7,250,000,000	—
2019 7-year long-term loan	5.28%	5,000,000,000	—
		50,640,500,000	23,200,000,000
Less deferred financing costs		560,674,933	202,178,708
		₱50,079,825,067	₱22,997,821,292

Long-term Loan - ₱5.0 billion

In November 2019, the Company obtain a ₱5.0 billion 7-year long term loan from the BDO Unibank, Inc. at a fixed rate of 5.28% p.a.



Under the facility agreement, the Company shall not incur any obligation with a maturity of more than 1 year, if on the date of such borrowing, the net debt to consolidated equity ratio will exceed 3:1. The Company is in compliance with the debt covenants as of December 31, 2019.

Dollar Loan - \$300 million

On April 2019, the Company executed and availed a US\$300,000,000 syndicated bridge loan facility loan agreement with DBS Bank Ltd., Mizuho Bank, Ltd., MUFG Bank, Ltd., and Standard Chartered Bank as lead arrangers and bookrunners to finance the AA Thermal, Inc. acquisition. The loan bears a floating interest based on credit spread over applicable LIBOR plus 1.2% margin. The loan will mature on the 5th anniversary of the first utilization date.

Under the facility agreement, the Company shall ensure that the net consolidated debt to net consolidated equity ratio is not more than 3:1 at all times and the leverage ratio is not more than 5:50:1 at all times. The Company is in compliance with the debt covenants as of December 31, 2019.

Retail Bonds - ₱7.25 billion

In October 2019, the Company issued ₱7.25 billion 7-year bond due 2026 at a fixed rate of 5.28% p.a. The bonds have been rated PRS Aaa by PhilRatings.

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, 2019.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱560.7 million and ₱202.2 million as of December 31, 2019 and 2018, respectively.

Total interest expense recognized amounted to ₱2.1 billion, ₱858.2 million and ₱630.5 million in 2019, 2018 and 2017, respectively.



13. Equity and Earnings per Common Share

a. Paid-in Capital

	2019	2018
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, 2019, 2018 and 2017, the Company has 631, 629 and 629 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, 2019 and 2018.



b. Retained Earnings

As of December 31, 2019 and 2018, the Company has an appropriated retained earnings amounting to ₱33.66 billion and ₱34.06 billion, respectively, with regards to the development and construction of power plants. The BOD has approved the appropriation of ₱13.16 billion and ₱20.90 billion on November 24, 2016 and November 27, 2014, respectively.

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.

On March 7, 2019, the BOD approved the declaration of regular cash dividends of ₱1.47 per share (₱10.82 billion) to all stockholders of record as of March 21, 2019. These dividends were paid on April 5, 2019.

On March 7, 2019, the BOD also approved the following:

- Appropriation of ₱11.90 billion retained earnings for the equity infusion 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.

To comply with the requirements of Section 43 of the Corporation Code, on March 6, 2020, the BOD approved the declaration of regular cash dividends of ₱1.18 a share (₱8.68 billion) to all stockholders of record as of March 20, 2020. The cash dividends are payable on April 3, 2020.

c. Earnings per Common Share

Earnings per common share amounts were computed as follows:

	2019	2018	2017
a. Net income	₱12,304,362,581	₱8,995,307,128	₱9,212,273,716
b. Weighted average number of common shares issued and outstanding	7,358,604,307	7,358,604,307	7,358,604,307
c. Earnings per common share (a/b)	₱1.67	₱1.22	₱1.25



14. Personnel Costs

	2019	2018	2017
Salaries and wages	₱572,060,660	₱562,610,627	₱533,005,712
Employee benefits	239,240,032	351,449,279	307,935,888
Retirement benefit costs (see Note 15)	29,846,722	41,895,414	49,974,029
	₱841,147,414	₱955,955,320	₱890,915,629

15. Retirement Costs

The Company has a funded, non-contributory, 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):

	2019	2018	2017
Retirement expense to be recognized in the parent company statements of income:			
Current service cost	₱32,960,153	₱42,726,275	₱48,922,746
Net interest cost (income)	(3,113,431)	(830,861)	1,051,283
	₱29,846,722	₱41,895,414	₱49,974,029

Remeasurement effect to be recognized in other comprehensive income:

	2019	2018	2017
Actuarial gains (loss) due to:			
Experience adjustments	(₱197,172,700)	(₱4,861,370)	(₱43,972,045)
Changes in financial assumptions	(61,716,402)	44,542,333	1,172,525
Actual return excluding amount included in net interest cost	(20,314)	(13,774,100)	9,300,494
Changes in demographic assumptions	—	—	78,205,006
	(₱258,909,416)	₱25,906,863	₱44,705,980



Pension liability (asset)

	2019	2018
Present value of obligation	₱533,382,355	₱402,201,925
Fair value of plan assets	(313,637,886)	(440,263,429)
	₱219,744,469	(₱38,061,504)

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

	2019	2018
At January 1	₱402,201,925	₱633,459,869
Net benefit expense:		
Current service cost	32,960,153	42,726,275
Interest cost	32,900,117	32,496,491
	65,860,270	75,222,766
Benefits paid	(207,506,511)	(252,616,884)
Employee transfers	13,937,569	(14,182,863)
Remeasurements in other comprehensive income:		
Actuarial gain (loss) due to:		
Experience adjustments	197,172,700	4,861,370
Changes in financial assumptions	61,716,402	(44,542,333)
	258,889,102	(39,680,963)
At December 31	₱533,382,355	₱402,201,925

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

	2019	2018
At January 1	₱440,263,429	₱649,655,975
Actual contributions	30,950,165	37,853,949
Interest income included in net interest cost	36,013,548	33,327,352
Benefits paid	(207,506,511)	(252,616,884)
Transfers	13,937,569	(14,182,863)
Actual return excluding amount included in net interest cost	(20,314)	(13,774,100)
At December 31	₱313,637,886	₱440,263,429

Changes in pension liability (asset) recognized in the parent company balance sheets are as follows:

	2019	2018
At January 1	(₱38,061,504)	(₱16,196,106)
Actual contributions	(30,950,165)	(37,853,949)
Actuarial loss (gain) recognized for the year	258,909,416	(25,906,863)
Retirement expense for the year	29,846,722	41,895,414
At December 31	₱219,744,469	(₱38,061,504)



The fair value of plan assets by each class at the end of the reporting period are as follows:

	2019	2018
Assets:		
Financial assets at FVOCI	₱278,197,078	₱278,119,312
Equity instruments - financial institution:		
Financial assets at amortized cost	65,141,440	79,558,475
Holding	5,305	56,066,878
Power	56,654,455	49,415,685
Financial institution	11,190,644	12,686,517
Others	191,025,973	195,487,284
	602,214,895	671,334,151
Liability:		
Financial liability	(288,577,009)	(231,070,722)
Fair value of plan assets	₱313,637,886	₱440,263,429

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, 2019, 2018 and 2017 in determining net pension liability for the Company's Plan is shown below:

	2019	2018	2017
Discount rate	4.92%	8.18%	5.13%
Salary increase rate	6.00%	7.00%	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, 2019 and 2018, respectively, assuming all other assumptions were held constant:

	Increase (decrease) in basis points	Effect on defined benefit obligation	
		2019	2018
Discount rates	100	(₱30,900,955)	(₱18,442,461)
	(100)	35,877,896	21,068,425
Future salary increases	100	37,627,187	23,118,029
	(100)	(33,087,992)	(20,609,365)

The Company's defined benefit pension plan is funded by the Company.

The Company expects to contribute ₱37.3 million to the defined benefit plans in 2020. The average duration of the defined benefit obligation as of December 31, 2019 and 2018 is 14.86 and 12.94 years respectively.



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

Details of provision for income tax are as follows:

	2019	2018	2017
Current:			
Corporate income tax	₱21,180,971	₱23,267,247	₱18,946,168
Final	26,101,092	15,959,091	10,440,532
	47,282,063	39,226,338	29,386,700
Deferred	12,100,043	(37,853,440)	7,066,011
	₱59,382,106	₱1,372,898	₱36,452,711

The provision for corporate income tax represents MCIT in 2019, 2018 and 2017.

Reconciliation between the statutory income tax rate and the Company's effective income tax rates follows:

	2019	2018	2017
At statutory rate of 30%	₱3,709,123,406	₱2,699,004,008	₱2,774,617,928
<i>Additions to (reductions in)</i>			
<i>income tax resulting from:</i>			
Movement on unrecognized deferred income tax asset on:			
NOLCO	568,058,043	181,865,467	125,884,718
Unamortized past service cost	49,398,725	—	—
MCIT	21,180,971	15,959,091	10,440,532
Pension liability	(101,115,717)	—	—
Provision for impairment loss on investment in a subsidiary	—	13,779,900	50,840,822
Final tax on interest income	26,101,092	23,267,247	18,946,168

(Forward)



	2019	2018	2017
Nondeductible expenses:			
Interest expense	₱15,570,740	₱13,590,499	₱14,607,592
Project and bidding expenses	–	15,336,715	23,051,869
Others	14,986,699	14,363	5,921
Dividend income	(4,195,623,259)	(2,920,812,882)	(2,937,677,410)
Interest income already subjected to final tax at a lower rate	(47,184,062)	(41,183,329)	(44,265,429)
Others	(1,114,532)	551,819	–
	₱59,382,106	₱1,372,898	₱36,452,711

The components of the Company's net deferred income tax assets (liability) are as follows:

	2019	2018
Deferred income taxes recognized in the parent company statement of income:		
Deferred income tax assets:		
NOLCO	₱130,308,641	₱–
Unamortized past service cost	–	61,464,468
Unrealized foreign exchange loss	–	51,420,259
	130,308,641	112,884,727
Deferred income tax liabilities:		
Unrealized foreign exchange gain	(130,308,641)	–
Pension liability	–	(100,784,684)
	(130,308,641)	(100,784,684)
Deferred income tax asset related to remeasurement effects in the parent company statements of other comprehensive income	–	89,366,223
	₱–	₱101,466,266

As of December 31, 2019, 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
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
2019	2020-2022	21,180,971	–	–	21,180,971
		₱69,842,637	₱–	₱22,262,045	₱47,580,592



As of December 31, 2019, 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
2017	2018-2020	₱419,615,728	₱—	₱—	₱419,615,728
2018	2019-2021	606,218,323	—	—	606,218,323
2019	2020-2022	2,327,888,945	—	—	2,327,888,945
		₱3,353,722,996	₱—	₱—	₱3,353,722,996

No deferred income tax assets have been recognized in 2019 and 2018 on the following temporary differences as it is probable that no sufficient taxable income will be available to allow the benefit of the net deferred income tax assets to be utilized:

	2019	2018
NOLCO	₱2,919,360,861	₱1,025,834,051
Pension liability	219,744,469	—
Unamortized past service cost	164,662,418	—
MCIT	47,580,592	48,661,666

No deferred income tax has been recognized on the impairment of investment in subsidiaries amounting to ₱1.1 billion as of December 31, 2019 and 2018 as management's intention of recovering this amount through future dividend which exempt from income tax.

The Company has unrecognized deductible and taxable temporary differences that arises from the initial recognition of the lease liability and the right-of-use asset upon adoption of PFRS 16 which affects neither the accounting profit nor taxable profit or loss as at January 1, 2019 amounting to ₱64.4 million and ₱46.7 million, respectively.

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:

- 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.
- 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 of December 31, 2019, 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, Pagbilao Energy Corporation (PEC), Hedcor Bukidnon, STEAG, and TVI in the amount of ₱6.43 billion. As of December 31, 2018, the Company provided SBLCs for APRI, CEDC, LHC, SNAP B, Therma South, STEAG, and TVI in the amount of ₱4.51 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 Union Bank of the Philippines (UBP), an associated of AEV. At prevailing rates, these fixed-rate investments earned interest income amounting to ₱106.7 million and ₱64.34 million in 2019 and 2018, respectively. Outstanding balances amounted ₱22.8 million and ₱6.11 billion as of December 31, 2019, and 2018, 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 Company's balance sheets and statements of income include the following accounts resulting from the above transactions with related parties:

Technical, Management and other Service Fees

	Revenue			Receivable			
	2019	2018	2017	2019	2018	Terms	Conditions
<i>Subsidiaries:</i>							
TVI	₱625,236,619	₱1,364,303	₱2,059,983	₱631,295,206	₱254,670	30-day, non-interest bearing	Unsecured, no impairment
VECO	391,849,526	279,315,539	268,615,438	118,807,969	58,537,920	30-day, non-interest bearing	Unsecured, no impairment
DLPC	367,741,901	454,474,211	413,733,737	31,359,884	105,496,183	30-day, non-interest bearing	Unsecured, no impairment
AESI	57,630,764	57,622,636	96,872,719	5,282,820	5,378,113	30-day, non-interest bearing	Unsecured, no impairment
CLPC	46,897,878	45,559,907	39,639,944	2,168,636	10,240,732	30-day, non-interest bearing	Unsecured, no impairment
GNPower Mariveles Coal Plant Ltd. Co.	43,374,465	43,111,345	50,813,063	3,289,015	4,030,213	30-day, non-interest bearing	Unsecured, no impairment
Therma Luzon, Inc.	41,166,971	42,601,204	30,354,526	11,389,529	3,976,112	30-day, non-interest bearing	Unsecured, no impairment
AI	26,315,382	26,306,785	39,233,874	7,236,730	2,455,300	30-day, non-interest bearing	Unsecured, no impairment
CPPC	20,900,607	58,728,956	20,812,863	82,713,295	62,872,942	30-day, non-interest bearing	Unsecured, no impairment
Therma South	12,674,586	11,064,511	11,209,783	2,393,319	2,065,375	30-day, non-interest bearing	Unsecured, no impairment
SEZC	10,905,487	7,147,207	8,071,653	—	931,499	30-day, non-interest bearing	Unsecured, no impairment
APRI	10,253,796	10,991,418	9,103,675	3,810,994	2,051,731	30-day, non-interest bearing	Unsecured, no impairment
Therma Marine, Inc.	5,979,579	3,560,921	6,330,215	1,644,384	2,228,408	30-day, non-interest bearing	Unsecured, no impairment
MEZC	5,429,535	4,671,093	3,986,055	—	1,051,731	30-day, non-interest bearing	Unsecured, no impairment
HI	5,169,208	5,169,208	7,630,879	1,921,222	482,459	30-day, non-interest bearing	Unsecured, no impairment
BEZC	4,848,405	4,599,602	4,512,723	—	1,134,132	30-day, non-interest bearing	Unsecured, no impairment
LEZ	4,390,866	4,463,298	6,242,089	—	1,095,361	30-day, non-interest bearing	Unsecured, no impairment
EAUC	3,191,420	1,878,478	2,320,980	783,525	318,510	30-day, non-interest bearing	Unsecured, no impairment
PEI	2,627,543	2,657,033	209,822	55,938	805,171	30-day, non-interest bearing	Unsecured, no impairment
CIPI	597,083	746,357	896,063	49,706	277,306	30-day, non-interest bearing	Unsecured, no impairment
San Carlos Sun Power, Inc.	118,706	—	—	11,079	—	30-day, non-interest bearing	Unsecured, no impairment
Malvez	41,235	—	—	—	—	30-day, non-interest bearing	Unsecured, no impairment
Therma Mobile	40,682	467,973	2,142,810	7,458	87,355	30-day, non-interest bearing	Unsecured, no impairment
Aboitiz Power Distributed Energy, Inc.	15,856	—	—	—	—	30-day, non-interest bearing	Unsecured, no impairment
Aboitiz Power Distributed Renewables, Inc.	15,856	—	—	4,469	—	30-day, non-interest bearing	Unsecured, no impairment
ARI	—	—	7,300,000	—	—	30-day, non-interest bearing	Unsecured, no impairment
<i>Associates:</i>							
SFELAPCO	106,760,000	132,622,875	72,157,562	57,439,525	36,765,356	30-day, non-interest bearing	Unsecured, no impairment
CEDC	74,074,000	71,880,000	101,367,000	24,614,950	—	30-day, non-interest bearing	Unsecured, no impairment
GNPower Dinginin Ltd. Co.	41,768,304	42,360,271	40,556,253	3,440,683	3,960,000	30-day, non-interest bearing	Unsecured, no impairment

(Forward)



	Revenue			Receivable		Terms	Conditions
	2019	2018	2017	2019	2018		
<i>Joint Venture:</i>							
SN Aboitiz Power - Magat, Inc.	₱—	₱30,000	₱—	₱—	₱—	30-day, non-interest bearing	Unsecured, no impairment
<i>Affiliates:</i>							
Apo Agua Infraestructura, Inc.	7,482,550	—	—	8,380,456	—	30-day, non-interest bearing	Unsecured, no impairment
Aboitiz Infracapital, Inc.	907,589	—	—	880,362	—	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
Pagbilao Energy Corporation (PEC)	—	292,947,450	—	—	300,000,000	30-day, non-interest bearing	Unsecured, no impairment
	₱1,918,406,399	₱1,613,850,489	₱1,246,173,709	₱998,981,154	₱606,496,579		

Transportation and Travel

	Expense			Payable		Terms	Conditions
	2019	2018	2017	2019	2018		
<i>Parent</i>							
AEV	₱704	₱—	₱4,097	₱—	₱—	30-day, non-interest bearing	Unsecured
<i>Affiliate</i>							
AAI	17,138,321	18,142,687	22,170,057	2,375,783	—	30-day, non-interest bearing	Unsecured
	₱17,139,025	₱18,142,687	₱22,174,154	₱2,375,783	₱—		

Rent

	Expense			Payable		Terms	Conditions
	2019	2018	2017	2019	2018		
<i>Parent</i>							
AEV	₱2,212,900	₱3,206,807	₱1,326,732	₱—	₱3,206,807	30-day, non-interest bearing	Unsecured
<i>Affiliate</i>							
CPDC	1,095,894	600,434	842,044	—	68,500	30-day, non-interest bearing	Unsecured
	₱3,308,794	₱3,807,241	₱2,168,776	₱—	₱3,275,307		



Professional, Legal and Service Fees

	Expense			Payable		Terms	Conditions
	2019	2018	2017	2019	2018		
<i>Parents</i>							
AEV	₱80,916,869	₱65,141,015	₱37,966,014	₱4,079,713	₱3,375,449	30-day, non-interest bearing	Unsecured
ACO	836,847	955,452	7,634,588	4,826,847	955,452	30-day, non-interest bearing	Unsecured
	₱81,753,716	₱66,096,467	₱45,600,602	₱8,906,560	₱4,330,901		



The above transactions are expected to be settled in cash.

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 2019 and 2018, 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:

	2019	2018	2017
Short-term benefits (see Note 15)	₱182,349,079	₱286,022,170	₱308,010,884
Post-employment benefits (see Note 15)	10,403,791	13,737,830	16,499,116
	₱192,752,870	₱299,760,000	₱324,510,000

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.



Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flow of financial instrument will fluctuate because of the changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to its long-term debt with a floating interest rate and to its derivative asset.

The Company's policy is to manage its interest cost using effective hedging derivatives subject to BOD approval.

The following tables demonstrate the sensitivity to a reasonably possible change in rates, with all other variables held constant, of the Company's income before tax (through the impact on floating rate borrowings). The effect on equity pertains to the impact of the Company's derivative designated under cash flow hedge accounting:

2019	Increase (decrease) in basis points	Effect on income before tax	Effect on equity before tax
	+200	₱312,630,000	₱156,315,000
	-100	(156,315,000)	(78,157,500)

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):

2019

	Neither past due nor impaired			Past due but not impaired	Total
	High Grade	Standard	Sub-standard		
Cash and cash equivalents*	₱4,208,752	₱—	₱—	₱—	₱4,208,752
Trade and other receivables	570,285	—	—	503,209	1,073,494
Derivative asset	80,134	—	—	—	80,134
Total	₱4,859,171	₱—	₱—	₱503,209	₱5,362,380

*Excluding cash on hand



2018

	Neither past due nor impaired			Past due but not impaired	Total
	High Grade	Standard	Sub-standard		
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 FVPTL	97,535	—	—	—	97,535
Total	₱12,633,182	₱—	₱—	₱320,929	₱12,954,111

*Excluding cash on hand

High grade pertains to receivables from customers with good favorable credit standing and have no history of default.

Standard grade pertains to those customers with history of sliding beyond the credit terms but pay a week after being past due.

Sub-standard grade pertains 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):

2019

	Total	Neither past due nor impaired	Past due but not impaired		
			30 days	30 - 60 days	More than 60 days
Cash and cash equivalents*	₱4,208,752	₱4,208,752	₱—	₱—	₱—
Trade and other receivables	1,073,494	570,285	253,123	111,105	138,981
Derivative asset	80,134	80,134	—	—	—
Total	₱5,362,380	₱4,859,171	₱253,123	₱111,105	₱138,981

*Excluding cash on hand

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 FVPTL	97,535	97,535	—	—	—
Total	₱12,954,111	₱12,633,182	₱183,003	₱99,809	₱38,117

*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):

2019

	Total Carrying Value	Contractual undiscounted payments				
		Total	On Demand	Less than 1 year	1 to 5 years	More than 5 years
<i>Financial liabilities:</i>						
Trade and other payables*	₱476,018	₱476,018	₱—	₱476,018	₱—	₱—
Long-term debts	50,079,825	65,046,411	—	2,649,800	39,724,703	22,671,908
Lease liabilities	51,602	59,644	—	17,858	41,786	—
Total	₱50,607,445	₱65,582,073	₱—	₱3,143,676	₱39,776,489	₱22,671,908

*Excluding output VAT, withholding tax and other statutory liabilities

2018

	Total Carrying Value	Contractual undiscounted payments				
		Total	On Demand	Less than 1 year	1 to 5 years	More than 5 years
<i>Financial liabilities:</i>						
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

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.

	2019		2018	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Financial assets:				
Cash and cash equivalents	\$38,479,047	₱1,948,386,531	\$214,821,624	₱11,295,320,990
Financial liability:				
Long-term debt	(300,000,000)	(15,190,500,000)	—	—
Net foreign currency denominated asset (liability)	(\$261,520,953)	(₱13,242,113,469)	\$214,821,624	₱11,295,320,990



The exchange rate for December 31, 2019 and 2018 is ₱50.635:US\$1 and ₱52.58:US\$1, respectively. As a result of the translation of these foreign currency denominated assets, the Company reported net unrealized foreign exchange gain of ₱605.8 million in 2019 and net unrealized foreign exchange loss of ₱162.4 million in 2018.

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, 2019 and 2018 (amounts in thousands).

	Increase (decrease) in US dollar	Effect on income before tax
2019		
US dollar-denominated accounts	5%	(₱662,106)
US dollar-denominated accounts	-5%	662,106
2018		
US dollar-denominated accounts	5%	564,766
US dollar-denominated accounts	-5%	(₱564,766)

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.

	2019	2018
Bank loans	₱—	₱4,700,000,000
Long-term debts	50,079,825,067	22,997,821,292
Cash and cash equivalents	(4,210,064,412)	(11,875,188,311)
Net debt (a)	45,869,760,655	15,822,632,981
Equity	76,653,821,239	75,457,414,289
Equity and net debt (b)	₱122,523,581,894	₱91,280,047,270
Gearing ratio (a/b)	37.44%	17.33%

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, 2019 and 2018 (see Note 12).



No changes were made in the objectives, policies or processes during the years ended December 31, 2019 and 2018.

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.

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Long-term debts	₱50,079,825	₱49,456,980	₱22,997,821	₱20,671,106
Lease liabilities	51,602	54,628	—	—
	₱50,131,427	₱49,511,608	₱22,997,821	₱20,671,106

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 and trade and other payables

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.

Financial assets at FVTPL

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 5.14% to 5.89% in 2019 and 8.45% to 8.56% in 2018.



Lease liabilities

The fair values are computed using Level 3 of the fair value hierarchy and are based on the discounted value of expected future cash flows using the applicable credit-adjusted risk-free rates of 4.70% to 5.36% in 2019.

Derivative Financial Instruments

The Company entered 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 nil and \$50.0 million (₱2.63 billion) as of December 31, 2019 and 2018, respectively.

The Company recognized losses from the net fair value changes relating to the forward contracts amounting to ₱126.0 million and ₱11.5 million in 2019 and 2018, respectively, under the “Foreign exchange gains (loss)” account in the parent company statements of income.

IRS

On September 6, 2019, the Company entered into an IRS agreement effective September 30, 2019 to hedge \$150 million of its floating rate exposure on its loan (see Note 12). Under the IRS agreement, the Company, on a quarterly basis, pays a fixed rate of 1.449300% per annum and received variable interest at 3-month LIBOR, subject to a floor of 0%. 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 of up to April 30, 2024. The Company designated the swap as a cash flow hedge.

Hedge Effectiveness Results

Since the critical terms of the hedged loan and the IRS match, the hedge was assessed to be highly effective. The effective portion of the changes in the fair value of the swap amounting to ₱80,134,271 in 2019 was deferred in equity under the “Cash flow hedge reserve” account.

The following is the maturity analysis of the notional amount and the corresponding average fixed interest rate as of December 31, 2019 (amounts in thousands):

	Maturity					Total
	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 years	More than 2 years	
IRS - Derivative asset						
Notional amount	₱—	₱—	₱—	₱—	₱7,595,250	₱7,595,250
Average fixed interest rate (%)	1.4493%	1.4493%	1.4493%	1.4493%	1.4493%	

The impact of the hedged item and hedging instrument in the parent company balance sheet as of December 31, 2019, and in the parent company statement of income and parent company statement of comprehensive income for the year ended December 31, 2019, is as follows:

	Carrying amount	Change in fair value used for measuring ineffectiveness	Total hedging gain recognized in other comprehensive income	Ineffectiveness recognized in other income (charges)
IRS - Derivative asset	₱80,134,271	₱80,134,271	₱80,134,271	₱—



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

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, 2019 and 2018, 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. Lease Agreements

a. Operating Lease Agreement with Manta Equities, Inc. (MEI)

The Company entered into an operating lease agreement with MEI for its use of administrative office space and parking space for a period of ten (10) years from April 1, 2013 to May 31, 2023 and nine (9) years and three (3) months from and March 1, 2014 to May 31, 2023, respectively. Both lease contracts have an escalation rate of 5.0%.

Total prepaid rent pertaining to this agreement amounted to ₱5,021,619 as at December 31, 2018 which was recognized under "Other current assets" account in the balance sheets (see Note 6).

b. Operating Lease Agreement with Limketkai Sons, Inc. (LSI)

The Company entered into an operating lease agreement with LSI for its use of administrative and sales office space for a period of three (3) years from November 1, 2016 to October 31, 2019.

Lease Disclosure in Accordance with PAS 17 (applicable prior January 1, 2019)

Rent expense pertaining to the foregoing leased properties charged to operations amounted to ₱17.5 million and ₱16.5 million for the year ended December 31, 2018 and 2017, respectively.

Future minimum lease payments under the non-cancellable operating leases as of December 31, 2018 are as follows:

Not later than 1 year	₱17,825,546
Later than 1 year but not later than 5 years	59,643,634
	<u>₱77,469,180</u>



Lease Disclosure in Accordance with PFRS 16 (applicable beginning January 1, 2019)

Set out below, are the carrying amounts of the Company's lease liability and the movements during the year ended December 31, 2019:

Effect of Adoption - PFRS 16 (see Note 2)	₱64,347,091
Interest expense	5,080,616
Payment	(17,825,560)
	<u>₱51,602,147</u>

The Company also has certain leases of conference rooms with lease terms of 12 months or less. The Company applies the 'short-term lease' recognition exemptions of these leases.

Set out below, are the amounts recognized in the statements of income for the period ended December 31, 2019:

Amortization expense of right-of-use assets	₱11,490,685
Interest expense on lease liabilities	5,080,616
Rent expense - short-term leases	7,027,319
	<u>₱23,598,620</u>



21. Note to Statements of Cash Flows

The following are the cash flow movements of the Company's financing liabilities:

	January 1, 2019	Net cash flows	Non-cash Changes						December 31, 2019
			Adoption of PFRS 16 (see Note 2)	Dividend declaration	Amortized deferred financing costs	Foreign exchange movement	Interest expense	Others	
Lease liability	₱—	(₱17,825,560)	₱64,347,091	₱—	₱—	₱—	₱5,080,616	₱—	₱51,602,147
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	22,997,821,292	27,450,103,643	—	—	72,900,132	(441,000,000)	—	—	50,079,825,067
Interest on loans and borrowings	212,180,900	(2,301,301,047)	—	—	—	—	2,445,928,121	23,622,986	380,430,960
Dividend payable	—	(10,817,148,331)	—	10,817,148,331	—	—	—	—	—
Total liabilities from financing activities	₱27,910,002,192	₱9,613,828,705	₱64,347,091	₱10,817,148,331	₱72,900,132	(₱441,000,000)	₱2,451,008,737	₱23,622,986	₱50,511,858,174

	January 1, 2018	Net cash flows	Non-cash Changes				December 31, 2018
			Dividend declaration	Amortized deferred financing costs	Interest expense	Others	
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
Dividend payable	—	(10,228,459,986)	10,228,459,986	—	—	—	—
Total liabilities from financing activities	₱12,968,266,871	₱3,670,677,586	₱10,228,459,986	₱17,763,901	₱999,180,246	₱25,653,602	₱27,910,002,192



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 2019

	Net Sales/ Receipts	Output VAT
Taxable Sales:		
Sales of services	₱1,591,484,256	₱186,845,114

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 2019

Balance at January 1	₱10,585,384
Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	2,489,344
Capital goods subject to amortization	2,381,763
Capital goods not subject to amortization	135,352
Services lodged under the other accounts	32,915,519
	48,507,362
Claims for tax credit/refund and other adjustments	(29,245,183)
Balance at December 31	₱19,262,179

Other taxes and licenses

Taxes and licenses, local and national, include real estate taxes, licenses and permit fees for 2019:

License and permit fees	₱13,597,152
Documentary stamp taxes (DST)	59,894,045
Deficiency and amnesty taxes	22,037,395
Fringe benefit taxes	2,746,293
Others	2,458
	₱98,277,343



Withholding taxes

Final withholding taxes	₱511,358,438
Withholding taxes on compensation and benefits	200,160,545
Expanded withholding taxes	31,249,895
Withholding VAT	724,139
	<hr/>
	₱743,493,017
	<hr/>

Tax Assessment and Cases

The Company has no pending tax cases outside of the administration of the BIR as of December 31, 2019.



COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number
C 1 9 9 8 0 0 1 3 4

COMPANY NAME
A B O I T I Z P O W E R C O R P O R A T I O N A N D
S U B S I D I A R I E S

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)
3 2 n d S t r e e t , B o n i f a c i o G l o b a l
C i t y , T a g u i g C i t y , M e t r o M a n i l
a , P h i l i p p i n e s 1 6 3 4

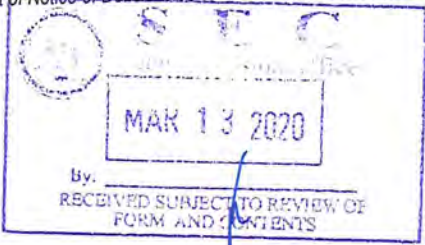
Form Type: A A C F S
Department requiring the report: C F D
Secondary License Type, If Applicable: - N A -

COMPANY INFORMATION
Company's Email Address: www.aboitizpower.com
Company's Telephone Number: (02) 886-2800
Mobile Number: None
No. of Stockholders: 631
Annual Meeting (Month / Day): April 27
Fiscal Year (Month / Day): December/31

CONTACT PERSON INFORMATION
The designated contact person MUST be an Officer of the Corporation
Name of Contact Person: Liza Luv T. Montelibano
Email Address: liza.montelibano@aboitiz.com
Telephone Number/s: (02) 886-2813
Mobile Number: 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.
NOTE 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.



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, 2019, 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.

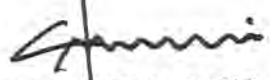
The Board of Directors is responsible for overseeing the Company's financial reporting process.

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.



ERRAMON I. ABOITIZ
Chairman of the Board



EMMANUEL V. RUBIO
President & Chief Executive Officer



LIZA LUV T. MONTELIBANO
SVP & Chief Financial Officer/Corporate Information Officer

Signed this 6th day of March 2020.

Aboitiz Power Corporation
NAC Tower, 32nd St., Bonifacio
Global City 1634 Taguig City, NCR

T. +632 886 2800
F. +632 817 3560

www.aboitizpower.com

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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 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, 2019, the goodwill amounted to ₱40.88 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 37% 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.

The Group's disclosures related to this matter are provided in Notes 3 and 21 to the consolidated financial statements.

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.



Recoverability of Certain Segments of Property, Plant and Equipment

Based on the assessment of the Group as of December 31, 2019, certain segments of property, plant and equipment totaling ₱3.55 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, 2019, 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, 2019 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

Maria Veronica Andresa R. Pore

Partner

CPA Certificate No. 90349

SEC Accreditation No. 0662-AR-4 (Group A),

November 21, 2019, valid until November 20, 2022

Tax Identification No. 164-533-282

BIR Accreditation No. 08-001998-71-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125281, January 7, 2020, Makati City

March 6, 2020



ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	₱37,433,929	₱46,343,041
Trade and other receivables (Note 6)	21,747,422	21,721,776
Derivative assets (Note 34)	—	71,583
Inventories (Note 7)	6,632,029	6,690,453
Property held for sale (Note 12)	—	675,819
Other current assets (Note 8)	11,083,405	13,205,935
Total Current Assets	76,896,785	88,708,607
Noncurrent Assets		
Investments and advances (Note 10)	60,878,541	34,334,126
Property, plant and equipment (Notes 12 and 35)	209,521,466	207,110,412
Intangible assets (Note 13)	46,712,501	46,165,494
Derivative assets - net of current portion (Note 34)	82,327	221,245
Financial assets at fair value through profit or loss (FVTPL)	3,906	101,441
Net pension assets (Note 27)	68,209	126,977
Deferred income tax assets (Note 29)	2,786,310	2,233,695
Other noncurrent assets (Note 14)	13,519,312	10,660,179
Total Noncurrent Assets	333,572,572	300,953,569
TOTAL ASSETS	₱410,469,357	₱389,662,176
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans (Note 16)	₱10,335,420	₱11,546,560
Current portions of:		
Long-term debts (Note 17)	10,386,311	8,697,404
Lease liabilities (Note 35)	5,486,745	4,131,059
Long-term obligation on power distribution system (Note 13)	40,000	40,000
Derivative liabilities (Note 34)	2,255,736	159,926
Trade and other payables (Note 15)	22,376,120	21,801,288
Income tax payable (Note 29)	510,137	438,783
Total Current Liabilities	51,390,469	46,815,020

(Forward)



	December 31	
	2019	2018
Noncurrent Liabilities		
Noncurrent portions of:		
Long-term debts (Note 17)	₱167,585,311	₱149,360,287
Lease liabilities (Note 35)	39,302,899	42,763,296
Long-term obligation on power distribution system (Note 13)	159,350	173,496
Derivative liabilities - net of current portion (Note 34)	212,588	—
Customers' deposits (Note 18)	6,521,469	6,008,364
Decommissioning liability (Note 19)	3,567,492	3,678,810
Deferred income tax liabilities (Note 29)	848,471	858,290
Net pension liabilities (Note 27)	426,047	244,857
Other noncurrent liabilities (Notes 40k)	6,812,250	3,183,089
Total Noncurrent Liabilities	225,435,877	206,270,489
Total Liabilities	276,826,346	253,085,509
Equity Attributable to Equity Holders of the Parent	19,947,498	19,947,498
Paid-in capital (Note 20a)		
Share in net unrealized valuation gain on fair value through other comprehensive income (FVOCI) of an associate (Note 10)	101,727	101,727
Cumulative translation adjustments (Note 34)	(994,253)	525,916
Share in cumulative translation adjustments of associates and joint ventures (Note 10)	(153,485)	321,139
Actuarial losses on defined benefit plans (Note 27)	(923,833)	(587,267)
Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures (Note 10)	(14,299)	29,729
Acquisition of non-controlling interests (Note 10)	(6,321,325)	(259,147)
Excess of cost of investments over net assets (Note 9)	(421,260)	(421,260)
Loss on dilution (Note 2)	(433,157)	(433,157)
Retained earnings (Note 20b)		
Appropriated	33,660,000	34,060,000
Unappropriated (Notes 10 and 20c)	81,095,377	74,427,738
	125,542,990	127,712,916
Non-controlling Interests	8,100,021	8,863,751
Total Equity (Note 20c)	133,643,011	136,576,667
TOTAL LIABILITIES AND EQUITY	₱410,469,357	₱389,662,176

See accompanying Notes to Consolidated Financial Statements.



ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings Per Share Amounts)

	Years Ended December 31		
	2019	2018	2017
OPERATING REVENUES			
Sale of power (Notes 21 and 32):			
Generation	₱55,895,587	₱61,854,685	₱57,418,126
Distribution	46,120,403	44,880,546	43,532,403
Retail electricity supply	22,805,450	24,216,767	18,065,832
Technical, management and other fees (Note 32)	813,717	620,086	374,942
OPERATING REVENUES	125,635,157	131,572,084	119,391,303
OPERATING EXPENSES			
Cost of purchased power (Notes 22 and 32)	35,835,144	36,006,080	35,392,094
Cost of generated power (Note 23)	35,526,706	35,674,218	28,557,756
Depreciation and amortization (Notes 12, 13 and 35)	9,895,695	8,681,403	7,596,268
General and administrative (Note 24)	8,155,366	8,188,512	7,222,268
Operations and maintenance (Note 25)	7,366,372	6,525,189	6,449,188
	96,779,283	95,075,402	85,217,574
FINANCIAL INCOME (EXPENSES)			
Interest income (Notes 5 and 32)	1,291,703	880,085	927,012
Interest expense and other financing costs (Notes 16, 17, 33 and 35)	(14,047,646)	(12,082,158)	(11,247,780)
	(12,755,943)	(11,202,073)	(10,320,768)
OTHER INCOME (EXPENSES)			
Share in net earnings of associates and joint ventures (Note 10)	3,813,962	4,356,825	4,697,864
Other income (expenses) - net (Note 28)	3,483,387	(1,292,311)	(1,704,000)
	7,297,349	3,064,514	2,993,864
INCOME BEFORE INCOME TAX	23,397,280	28,359,123	26,846,825
PROVISION FOR INCOME TAX (Note 29)	3,215,498	2,925,623	3,858,398
NET INCOME	₱20,181,782	₱25,433,500	₱22,988,427
ATTRIBUTABLE TO:			
Equity holders of the parent	₱17,322,677	₱21,707,603	₱20,416,442
Non-controlling interests	2,859,105	3,725,897	2,571,985
	₱20,181,782	₱25,433,500	₱22,988,427
EARNINGS PER COMMON SHARE (Note 30)			
Basic and diluted, income for the period attributable to ordinary equity holders of the parent	₱2.35	₱2.95	₱2.77

See accompanying Notes to Consolidated Financial Statements.



ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the parent	₱17,322,677	₱21,707,603	₱20,416,442
Non-controlling interests	2,859,105	3,725,897	2,571,985
	20,181,782	25,433,500	22,988,427
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Movement in cumulative translation adjustments	(1,767,498)	584,087	389,254
Share in movement in cumulative translation adjustment of associates and joint ventures	(474,624)	465,646	(16,304)
Share in net unrealized valuation gains (losses) on AFS investments of an associate (Note 10)	—	(22,394)	9,201
Movement in unrealized gain on AFS investments	—	—	2,686
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	(2,242,122)	1,027,339	384,837
<i>Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gain (loss) on defined benefit plans, net of tax (Note 27)	(329,029)	8,893	(13,186)
Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures, net of tax	(44,028)	24,766	6,841
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	(373,057)	33,659	(6,345)
Total other comprehensive income (loss) for the year, net of tax	(2,615,179)	1,060,998	378,492
TOTAL COMPREHENSIVE INCOME	₱17,566,603	₱26,494,498	₱23,366,919
ATTRIBUTABLE TO:			
Equity holders of the parent	₱14,947,290	₱22,602,094	₱20,617,187
Non-controlling interests	2,619,313	3,892,404	2,749,732
	₱17,566,603	₱26,494,498	₱23,366,919

See accompanying Notes to Consolidated Financial Statements.



ABOUTIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Thousands, Except Dividends Per Share Amounts)

	Attributable to Equity Holders of the Parent									
	Share in Net		Share in		Share in		Retained Earnings			
	Paid-in Capital (Note 20a)	Unrealized Valuation Gain on FVOCI/AFS Investments of an Associate (Note 10)	Cumulative Translation Adjustments (Note 10)	Share in Cumulative Translations of Associates and Joint Ventures (Note 10)	Actuarial Gains (Losses) on Defined Benefit Plans (Note 27)	Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures (Note 10)	Excess of cost of investments over net assets (Note 9)	Acquisition of Non-controlling Interests (Note 10)	Loss on Dilution	
									Appropriated (Note 20b)	Unappropriated (Note 20b)
Balances at January 1, 2019, as previously reported	₱19,947,498	₱101,727	₱525,916	₱321,139	₱587,267	₱29,729	₱421,260	₱259,147	₱34,060,000	₱74,427,738
Effect of adoption - PFRS 16 (Note 3)	-	-	-	-	-	-	-	-	₱8,863,751	₱136,576,667
Balances at January 1, 2019, as restated	19,947,498	101,727	525,916	321,139	(587,267)	29,729	(421,260)	(433,157)	(237,890)	(40,070)
Net income for the year	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	(1,520,169)	-	-	-	-	-	-	-
Movement in cumulative translation adjustments	-	-	(1,520,169)	-	-	-	-	-	-	-
Share in movement in cumulative translation adjustment of associates and joint ventures	-	-	-	(474,624)	-	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans, net of tax	-	-	-	-	(336,566)	-	-	-	-	7,537
Share in actuarial gains on defined benefit plans of associates and joint ventures	-	-	-	-	-	(44,028)	-	-	-	-
Total comprehensive income (loss) for the year	-	-	(1,520,169)	(474,624)	(336,566)	(44,028)	-	-	17,322,677	2,619,313
Reversal of appropriation	-	-	-	-	-	-	-	-	(12,300,000)	12,300,000
Appropriations during the year	-	-	-	-	-	-	-	-	11,900,000	(11,900,000)
Acquisition of non-controlling interest (Note 10)	-	-	-	-	-	-	(6,062,178)	-	-	-
Cash dividends - ₱1.47 per share (Note 20b)	-	-	-	-	-	-	-	-	-	(10,817,148)
Cash dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Change in non-controlling interests	-	-	-	-	-	-	-	-	(2,580,724)	(2,580,724)
Balances at December 31, 2019	₱19,947,498	₱101,727	₱994,253	₱153,485	₱923,833	₱14,299	₱421,260	₱433,157	₱33,660,000	₱81,095,377
									₱8,100,021	₱133,643,011
										17,566,603
										-
										-
										(6,773,008)
										-
										(10,817,148)
										(2,580,724)
										(51,419)
										₱133,643,011



Attributable to Equity Holders of the Parent

	Share in Net Unrealized Valuation	Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 10)	Share in 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)	Excess of cost of investments over net assets (Note 9)	Loss on Dilution	Retained Earnings Appropriated (Note 20b)	Unappropriated (Note 20b)	Non- controlling Interests	Total
Balances at January 1, 2018, as previously reported										
Effect of adoption - PFRS 9										
Balances at January 1, 2018, as restated										
Net income for the year										
Other comprehensive income (loss)										
Movement in unrealized loss on FVOCI investments										
Movement in cumulative translation adjustments										
Share in movement in cumulative translation adjustment of associates and joint ventures										
Actuarial gains (losses) on defined benefit plans, net of tax										
Share in actuarial gains on defined benefit plans of associates and joint ventures										
Total comprehensive income (loss) for the year										
Cash dividends - P1.39 per share (Note 20b)										
Cash dividends paid to non- controlling interests										
Change in non-controlling interests										
Balances at December 31, 2018										



ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES	₱23,397,280	₱28,359,123	₱26,846,825
Income before income tax			
Adjustments for:			
Interest expense and other financing costs (Note 33)	14,047,646	12,082,158	11,247,780
Depreciation and amortization (Notes 12 and 13)	9,895,695	8,681,403	7,596,268
Losses on disposal of property, plant and equipment (Note 28)	304,631	292,799	86,913
Write-off of project development costs and other assets (Note 13)	31,431	50,922	79,881
Unrealized fair valuation loss (gain) on derivatives and financial assets at FVTPL (Note 34)	1,424	196,297	(451,270)
Share in net earnings of associates and joint ventures (Note 10)	(3,813,962)	(4,356,825)	(4,697,864)
Net unrealized foreign exchange loss (gain)	(1,950,762)	997,010	333,868
Interest income (Notes 5 and 32)	(1,291,703)	(880,085)	(927,012)
Impairment loss (recovery) on property, plant and equipment, goodwill and other assets (Notes 4, 12, 13 and 14)	(245,489)	847,619	3,233,036
Unrealized fair valuation gains on investment property (Note 28)	(126,842)	—	—
Gain on sale of financial assets at FVTPL	(1,251)	—	—
Gain on remeasurement in step acquisition (Note 9)	—	—	(310,198)
Operating income before working capital changes	40,248,098	46,270,421	43,038,227
Decrease (increase) in:			
Trade and other receivables	(5,765,526)	(3,449,871)	(3,062,564)
Inventories	58,424	(1,057,730)	(1,190,795)
Other current assets	2,780,992	(3,401,458)	(2,263,317)
Increase (decrease) in:			
Trade and other payables	5,230,984	2,687,675	(1,834,708)
Long-term obligation on power distribution system	(40,000)	(40,000)	(40,000)
Customers' deposits	513,105	(86,326)	(736,552)
Net cash generated from operations	43,026,077	40,922,711	33,910,291
Income and final taxes paid	(3,669,115)	(3,634,811)	(3,674,360)
Net cash flows from operating activities	39,356,962	37,287,900	30,235,931
CASH FLOWS FROM INVESTING ACTIVITIES	3,784,671	4,346,071	5,070,559
Cash dividends received (Note 10)	1,421,536	919,255	1,135,069
Interest received	5,340	80,216	8,809
Proceeds from redemption of shares (Note 10)	(2,109,404)	(1,450,074)	1,073,472
Decrease (increase) in other noncurrent assets	—	2,054	7,443
Net collection of advances (Note 10)	63,555	18,388	10,846
Proceeds from sale of property, plant and equipment	101,251	—	—
Disposal of assets at FVTPL	—	—	—
Acquisitions through business combinations, net of cash acquired (Note 9)	—	—	894,655
Additions to:			
Property, plant and equipment (Note 12)	(9,675,816)	(8,607,781)	(16,068,050)
Intangible assets - service concession rights (Note 13)	(60,625)	(52,343)	(86,159)
Additional investments (Note 10)	(27,591,092)	(2,498,905)	(1,499,569)
Net cash flows used in investing activities	(34,060,584)	(7,243,119)	(9,452,925)

(Forward)



	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from avilment of long-term debt (Note 17)	₱33,500,091	₱24,494,810	₱43,957,187
Net availments (payments) of short-term loans (Note 16)	(1,187,800)	6,829,260	561,700
Cash dividends paid (Note 20b)	(10,817,148)	(10,228,460)	(10,007,702)
Payments of:			
Long-term debt (Note 17)	(11,819,230)	(20,626,654)	(50,967,235)
Lease liabilities (Note 35)	(7,424,990)	(7,804,460)	(7,877,292)
Acquisition of non-controlling interest (Note 10)	(6,773,008)	—	—
Changes in non-controlling interests	(2,580,724)	(3,387,726)	(757,071)
Interest paid	(7,273,246)	(8,432,523)	(7,032,286)
Net cash flows used in financing activities	(14,376,055)	(19,155,753)	(32,122,699)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (9,079,677)	 10,889,028	 (11,339,693)
 EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	 170,565	 (245,618)	 (55,417)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 46,343,041	 35,699,631	 47,094,741
 CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	 ₱37,433,929	 ₱46,343,041	 ₱35,699,631

See accompanying Notes to Consolidated Financial Statements.



ABOITIZ POWER CORPORATION AND SUBSIDIARIES

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, 2019, 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 6, 2020.

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					
		2019		2018		2017	
		Direct	Indirect	Direct	Indirect	Direct	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	—	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
PV Sinag Power, Inc. (formerly Hedcor Ifugao, Inc.)*	Power generation	—	100.00	—	100.00	—	100.00
Amihan Power, Inc. (formerly Hedcor Kalinga, Inc.)*	Power generation	—	100.00	—	100.00	—	100.00
Aboitiz Solar Power, Inc. (formerly 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	—	99.97	—	99.97	—	99.97
Hydro Electric Development Corporation*	Power generation	—	99.97	—	99.97	—	99.97

(Forward)



	Nature of Business	Percentage of Ownership					
		2019		2018		2017	
		Direct	Indirect	Direct	Indirect	Direct	Indirect
Therma Power, Inc. (TPI) and Subsidiaries	Power generation	100.00	-	100.00	-	100.00	-
Mindanao Sustainable Solutions, Inc. *	Services	-	100.00	-	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. (TPVI) *	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
Therma Mariveles Holding Cooperatief U.A. (A,D)	Holding company	-	-	-	-	-	100.00
Therma Mariveles Camaya B.V. (A,D)	Holding company	-	100.00	-	100.00	-	100.00
Therma Mariveles Holdings, Inc.	Holding company	-	78.33	-	66.07	-	66.07
GNPower Mariveles Coal Plant Ltd. Co. (GMCP) (A,C)	Power generation	-	-	-	100.00	-	100.00
Therma Dinginin Holding Cooperatief U.A. (B,E)	Holding company	-	-	-	100.00	-	100.00
Therma Dinginin B.V. (B,E)	Holding company	-	100.00	-	100.00	-	100.00
Therma Dinginin Holdings, Inc.	Holding company	-	80.00	-	80.00	-	80.00
Therma Visayas, Inc. (TVI)	Power generation	-	60.00	-	60.00	-	60.00
Abovont Holdings, Inc.	Holding company	100.00	-	100.00	-	100.00	-
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)	Power distribution	50.00	50.00	50.00	50.00	50.00	50.00
East Asia Utilities Corporation (EAUC)	Power generation	99.94	-	99.94	-	99.94	-
Cotabato Light and Power Company (CLP)	Power distribution	-	100.00	-	100.00	-	100.00
Cotabato Ice Plant, Inc.	Manufacturing	99.93	-	99.93	-	99.93	-
Davao Light & Power Company, Inc. (DLP)	Power distribution	-	100.00	-	100.00	-	100.00
Maaraw Holdings San Carlos, Inc. (MHSCI, see Note 9)	Holding company	-	100.00	-	100.00	-	100.00
San Carlos Sun Power, Inc. (Sacsun, see Note 9)	Power generation	-	100.00	-	100.00	-	100.00
AboitizPower International B.V. (APIBV, see Note 9)	Holding company	65.00	34.98	65.00	34.98	65.00	34.98
Subic Enerzone Corporation (SEZ)	Power distribution	60.00	-	60.00	-	60.00	-
Cebu Private Power Corporation (CPPC)	Power generation	60.00	-	60.00	-	60.00	-
Prism Energy, Inc. (PEI)	Retail electricity supplier	55.26	-	55.26	-	55.26	-
Visayan Electric Company (VECO)	Power distribution	-	-	-	-	-	-

A) Part of Therma Mariveles Group

B) Part of Therma Dinginin Group

C) In 2019, ownership increased in relation to AA Thermal, Inc. (ATI) acquisition (Note 10).

D) Dissolved and liquidated in 2018 as part of TPI's restructuring of its offshore intermediary companies acquired as part of the GNPower acquisition

E) Dissolved and liquidated in 2019 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, 2019.

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 Holding Cooperatief U.A.	Netherlands
Therma Mariveles Camaya B.V.	Netherlands
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:

	2019	2018	2019	2018
	GMCP	GMCP	VECO	VECO
Summarized balance sheet information				
Current assets	₱10,006,452	₱13,319,702	₱4,989,549	₱5,490,252
Noncurrent assets	32,432,202	34,003,425	13,621,804	11,577,649
Current liabilities	4,612,886	5,490,602	6,869,764	7,945,148
Noncurrent liabilities	35,149,248	37,651,754	4,945,832	3,748,561
Non-controlling interests	2,277,399	1,793,715	2,680,701	2,155,912
Summarized comprehensive income information				
Profit for the year	₱3,803,229	₱6,656,926	₱2,468,943	₱2,282,626
Total comprehensive income	3,428,913	7,470,424	2,482,145	2,268,931
Summarized other financial information				
Profit attributable to non-controlling interests	₱1,289,565	₱2,258,695	₱1,076,870	₱993,505
Dividends paid to non-controlling interests	1,628,509	3,348,883	555,622	979,147
Summarized cash flow information				
Operating	₱9,044,012	₱8,392,378	₱2,779,002	₱2,520,603
Investing	(62,051)	(856,220)	(1,107,726)	(922,612)
Financing	(9,867,586)	(6,258,128)	(732,901)	(1,632,733)
Net increase (decrease) in cash and cash equivalents	(866,957)	1,154,253	938,375	(34,742)

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 its 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 of 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, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applied PFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. Several other amendments and interpretations apply for the first time in 2019, but did not have any significant impact on the Group's consolidated financial statements:

- PFRS 16, *Leases*

PFRS 16 was issued in January 2016 and it replaces Philippine Accounting Standard (PAS) 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. 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.

Lessor accounting under PFRS 16 is substantially unchanged from 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. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application without restating comparative information. The Group has elected to apply PFRS 16 transition relief to contracts that were previously identified as leases applying PAS 17 and IFRIC 4. The Group will therefore not apply PFRS 16 to contracts that were not previously identified as containing a lease applying PAS 17 and IFRIC 4.

The Group has elected to use the exemption proposed by the standard on the lease contracts for which the lease terms end within 12 months from the date of initial application. Lease payments on short term leases are recognized as expense on a straight-line basis over the lease term.



The effects of adoption on the consolidated financial statements are as follows:

	As at January 1, 2019
Increase (decrease) in consolidated balance sheet:	
Property, plant and equipment	₱3,170,656
Investments in and advances in associates and joint ventures	(18,691)
Other current and noncurrent assets	(1,133,294)
Total Assets	<u>₱2,018,671</u>
Lease liabilities	₱49,190,986
Finance lease obligation	(46,894,355)
Retained earnings	(237,890)
Non-controlling interests	(40,070)
Total Liabilities and Equity	<u>₱2,018,671</u>

Based on the above, as at January 1, 2019:

- Property, plant and equipment were recognized amounting to ₱3.17 billion representing the amount of right-of-use assets set up on transition date.
- Adjustment to investment in and advances in associates and joint ventures amounting to ₱18.69 million pertaining to share of the Group in the transition made by its associates and joint ventures.
- Additional lease liabilities of ₱49.19 billion were recognized, which includes the reclass of finance lease obligation amounting to ₱46.89 billion previously recognized.
- Prepayments of ₱1.13 billion related to previous operating leases under PAS 17 were derecognized.
- The net effect of these adjustments had been adjusted to retained earnings and non-controlling interest amounting to ₱237.89 million and ₱40.07 million, respectively.

Prior to adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in the consolidated statement of income on a straight-line basis over the lease term. Any prepaid rent was recognized under "Other current assets" or "Other noncurrent assets."

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.



Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under PAS 17). The requirements of PFRS 16 was applied to these leases from January 1, 2019. The Group reclassified amounts recognized under finance lease obligation to lease liabilities.

Leases previously accounted for as operating leases

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the following practical expedients provided by the standard:

- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- Apply the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application,
- Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application,
- Use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

Operating lease commitments as at December 31, 2018	₱7,651,372
Incremental borrowing rate as at January 1, 2019	7.04% to 9.75%
Discounted operating lease commitments at January 1, 2019	2,310,811
Less commitments relating to short-term leases	(14,180)
Add commitments to leases previously classified as finance leases	46,894,355
Lease liabilities as at January 1, 2019	₱49,190,986

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

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

This amendment does not have an impact on the 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.

Since the Group's current practice is in line with these amendments, these amendments do not have any effect on its consolidated financial statements.

- 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). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such 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 do 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, *Income Taxes*, 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. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. The Group determined, based on its assessment, that it is probable that its uncertain tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated financial statements.

- *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.

These amendments are currently not applicable to the Group but may apply to future transactions.



o 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.

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.

o Amendments to PAS 23, *Income Tax Consequences of 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.

Since the Group's current practice is in line with these amendments, these amendments do not have any effect on its consolidated financial statements.

New Standards and Interpretation Issued and Effective after December 31, 2019

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 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 consolidated balance sheet based on current/noncurrent classification. An asset is current when it is:

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

Inventories

Materials and supplies are valued at the lower of cost and net realizable value (NRV). Cost is composed of purchase costs 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 - Classification and Measurement in Accordance with PFRS 9 (applicable in 2019 and 2018)

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 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 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 consolidated 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 consolidated statement of income.

The Group's debt financial assets as of December 31, 2019 and 2018 consist of cash in banks, including restricted cash, cash equivalents, and 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 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 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, 2019 and 2018.

Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value in the consolidated balance sheet with changes in fair value being recognized in the consolidated statement of income. 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 consolidated statement of income as incurred.

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 are measured at FVTPL as of December 31, 2019 and 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, 2019 and 2018 include trade and other payables (excluding taxes and fees, output value-added tax (VAT) and unearned revenue), customers' deposits, short-term loans, lease liabilities, long-term obligation on power distribution system, long-term debts, other noncurrent liabilities and lease liabilities (see Note 33).

Reclassifications of financial instruments

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.

Financial Instruments - Initial Recognition and Subsequent Measurement in Accordance with PAS 39 (applicable in 2017)

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 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 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.

(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.

(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.

(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.

(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.



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 hedge

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 profit or loss 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

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 consolidated 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 consolidated statement of income.

Impairment of Financial Assets in Accordance with PFRS 9 (applicable in 2019 and 2018)
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 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.

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 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 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 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.

Impairment of Financial Assets in Accordance with PAS 39 (applicable in 2017)

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.



Financial Guarantee Contracts and Loan Commitments

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 consolidated 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.

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 decommissioning liability 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.

Leases (prior to adoption of PFRS 16)

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 lease liabilities.



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

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.

Leases (upon adoption of PFRS 16)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Category	Number of years
Land	10-50
Building	2-50
Power plant	20-25
Equipment and others	2-20

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the



lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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 (PAS 18 in 2017), 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 (PAS 18 in 2017). 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 (PAS 18 in 2017).

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.

Research and Development Expenditure

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.

Decommissioning Liability

The decommissioning liability 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 decommissioning liability. 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.

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.

VAT

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

For its VAT-registered activities, 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 statement of financial position. 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 consolidated balance sheet up to the extent of the recoverable amount.

For its non-VAT registered activities, the amount of VAT passed on from its purchases of goods or service is recognized as part of the cost of goods/asset acquired or as part of the expense item, as applicable.

Input VAT, which is presented as part of "Other current assets" and/or "Other noncurrent assets" in the consolidated balance sheet, 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.

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 Group's consolidated financial statements prepared in accordance with PFRSs require management to make judgment, estimates and assumptions that affect amount reported in the financial statements and related notes. The judgment, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. Actual results could differ from such estimates. Judgments, estimates and assumptions are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under circumstances. The following items are those matters which the Group assess to have significant risk arising from judgements and estimation uncertainties:

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 - 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 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 ₱6.52 billion and ₱6.01 billion as of December 31, 2019 and 2018, respectively (see Note 18).

Finance lease - Group as the lessee, applicable under Philippine Interpretation IFRIC 4 and PAS 17 (see Note 3 application of transition relief)

In accounting for its Independent Power Producer (IPP) Administration Agreement with 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 IPP Administration Agreement for no consideration. Accordingly, the Group accounted for the agreement as a finance lease and recognized the power plant and lease liability 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, 2019 and 2018, the carrying value of the power plant amounted to ₱33.58 billion and ₱34.67 billion, respectively (see Notes 12 and 35). The carrying value of the lease liability related to this contract amounted to ₱42.07 billion and ₱46.89 billion as of December 31, 2019 and 2018, respectively (see Note 35).



Nonconsolidation of Manila-Oslo Renewable Enterprise, Inc. (MORE) and its investees, ATI and GNPowder Dinginin Ltd. Co. (GNPD)

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 has 72.5% interest in GNPD.

The Group does not consolidate MORE and GNPD since it does not have the ability to direct the relevant activities which most significantly affect the returns of MORE and its investees, and GNPD. This is a result of partnership and shareholders' agreements which, among others, stipulate the management and operation of MORE and GNPD. Management of MORE and GNPD are vested in their respective BOD or "Management Committee" and the affirmative vote of the other shareholders or partners is required for the approval of certain company 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 under PFRS 15 in 2019 and 2018

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 under PFRS 15 in 2019 and 2018

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 under PFRS 15 in 2019 and 2018

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 under PFRS 15 in 2019 and 2018

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 under PFRS 15 in 2019 and 2018

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.

Estimates and assumptions

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 2019 and 2018 based on management's assessment. The carrying amounts of the investments and advances amounted to ₱60.88 billion and ₱34.33 billion as of December 31, 2019 and 2018, 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, 2019



and 2018 amounted to ₱40.88 billion and ₱40.22 billion, respectively. Goodwill impairment recognized in 2018 amounted to ₱45.93 million (see Note 13). No impairment of goodwill was recognized in 2019 and 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, 2019 and 2018, the net book values of property, plant and equipment, excluding land and construction in progress, amounted to ₱204.07 billion and ₱170.37 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, 2019 and 2018, the aggregate net book values of property, plant and equipment, excluding land and construction in progress, amounted to ₱204.07 billion and ₱170.37 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, 2019 and 2018, the carrying value of the franchise amounted to ₱2.57 billion and ₱2.65 billion, 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, 2019 and 2018, the aggregate net book values of intangible asset - service concession rights amounted to ₱2.41 billion and ₱2.79 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, 2019 and 2018, the aggregate net book values of these assets amounted to ₱228.70 billion and ₱228.45 billion, respectively (see Notes 8, 12, 13 and 14). Impairment losses recognized on these non-financial assets in 2019, 2018 and 2017 amounted to nil, ₱740.3 million and ₱3.13 billion, respectively (see Notes 12, 13 and 14).

Measurement of expected credit losses under PFRS 9 in 2019 and 2018

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 under PFRS 9 in 2019 and 2018

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 under PFRS 9 in 2019 and 2018

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 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 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 under PFRS 9 in 2019 and 2018

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, 2019 and 2018, allowance for expected credit losses amounted to ₱1.97 billion and ₱1.75 billion, respectively. Trade and other receivables, net of allowance for ECL, amounted to ₱21.75 billion and ₱21.72 billion as of December 31, 2019 and 2018, respectively (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, 2019 and 2018, allowance for inventory obsolescence amounted to ₱88.2 million and ₱34.2 million, respectively. The carrying amount of the inventories amounted to ₱6.63 billion and ₱6.69 billion as of December 31, 2019 and 2018, respectively (see Note 7).



Estimating the incremental borrowing rate (IBR)

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates. The carrying amount of the lease liabilities amounted to ₱44.79 billion and ₱46.89 billion as of December 31, 2019 and 2018, respectively, (see Note 35).

Estimating decommissioning liability

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 decommissioning liability 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.

Decommissioning liability amounted to ₱3.57 billion and ₱3.68 billion as of December 31, 2019 and 2018, 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 ₱4.36 billion and ₱4.27 billion as of December 31, 2019 and 2018, respectively (see Note 29).

The Group did not recognize deferred income tax assets on Minimum Corporate Income Tax (MCIT) amounting to ₱67.7 million and ₱58.3 million as of December 31, 2019 and 2018, respectively, and Net Operating Loss Carryover (NOLCO) amounting to ₱7.80 billion and ₱5.44 billion as of December 31, 2019 and 2018, 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 ₱182.3 million in 2019, ₱195.7 million in 2018, and ₱219.4 million in 2017. The net pension assets as of December 31, 2019 and 2018 amounted to ₱68.2 million and ₱127.0 million, respectively. Net pension liabilities as of December 31, 2019 and 2018 amounted to ₱426.0 million and ₱244.9 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, 2019, 2018 and 2017.



5. Cash and Cash Equivalents

	2019	2018
Cash on hand and in banks	₱14,177,919	₱11,426,051
Short-term deposits	23,256,010	34,916,990
	₱37,433,929	₱46,343,041

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 ₱1.29 billion in 2019, ₱880.1 million in 2018, and ₱907.6 million in 2017.

6. Trade and Other Receivables

	2019	2018
Trade receivables - net of allowance for expected credit losses of ₱1.97 billion and ₱1.75 billion in 2019 and 2018, respectively (Notes 32 and 33)	₱12,958,429	₱12,810,034
Others:		
Dividends receivable (Note 10)	1,199,068	665,783
Advances to contractors	63,339	148,300
Accrued revenue	3,462,523	3,476,120
Non-trade receivable	2,450,311	2,872,224
Interest receivable	48,666	91,992
PSALM deferred adjustment (Note 40k)	1,042,861	1,042,861
Others	522,225	614,462
	₱21,747,422	₱21,721,776

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 receivable of GMCP from NGCP related to the sale of transmission assets in 2019 and advances to partners in GMCP which are subject to offset against any cash dividends declared by GMCP and due to the partners in 2018.



The rollforward analysis of allowance for expected credit losses as of December 31, 2019 and 2018, which pertains to trade receivables, is presented below:

	2019	2018
January 1	₱1,749,991	₱1,774,838
Transition adjustment and translation effect	—	86,936
Provision (see Note 24)	87,086	235,818
Write-off	(89,496)	(347,601)
Effect of changes in foreign exchange rate	225,939	—
December 31	₱1,973,520	₱1,749,991

7. Inventories

	2019	2018
Fuel	₱2,514,447	₱3,521,390
Plant spare parts and supplies	2,507,832	2,245,805
Transmission and distribution supplies	1,492,222	915,168
Other parts and supplies	117,528	8,090
	₱6,632,029	₱6,690,453

Inventories are carried at lower of cost and NRV as of December 31, 2019 and 2018.

The cost of inventories recognized as part of cost of generated power in the consolidated statements of income amounted to ₱29.39 billion in 2019, ₱29.42 billion in 2018, and ₱22.32 billion in 2017 (see Note 23). The cost of inventories recognized as part of operations and maintenance in the consolidated statements of income amounted to ₱353.70 million in 2019, ₱286.71 million in 2018, and ₱412.1 million in 2017 (see Note 25). Write-down on inventories to arrive at NRV amounted to ₱54.0 million and nil in 2019 and 2018, respectively.

8. Other Current Assets

	2019	2018
Restricted cash (Note 17)	₱4,449,716	₱5,289,145
Input VAT	2,049,496	2,673,822
Prepaid tax	1,854,792	2,171,352
Advances to National Grid Corporation of the Philippines (NGCP)	1,727,028	1,725,176
Prepaid expenses	610,426	722,066
Prepaid rent (Note 35)	—	93,894
Others	391,947	530,480
	₱11,083,405	₱13,205,935

Restricted cash represents proceeds from sale of power under the control of trustees of TVI and 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 TVI's 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 Combination

Step-acquisition of Sacasun

In 2014, ARI and SunEdison Inc. (SEI), entered into a joint framework agreement to develop solar photovoltaic projects in the Philippines. Pursuant to their agreement, SEI, the ultimate parent company of SunE Solar B.V. (SunE BV) and Sunedison Philippines Helios B.V. (Helios BV), and ARI invested in MHSCI and Sacasun for the 59-MWp solar project in San Carlos City, Negros Occidental.

On December 27, 2017, API completed its acquisition of 100% equity interest in Helios BV from SunE BV. The transaction resulted 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 increased the Company's indirect ownership interest in MHSCI and SACASUN to 100%.

The transaction was accounted for as a business combination achieved in stages. The purchase price allocation in the step-acquisition of Sacasun was finalized in 2018. The fair value 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.



10. Investments and Advances

	2019	2018
Acquisition cost:		
Balance at beginning of the year	₱30,559,245	₱28,140,556
Additions during the year	27,591,092	2,498,905
Redemptions during the year	(5,340)	(80,216)
Balance at end of year	58,144,997	30,559,245
Accumulated equity in net earnings:		
Balance at beginning of the year	3,867,849	3,666,971
Transition adjustment (see Note 3)	(18,691)	—
Share in net earnings	3,813,962	4,356,825
Dividends received or receivable	(4,317,956)	(4,155,947)
Balance at end of year	3,345,164	3,867,849
Share in net unrealized valuation gain on FVOCI investment of an associate	101,727	101,727
Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures	(14,299)	29,729
Share in cumulative translation adjustments of associates and joint ventures	(153,485)	321,139
	(66,057)	452,595
	61,424,104	34,879,689
Less allowance for impairment losses	568,125	568,125
Investments at equity	60,855,979	34,311,564
Advances	22,562	22,562
	₱60,878,541	₱34,334,126

As of December 31, 2019 and 2018, the undistributed earnings of the associates and joint ventures included in the Group's retained earnings amounting to ₱3.35 billion and ₱3.87 billion, respectively, are not available for distribution to the stockholders unless declared by the investees (see Note 20).

2019

In 2019, the Group, through TPI and ATI, made capital contributions to GNPD amounting to US\$81.45 million (₱4.21 billion).

In 2019, AEV Aviation, Inc. (AAI) redeemed 5,340 redeemable preferred shares (RPS) held by the Company for ₱5.34 million.

Acquisition of ATI

On May 2, 2019, the Company completed its acquisition of a 49% voting stake and a 60% economic stake in ATI, AC Energy's thermal platform in the Philippines. The transaction is valued at \$572.9 million (₱29.79 billion).

AA Thermal has interests in GMCP, the owner and operator of an operating 2x316 MW coal plant in Mariveles, Bataan, and in GNPD, the developer and owner of a 2x668 MW supercritical coal plant project in Mariveles, Bataan, which is currently under construction.



The completion of the transaction increases the Company's economic interests in GMCP, and GNPD to 78.3%, and 75.0%, respectively.

2018

In 2018, the Group, through TPI, made capital contributions to GNPD amounting to US\$47.0 million (P2.50 billion).

In 2018, AEV Aviation, Inc. (AAI) redeemed 80,216 RPS held by the Company for P80.2 million.

The Group's associates and joint ventures and the corresponding equity ownership are as follows:

	Nature of Business	Percentage of Ownership		
		2019	2018	2017
MORE ¹	Holding company	83.33	83.33	83.33
GNPD ^(1, 2)	Power generation	72.50	45.00	47.50
ATI ³	Holding company	60.00	—	—
Hijos de F. Escaño, Inc. (Hijos)	Holding company	46.73	46.73	46.73
Mazzaraty Energy Corporation (MEC)	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 Elektrika, 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

¹ Joint ventures

² GNPD change in ownership based on the Partnership Agreement and in 2019 due to ATI acquisition

³ Economic interest

* No commercial operations as of December 31, 2019.

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 GNPD and SFELAPCO. As of December 31, 2019, ATI has an indirect ownership in GNPD of 50% while the Group's direct ownership in GNPD is 42.50% resulting to the Group's effective ownership in GNPD of 72.50%. 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:

	2019	2018
	₱24,084,947	₱-
ATI	17,172,530	14,789,971
GNPD	10,180,552	10,235,695
MORE	4,032,405	4,185,758
STEAG	3,447,491	3,192,609
CEDC	525,769	528,383
RPEI	508,895	472,095
PEVI	372,917	385,272
SFELAPCO	176,037	176,037
Hijos	142,577	106,524
WMPC	61,497	81,856
SPPC	150,362	157,364
Others	₱60,855,979	₱34,311,564

Following is the summarized financial information of significant associates and joint ventures:

	2019	2018	2017
MORE:			
Total current assets	₱681,925	₱141,293	₱126,125
Total noncurrent assets	12,222,826	12,196,002	11,889,592
Total current liabilities	(610,443)	(54,462)	(56,336)
Total noncurrent liabilities	(75,721)	-	-
Equity	₱12,218,587	₱12,282,833	₱11,959,381
Gross revenue	₱198,636	₱180,236	₱170,236
Operating profit	3,750,522	4,133,911	4,893,753
Net income	3,732,874	4,125,996	4,891,630
Other comprehensive income (loss)	(152,630)	96,116	55,115
Group's share in net income	₱3,110,204	₱3,439,589	₱4,160,480
Additional information:			
Cash and cash equivalents	₱34,480	₱31,873	₱16,134
Current financial liabilities	11,745	54,462	56,336
Noncurrent financial liabilities	43,821	-	-
Depreciation and amortization	18,163	7,347	11,272
Interest income	1,175	808	740
Interest expense	(4,272)	-	-
Income tax expense	14,373	9,043	2,868

(Forward)



	2019	2018	2017
WMPC:			
Total current assets	P643,983	P717,162	P695,570
Total noncurrent assets	348,174	454,108	418,808
Total current liabilities	(193,157)	(551,781)	(457,032)
Total noncurrent liabilities	(83,804)	(74,341)	(82,718)
Equity	P715,196	P545,148	P574,628
Gross revenue	P1,157,772	P1,393,417	P1,439,482
Operating profit	280,417	13,006	98,838
Net income	196,693	20,521	71,933
Other comprehensive loss	-	-	-
Group's share in net income	P36,053	P4,104	P14,387
SPPC:			
Total current assets	P148,228	P182,303	P344,106
Total noncurrent assets	265,422	311,472	364,648
Total current liabilities	(39,137)	(36,361)	(221,096)
Total noncurrent liabilities	(76,324)	(58,491)	(68,326)
Equity	P298,189	P398,923	P419,332
Gross revenue	P-	P160,831	P523,854
Operating profit	(88,013)	(19,307)	133,508
Net income (loss)	(77,296)	(23,407)	272,756
Other comprehensive income	-	-	-
Group's share in net income (loss)	(P20,359)	(P4,681)	P19,101
SFELAPCO*:			
Total current assets	P1,135,431	P1,104,307	P1,576,530
Total noncurrent assets	2,691,104	2,567,663	2,215,130
Total current liabilities	(868,787)	(763,966)	(770,041)
Total noncurrent liabilities	(784,368)	(699,175)	(751,789)
Equity	P2,173,380	P2,208,829	P2,269,830
Gross revenue	P4,448,624	P4,088,124	P4,211,674
Operating profit	479,553	408,160	366,492
Net income	342,199	302,677	671,268
Other comprehensive income (loss)	(51,500)	(63,679)	334,246
Group's share in net income	P164,080	P168,307	P323,674
STEAG:			
Total current assets	P3,107,046	P3,459,931	P2,688,544
Total noncurrent assets	9,967,406	10,477,098	10,348,729
Total current liabilities	(1,379,138)	(1,672,896)	(1,394,855)
Total noncurrent liabilities	(2,840,129)	(3,262,770)	(3,453,496)
Equity	P8,855,185	P9,001,363	P8,188,922
Gross revenue	P4,812,414	P4,468,016	P4,502,920
Operating profit	1,250,028	1,115,567	1,020,846
Net income	1,150,501	687,186	516,893
Other comprehensive income (loss)	(29,106)	(37,173)	4,750
Group's share in net income	P249,432	P87,508	P25,744

(Forward)



	2019	2018	2017
CEDC:			
Total current assets	P5,199,140	P4,986,619	P5,419,700
Total noncurrent assets	12,842,201	13,371,586	14,308,208
Total current liabilities	(2,496,096)	(2,158,754)	(2,444,036)
Total noncurrent liabilities	(7,672,244)	(8,943,522)	(10,422,073)
Equity	P7,873,001	P7,255,929	P6,861,799
Gross revenue	P8,578,452	P9,728,163	P8,751,540
Operating profit	3,017,831	3,300,164	3,183,144
Net income	2,317,071	1,880,853	1,686,941
Other comprehensive income	29,483	13,277	2,451
Group's share in net income	P1,002,882	P827,576	P742,254
ATI			
Total current assets	P75,243	P-	P-
Total noncurrent assets	14,827,626	-	-
Total current liabilities	(7,762)	-	-
Total noncurrent liabilities	-	-	-
Equity	P14,895,107	P-	P-
Gross revenue	P-	P-	P-
Operating profit	-	-	-
Net income	-	-	-
Other comprehensive income	-	-	-
Group's share in net loss	P-	P-	P-
GNPD			
Total current assets	P1,612,549	P1,705,863	P2,486,668
Total noncurrent assets	67,043,356	40,707,048	16,762,108
Total current liabilities	(5,623,202)	(3,342,924)	(539,651)
Total noncurrent liabilities	(48,514,482)	(29,473,440)	(14,242,277)
Equity	P14,518,221	P9,596,547	P4,466,848
Gross revenue	P-	P-	P-
Operating loss	(1,161,098)	(352,858)	(251,703)
Net loss	(1,160,004)	(68,174)	(376,336)
Other comprehensive income	-	-	-
Group's share in net loss	(P726,682)	(P15,435)	(P188,167)
Additional information:			
Cash and cash equivalents	P1,093,991	P911,642	P1,869,486
Current financial liabilities	2,033,297	3,246,671	513,281
Noncurrent financial liabilities	48,514,482	29,473,440	14,019,562
Depreciation and amortization	61,005	41,169	26,252
Interest income	590	487	182
Interest expense	(63,928)	(28,073)	(30,809)
Income tax expense	395,945	158,506	91,790

(Forward)



	2019	2018	2017
Others**:			
Total current assets	P403,979	P453,445	P1,116,846
Total noncurrent assets	2,831,067	2,842,300	3,395,270
Total current liabilities	(31,272)	(62,706)	(16,405)
Total noncurrent liabilities	(111,875)	(110,557)	(5,497)
Gross revenue	P150,059	P160,695	P133,022
Net income (loss)	(8,856)	(727,830)	13,318

*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 P374.8 million, P952.8 million and P745.1 million in 2019, 2018, and 2017, respectively, for SFELAPCO.

**The financial information of insignificant associates and joint ventures is indicated under "Others".

11. Joint Operation

Name of Joint Operation	Nature of Business	Percentage of Ownership		
		2019	2018	2017
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, 2019

Cost:	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	ROU assets (Note 35)	Total
Balances at beginning of year, as previously stated	₱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	₱-	₱267,944,321
Effect of adoption - PFRS 16 (see Note 3)	-	-	(34,669,713)	-	-	-	-	-	-	-	-	37,840,369	3,170,656
Balances at beginning of year, as restated	1,541,756	21,356,246	133,773,646	19,458,140	1,570,064	1,052,237	2,774,370	5,685,213	1,892,174	1,335,213	37,835,549	37,840,369	266,114,977
Additions (see Notes 15 and 19)	186,097	240,684	1,034,129	-	198,729	136,388	5,994	12,589	-	32,465	7,830,741	24,249	9,700,065
Disposals	-	(3,849)	(413,521)	(29,432)	(119,132)	(27,537)	-	(400)	-	(1,511)	(2,363)	-	(597,745)
Reclassifications and others	57,397	15,625,247	7,556,007	1,867,104	(22,940)	13,555	13,178	2,091,459	373,198	(137,174)	(39,352,442)	-	(11,915,411)
Balances at end of year	1,785,250	37,218,328	141,948,261	21,295,812	1,626,721	1,174,643	2,793,542	7,788,861	2,265,372	1,228,993	6,311,485	37,864,618	263,301,886
Accumulated Depreciation and Amortization:													
Balances at beginning 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
Depreciation and amortization	-	749,417	5,970,481	598,759	168,397	123,588	131,678	278,804	93,374	80,343	-	1,223,073	9,417,914
Disposals	-	(3,849)	(70,556)	(29,432)	(95,904)	(27,346)	-	(400)	-	(2,072)	-	-	(229,559)
Reclassifications and others	-	(258,106)	(11,181,920)	(58,465)	(24,273)	(72,830)	(45,283)	520,432	5,430	(115,262)	-	(11,567)	(11,241,844)
Balances at end of year	-	4,977,159	32,089,849	5,738,598	996,744	870,505	681,804	3,281,314	177,562	620,939	-	1,211,506	50,645,980
Accumulated Impairment	-	-	486,280	-	2,088	792	251	-	-	-	2,645,029	-	3,134,440
Net book values	₱1,785,250	₱32,241,169	₱109,372,132	₱15,557,214	₱627,889	₱303,346	₱2,111,487	₱4,507,547	₱2,087,810	₱608,054	₱3,666,456	₱36,653,112	₱209,521,466



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	P1,596,788	P21,495,721	P141,380,362	P17,401,054	P1,405,923	P924,894	P2,762,709	P5,500,971	P1,551,939	P1,252,071	P56,262,403	P251,534,835
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
	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
Balances at end of year												
	-	-	31,734,935	4,665,817	836,705	678,892	468,165	2,225,590	(9,518)	600,068	-	44,861,372
Accumulated Depreciation and Amortization:												
Balances at beginning of year	-	3,660,718	5,958,157	585,036	165,986	173,959	127,244	258,944	88,272	58,648	-	8,189,355
Depreciation and amortization	-	773,109	(225,945)	(24,020)	(62,592)	(19,893)	-	(2,054)	-	(562)	-	(486,743)
Disposals	-	(151,677)	(95,303)	903	8,425	14,135	-	(2)	4	(224)	-	135,485
Reclassifications and others	-	207,547	(95,303)	903	8,425	14,135	-	(2)	4	(224)	-	135,485
	-	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
Balances at end of year												
	-	-	-	-	2,088	792	251	-	-	-	2,645,029	2,648,160
Accumulated Impairment:												
Balances at beginning of year	-	-	486,280	-	-	-	-	-	-	-	-	486,280
Impairment (see Note 28)	-	-	486,280	-	2,088	792	251	-	-	-	2,645,029	3,134,440
Balances at end of year												
	-	-	-	-	2,088	792	251	-	-	-	2,645,029	3,134,440
Net book values	P1,541,756	P16,866,549	P130,585,235	P14,230,404	P619,452	P204,352	P2,178,710	P3,202,735	P1,813,416	P677,283	P35,190,520	P207,110,412



In 2019 and 2018, the Group has determined that an impairment test has to be performed on certain segments of its property, plant and equipment amounting to ₱3.55 billion and ₱5.44 billion, respectively. 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 9.83% in 2019 and 13.00% - 16.14% in 2018 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 2019 and 2018.

In 2019 and 2018, movements to power plant equipment and steam field assets includes adjustment in the decommissioning liability due to the change in accounting estimate amounting to ₱321.9 million and ₱560.0 million, respectively (see Note 19).

In 2019 and 2018, additions to "Construction in progress" include capitalized borrowing costs, net of interest income earned from short-term deposits amounted to ₱890.0 million and ₱2.51 billion, respectively (see Note 17). The rate used to determine the amount of borrowing costs eligible for capitalization ranged from 5.7% to 9.4% and 4.9% to 9.4% which are the effective interest rate of the specific borrowings in 2019 and 2018, respectively.

Property, plant and equipment with carrying amounts of ₱124.00 billion and ₱126.90 billion as of December 31, 2019 and 2018, respectively, are used to secure the Group's long-term debts (see Note 17).

Fully depreciated property and equipment with gross carrying amount of ₱5.91 billion and ₱5.00 billion as of December 31, 2019 and 2018, 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, 2019 and 2018, as shown below:

Project Company	Estimated Cost to Complete (in millions)		% of Completion	
	2019	2018	2019	2018
TVI	₱114	₱7,246	99.7%	81%

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). In 2019, the Deed of Sale was signed and executed.

13. Intangible Assets

	2019	2018
Goodwill	₱40,876,082	₱40,224,411
Service concession rights	2,406,320	2,789,610
Franchise	2,571,772	2,648,732
Project development costs	622,491	388,468
Customer contracts	—	8,582
Software and licenses	235,836	105,691
	₱46,712,501	₱46,165,494



The table below shows the rollforward of intangible assets:

December 31, 2019

	Service concession rights	Franchise	Project development costs	Customer contracts	Software and licenses	Total
Cost:						
Balances at beginning of year	₱5,478,607	₱3,078,431	₱388,468	₱60,068	₱307,338	₱9,312,912
Additions during the year	60,625	-	234,023	-	160,785	455,433
Exchange differences	(82,316)	-	-	-	-	(82,316)
Balances at end of year	5,456,916	3,078,431	622,491	60,068	468,123	9,686,029
Accumulated amortization:						
Balances at beginning of year	2,688,997	429,699	-	51,486	201,647	3,371,829
Amortization	361,599	76,960	-	8,582	30,640	477,781
Balances at end of year	3,050,596	506,659	-	60,068	232,287	3,849,610
Net book values	₱2,406,320	₱2,571,772	₱622,491	₱-	₱235,836	₱5,836,419

December 31, 2018

	Service concession rights	Franchise	Project development costs	Customer contracts	Software and licenses	Total
Cost:						
Balances at beginning of year	₱5,299,470	₱3,078,431	₱263,436	₱60,068	₱252,690	₱8,954,095
Additions during the year	50,410	-	175,954	-	54,648	281,012
Impairment	-	-	(50,922)	-	-	(50,922)
Exchange differences	128,727	-	-	-	-	128,727
Balances at end of year	5,478,607	3,078,431	388,468	60,068	307,338	9,312,912
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	₱2,789,610	₱2,648,732	₱388,468	₱8,582	₱105,691	₱5,941,083



Impairment Testing of Goodwill

Goodwill acquired through business combinations have been attributed to individual CGUs.

The carrying amount of goodwill follows:

	2019	2018
GMCP	₱39,996,797	₱39,345,126
LEZ	467,586	467,586
HI	220,228	220,228
BEZ	191,471	191,471
	₱40,876,082	₱40,224,411

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, 2019 and 2018

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 9.87% to 11.81% in 2019 and 10.63% to 14.80% in 2018, 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 2019, revenue growth of 10% in year 1, 0% in year 2 and 4% in the next three years was applied for LEZ; 4% in year 1, -6% in year 2, 1% in year 3, -3% in year 4 and -2% in year 5 for BEZ; 0% in year 1, 2% in year 2, 7% in year 3, 3% in year 4 and 10% in year 5 for GMCP; and -6% in year 1, 16% in year 2, 15% in year 3, 12% in year 4, and 5% in year 5 was applied for HI.

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% in year 4, and -4% in year 5 was applied for HI.

Materials price inflation

In 2019, the assumption used to determine the value assigned to the materials price inflation is 3.30% in 2020, decreases to 3.20% in 2021 and settles at 3.00% for the next 3 years until 2024. The starting point of 2020 is consistent with external information sources. The starting point of 2020 is consistent with external information sources.

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.



Foreign exchange rates

In 2019, the assumption used to determine foreign exchange rate is a weakening Philippine peso which starts at a rate of ₱54.70 to a dollar in 2020 and depreciates annually at an average of 2.67% until 2024. 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.

Based on the impairment testing, no impairment of goodwill was recognized in 2019. In 2018, an impairment loss on goodwill amounting to ₱45.9 million on the investment in BEZ was recognized. No impairment of goodwill was recognized in 2017.

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.

Service Concession Rights

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 ₱1.62 billion and ₱1.97 billion as of December 31, 2019 and 2018, 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 ₱700.3 million and ₱720.3 million as of December 31, 2019 and 2018, 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 ₱84.5 million and ₱97.2 million as of December 31, 2019 and 2018, 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

	2019	2018
Restricted cash	₱4,672,031	₱—
Input VAT and tax credit receivable, net of impairment loss of ₱9.9 million and ₱253.2 million in 2019 and 2018 (see Note 28)	4,434,349	5,276,346
PSALM deferred adjustment - net of current portion (see Notes 6 and 40k)	2,140,219	3,183,089
Prepaid rent - net of current portion (see Note 35)	—	1,051,102
Advances to contractors and projects	553,280	464,139
Refundable deposits	326,850	375,014
Investment properties	132,300	3,300
Prepaid taxes	879,439	159,942
Others	380,844	147,247
	₱13,519,312	₱10,660,179



Restricted cash pertains to the amount drawn by TVI on June 11, 2019 on the performance securities under its Engineering, Procurement and Construction agreement with the contractors. The contractors have disputed the draw on the securities in dispute resolution proceedings.

15. Trade and Other Payables

	2019	2018
Trade payables (see Note 33)	₱9,947,733	₱8,999,633
Output VAT	3,022,048	2,768,254
Amounts due to contractors and other third parties	1,159,984	1,735,685
PSALM deferred adjustment (see Note 40k)	1,042,861	1,042,861
Accrued expenses:		
Interest	2,350,811	2,101,531
Materials and supplies cost	470,588	82,098
Taxes and fees	1,246,863	1,196,611
Energy fees and fuel purchase	937,988	413,141
Claims conversion costs	102,808	239,377
Insurance	18,437	17,764
Dividends payable	94,976	59,834
Unearned revenues	37,425	38,765
Customers' deposit	19,360	6,633
Nontrade	1,270,946	2,725,289
Others	653,292	373,812
	₱22,376,120	₱21,801,288

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) and 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	2019	2018
Peso loans - financial institutions - unsecured	2.68% - 4.95% in 2019 5.00% - 6.75% in 2018	₱9,727,800	₱10,915,600
Temporary advances (see Note 32)		607,620	630,960
		₱10,335,420	₱11,546,560

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 ₱797.6 million in 2019, ₱374.6 million in 2018, and ₱131.2 million in 2017 (see Note 33).



17. Long-term Debts

	Annual Interest Rate	2019	2018
Company:			
Bonds due 2024	7.51%	₱7,700,000	₱7,700,000
Bonds due 2026	5.28%	7,250,000	—
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	2,500,000
Financial institutions- unsecured	5.28%	5,000,000	—
Financial institutions- unsecured	LIBOR + 1.2%	15,190,500	—
Subsidiaries:			
GMCP			
Financial institutions - unsecured	LIBOR + 1.7% - 4.00% in 2019 LIBOR + 1.7% - 4.85% in 2018	37,247,830	41,375,202
TVI			
Financial institutions - secured	5.56% - 9.00% in 2019 5.50% - 9.00% in 2018	31,520,000	31,520,000
TSI			
Financial institutions - secured	5.05% - 5.70% in 2019 5.05% - 5.69% in 2018	20,039,365	21,349,704
APRI			
Financial institutions - secured	4.48% - 5.20%	8,124,160	9,374,400
Hedcor Bukidnon			
Financial institutions - secured	4.75% - 7.36% in 2019 4.75% - 6.78% in 2018	9,416,666	9,327,700
TPVI			
Fixed rate corporate notes - unsecured	5.06% - 5.25%	1,300,000	—
Hedcor Sibulan			
Fixed rate corporate notes - unsecured	4.05% - 5.42%	3,801,400	3,900,400
HI			
Financial institution - secured	5.25% - 7.41% in 2019 5.25% - 7.41% in 2018	423,000	450,000
Financial institution - secured	7.87%	1,327,000	1,390,000
VECO			
Financial institution - unsecured	4.59% - 4.81% in 2019 4.58% - 4.81% in 2018	776,000	975,000
LHC			
Financial institutions - secured	3.94% - 4.81% in 2019 3.63% - 4.81% in 2018	564,580	875,458
DLP			
Financial institution - unsecured	4.59% - 4.81% in 2019 4.58% - 4.81% in 2018	582,000	731,250
AI			
AEV - unsecured (see Note 32)	4.60% - 6.25%	300,000	300,000
SEZ			
Financial institution - unsecured	5.00%	113,000	169,500
CLP			
Financial institution - unsecured	4.59% - 4.81% in 2019 4.58% - 4.81% in 2018	116,400	146,250
Joint operation (see Note 11)			
Financial institutions - secured	5.50% - 8.31% in 2019 5.50% - 8.31% in 2018	13,380,097	14,473,052
		179,671,998	159,557,916
		1,700,376	1,500,225
Less deferred financing costs		177,971,622	158,057,691
		10,386,311	8,697,404
Less current portion - net of deferred financing costs		₱167,585,311	₱149,360,287

* London Interbank Offered Rate (LIBOR)



Interest expense and other financing costs on long-term debt amounted to ₱8.65 billion in 2019, ₱6.86 billion in 2018, and ₱6.33 billion in 2017 (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.

In October 2019, the Company issued ₱7.25 billion 7-year bond due 2026 at a fixed rate of 5.28% p.a. 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.

In April 2019, the Company executed and availed a US\$300,000,000 syndicated bridge loan facility loan agreement with DBS Bank Ltd., Mizuho Bank, Ltd., MUFG Bank, Ltd., and Standard Chartered Bank as lead arrangers and bookrunners to finance the AA Thermal, Inc. acquisition. The loan bears a floating interest based on credit spread over applicable LIBOR plus 1.2% margin. The loan will mature on the 5th anniversary of the first utilization date.

In November 2019, the Company obtained a ₱5.0 billion 7-year long term loan from the BDO Unibank, Inc. at a fixed rate of 5.28% p.a.

GMCP

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, 2019 and 2018:

	2019	2018	Interest Rate Per Annum	Payment Schedule
<i>NFA</i> Fixed Rate Loan	\$448,164	\$483,450	(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	267,450	288,450	Six-month LIBOR plus 1.70% margin	24 semi-annual payments starting from the first Interest Payment Date
<i>Working Capital</i> BDO	20,000	15,000	LIBOR plus 1.7% applicable margin	Payable within three months
Total borrowings	735,614	786,900		
Less unamortized portion of deferred financing costs	(4,017)	(4,049)		
	731,597	782,851		
Less current portion	63,583	70,229		
Loans payable - net of current portion	\$668,014	\$712,622		

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, 2019 and 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 ₱25.60 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 ₱5.9 billion, with a fixed interest rate for fifteen years.

70% of the principal amount of the loan is payable in 20 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 ₱50.81 billion as of December 31, 2019, 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, 2019, 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 ₱25.15 billion as of December 31, 2019, 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, 2019, ₱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 amounting to ₱263.47 million, 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.



TPVI

On December 26, 2019, the TPVI was granted a loan with an aggregate amount of ₱1.30 billion by the Philippine National Bank (PNB). The loan is payable for 15 years, with a grace period of 3 years. The mode of repayment is sculpted with balloon payment of 70%. The Company will pay PNB an interest of 5.0593% for the first 8 years, with the rate being expected to go up to 5.25% for the rest of the term due to: (1) continued inflation, and; (2) liquidity tightness due to funds held and additional borrowings by the Bureau of Treasury. The interest is payable semi-annually, every 30th of June and 31st of December.

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 ₱1.62 billion as of December 31, 2019, 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.

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 ₱38.70 billion as of December 31, 2019, 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, 2019 and 2018.



18. Customers' Deposits

	2019	2018
Lines and poles	₱1,149,552	₱1,101,664
Transformers	1,077,175	1,044,037
Bill and load	4,294,742	3,862,663
	₱6,521,469	₱6,008,364

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 ₱4.3 million in 2019, ₱2.1 million in 2018, ₱3.2 million in 2017 (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 ₱19.4 million and ₱6.6 million as of December 31, 2019 and 2018, respectively, and are presented as part of "Trade and other payables" (see Note 15).



19. Decommissioning liability

Decommissioning liability 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).

	2019	2018
Balances at beginning of year	₱3,678,810	₱2,959,060
Change in accounting estimate (see Note 12)	(321,948)	559,996
Accretion of decommissioning liability (see Note 33)	210,630	159,754
	₱3,567,492	₱3,678,810

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)

	2019	2018
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, 2019, 2018 and 2017, the Company has 631, 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, 2019 and 2018.

b. Retained Earnings

As of December 31, 2019, the Company has an appropriated retained earnings amounting to with regard to the development and construction of power plants. The BOD has approved the appropriation of ₱13.16 billion and ₱20.90 billion on November 24, 2016 and November 27, 2014, respectively.

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.

On March 7, 2019, the BOD approved the declaration of regular cash dividends of ₱1.47 a share (₱10.82 billion) to all stockholders of record as of March 21, 2019. These dividends were paid 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.

To comply with the requirements of Section 43 of the Corporation Code, on March 6, 2020, the BOD approved the declaration of regular cash dividends of ₱1.18 a share (₱8.68 billion) to all stockholders of record as of March 20, 2020. The cash dividends are payable on April 3, 2020.

- c. The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint arrangement amounting to ₱57.57 billion and ₱52.77 billion as at December 31, 2019 and 2018, 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

- a. 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.
- b. 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 ₱46.12 billion, ₱44.88 billion, and ₱43.53 billion in 2019, 2018 and 2017, 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 ₱6.37 billion, ₱6.77 billion and ₱3.80 billion in 2019, 2018 and 2017, 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 ₱46.78 billion in 2019, ₱55.08 billion in 2018, and ₱53.61 billion in 2017.

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 ₱22.81 billion, ₱24.22 billion, and ₱18.07 billion in 2019, 2018 and 2017, respectively.



22. Purchased Power

Distribution

The Group's distribution utilities entered into contracts with NPC/PSALM and generation companies for the purchase of electricity, and into Transmission Service Agreements with NGCP for the transmission of electricity.

To avail of opportunities in the competitive electricity market, some of the Group's distribution utilities registered as direct participants of the WESM.

Total purchased power amounted to ₱22.38 billion, ₱24.18 billion, ₱22.47 billion in 2019, 2018 and 2017, respectively.

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.

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.

Total purchased power amounted to ₱7.60 billion, ₱4.87 billion, ₱6.63 billion in 2019, 2018 and 2017, respectively.

Retail Electricity Supply

AESI pays PSALM monthly generation payments using the formula specified in the IPP Administration Agreement. In October 2019, a compromise agreement with PSALM was effected, which includes the termination of supply and ₱125.0 million payment of AESI as termination fee.

The Group also purchases from WESM in order to supply its contestable customers.

Total purchased power amounted to ₱6.43 billion, ₱7.55 billion, ₱6.29 billion in 2019, 2018 and 2017, respectively.

23. Cost of Generated Power

	2019	2018	2017
Fuel costs (see Note 7)	₱29,394,773	₱29,423,013	₱22,324,825
Steam supply costs (see Note 36a)	5,008,607	5,227,807	4,981,187
Energy fees	694,696	646,317	668,558
Ancillary charges	360,095	355,260	547,291
Wheeling expenses	68,535	21,821	35,895
	₱35,526,706	₱35,674,218	₱28,557,756



24. General and Administrative

	2019	2018	2017
Personnel costs (see Note 26)	₱2,641,365	₱2,647,636	₱2,609,400
Taxes and licenses	1,680,928	1,496,779	1,033,227
Outside services (see Note 32)	1,031,326	1,132,345	1,087,347
Professional fees (see Note 32)	814,149	608,107	256,779
Repairs and maintenance	306,316	420,524	377,788
Corporate social responsibility (CSR) (see Note 40)	299,595	308,918	331,027
Transportation and travel (see Note 32)	206,861	230,658	195,016
Insurance	205,998	209,590	226,712
Information technology and communication	181,746	108,332	106,213
Training	156,027	70,080	80,482
Provision for expected credit losses of trade receivables (see Note 6)	87,086	235,818	77,708
Rent (see Notes 32 and 35)	44,916	224,758	95,974
Entertainment, amusement and recreation	40,916	39,689	23,862
Advertisements	33,798	41,768	53,583
Guard services	25,570	2,960	10,463
Freight and handling	4,264	2,343	5,245
Gasoline and oil	1,020	1,631	1,339
Supervision and regulatory fees	584	797	2,413
Market service and administrative fees	—	30,818	23,075
Others	392,901	374,961	624,615
	₱8,155,366	₱8,188,512	₱7,222,268

“Others” include host community-related expenses, provision for probable losses, claims conversion costs and utilities expenses.



25. Operations and Maintenance

	2019	2018	2017
Repairs and maintenance	₱2,076,988	₱1,659,288	₱1,262,634
Personnel costs (see Note 26)	1,586,624	1,781,283	1,482,775
Taxes and licenses	1,167,990	861,626	1,052,800
Outside services	944,561	684,074	808,436
Insurance	787,983	752,425	789,210
Materials and supplies (see Note 7)	275,814	201,903	339,734
Transportation and travel	104,858	37,444	69,795
Fuel and lube oil (see Note 7)	77,880	84,806	72,412
Rent (see Note 35)	11,980	171,989	204,818
Others	331,694	290,351	366,574
	₱7,366,372	₱6,525,189	₱6,449,188

"Others" include environmental, health and safety expenses, and transmission charges.

26. Personnel Costs

	2019	2018	2017
Salaries and wages	₱3,105,859	₱3,798,218	₱2,978,818
Employee benefits (see Note 27)	1,122,130	630,701	1,113,357
	₱4,227,989	₱4,428,919	₱4,092,175

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):

	2019	2018	2017
Current service cost	₱179,269	₱189,906	₱193,346
Net interest cost	5,012	15,379	10,730
Past service cost	(1,975)	(9,564)	15,319
	₱182,306	₱195,721	₱219,395

Remeasurement effects to be recognized in other comprehensive income:

	2019	2018	2017
Actuarial gain (losses) due to:			
Changes in financial assumptions	(₱145,431)	₱61,493	(₱4,455)
Changes in demographic assumptions	31,693	34,416	182,355
Return on assets excluding amount included in net interest cost	(18,050)	(96,856)	27,498
Experience adjustments	(82,122)	15,705	(252,957)
	(₱213,910)	₱14,758	(₱47,559)

Net pension assets

	2019	2018
Fair value of plan assets	₱342,117	₱1,150,771
Present value of the defined benefit obligation	(273,908)	(1,023,794)
	₱68,209	₱126,977

Net pension liabilities

	2019	2018
Present value of the defined benefit obligation	₱2,138,190	₱1,153,382
Fair value of plan assets	(1,712,143)	(908,525)
	₱426,047	₱244,857



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

	2019	2018
At January 1	₱2,177,176	₱2,331,322
Net benefit expense:		
Current service cost	179,269	189,906
Net interest cost	129,804	119,262
Past service cost	(1,975)	(9,564)
	307,098	299,604
Benefits paid	(271,204)	(330,546)
Transfers and others	3,168	(11,590)
Remeasurements in other comprehensive income:		
Actuarial loss (gain) due to:		
Experience adjustments	₱82,122	(₱15,705)
Changes in demographic assumptions	(31,693)	(34,416)
Changes in financial assumptions	145,431	(61,493)
	195,860	(111,614)
At December 31	₱2,412,098	₱2,177,176

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

	2019	2018
At January 1	₱2,059,296	₱2,026,494
Contribution by employer	156,252	367,917
Interest income included in net interest cost	124,792	103,883
Fund transfer from affiliates	3,174	(11,596)
Return on assets excluding amount included in net interest cost	(18,050)	(96,856)
Benefits paid	(271,204)	(330,546)
At December 31	₱2,054,260	₱2,059,296

Changes in net pension liability recognized in the consolidated balance sheets are as follows:

	2019	2018
At January 1	₱117,880	₱304,828
Retirement expense during the year	182,306	195,721
Transfers and others	(6)	6
Contribution to retirement fund	(156,252)	(367,917)
Actuarial loss (gain) recognized during the year	213,910	(14,758)
At December 31	₱357,838	₱117,880



The fair value of plan assets by each class as at the end of the reporting period are as follows:

	2019	2018
Cash and fixed-income investments	₱473,840	₱1,470,918
Financial assets at FVOCI	715,814	-
Financial assets at amortized cost	394,522	-
Equity instruments:		
Financial Institution	31,551	39,582
Power	145,155	103,193
Holding	147,253	178,538
Others	146,125	267,065
	1,580,420	588,378
Fair value of plan assets	₱2,054,260	₱2,059,296

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, 2019, 2018 and 2017 in determining pension benefit obligations for the Group's plans are shown below:

	2019	2018	2017
Discount rates	4.36%-6.00%	4.87%-8.18%	3.48%-5.21%
Salary increase rates	6.00%	7.00%	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, 2019, assuming if all other assumptions were held constant:

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rates	100	(₱28,519)
	(100)	235,579
Future salary increases	100	290,709
	(100)	(5,115)

The Group's defined benefit pension plans are funded by the Company and its subsidiaries.



The Group expects to contribute ₱161.08 million to the defined benefit plans in 2020. The average durations of the defined benefit obligation as of December 31, 2019 and 2018 are 7.0 to 22.02 years and 7.78 to 28.76 years, respectively.

28. Other Income (Expense) - net

	2019	2018	2017
Net foreign exchange gains (loss)	₱1,130,743	(₱2,055,085)	₱203,083
Surcharges	536,856	508,492	435,428
Non-utility operating income	170,640	142,363	145,948
Unrealized fair valuation gain on investment property	126,842	—	—
Rental income	67,854	42,290	39,704
Bargain purchase gain (see Note 9)	—	—	310,198
Write off of project costs and other assets	(31,431)	(50,922)	(79,881)
<i>(Forward)</i>			
Losses on disposal of property, plant and equipment	(₱304,631)	(₱292,799)	(₱86,193)
Reversal of (impairment) losses on property, plant and equipment, goodwill and other assets	245,489	(847,619)	(3,233,036)
Others - net	1,541,025	1,260,969	560,749
	₱3,483,387	(₱1,292,311)	(₱1,704,000)

Included in "Net foreign exchange gain (losses)" are the net gains and losses relating to currency forward transactions (see Note 34).

Reversal of (impairment) losses on property, plant and equipment, goodwill and other assets includes the following:

- The income from the 2019 recovery of a certain Aseagas asset previously impaired in 2017 amounting to ₱245.5 million.
- 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.
- The ₱2.64 billion impairment loss of Aseagas biomass plant which temporarily ceased its operation due to unavailability of the supply of organic effluent wastewater from source and in January 2018, Aseagas decided to make the plant shutdown permanently. In the year ending 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 reversal of APRI and TLI's liability to PSALM pertaining to GRAM and ICERA of ₱924.0 million in 2019 and income arising from the proceeds from claims of liquidating damages from contractor due to the delay of the completion of PEC's power plant amounting to ₱340.7 million in 2018. "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:

	2019	2018	2017
Current:			
Corporate income tax	₱3,460,636	₱3,713,410	₱3,772,375
Final tax	221,149	143,714	119,833
	3,681,785	3,857,124	3,892,208
Deferred	(466,287)	(931,501)	(33,810)
	₱3,215,498	₱2,925,623	₱3,858,398

Reconciliation between the statutory income tax rate and the Group's effective income tax rates follows:

	2019	2018	2017
Statutory income tax rate	30.00%	30.00%	30.00%
Tax effects of:			
Nondeductible interest expense	6.43	5.77	6.42
Nondeductible depreciation expense	1.42	1.18	1.22
Deductible lease payments	(11.53)	(9.57)	(9.89)
Income under income tax holiday (ITH)	(7.41)	(11.90)	(9.29)
Nontaxable share in net earnings of associates and joint ventures	(4.89)	(4.61)	(5.25)
Interest income subjected to final tax at lower rates - net	(1.57)	(0.89)	(0.78)
Others	1.30	0.34	1.94
	13.75%	10.32%	14.37%



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:

	2019	2018
Net deferred income tax assets:		
Allowances for impairment and probable losses	₱329,278	₱325,356
Net income from commissioning	1,536,161	1,562,631
Difference between the carrying amount of nonmonetary assets and related tax base	(1,299,507)	(1,673,699)
Unrealized foreign exchange loss	372,732	1,324,958
Net operating loss carryover (NOLCO)	1,298,227	189,267
Pension asset (liability):		
Unamortized contributions for past service	34,923	96,333
Recognized in other comprehensive income	20,662	127,234
Recognized in statements of income	25,609	(80,907)
Unamortized streetlight donations capitalized	(685)	(822)
Unamortized customs duties and taxes capitalized	(47,626)	(50,281)
Net provision for rehabilitation and restoration costs	427,114	393,397
Others	89,422	20,228
Net deferred income tax assets	₱2,786,310	₱2,233,695

	2019	2018
Net deferred income tax liabilities:		
Unamortized franchise	₱771,532	₱794,620
Fair value adjustments of property, plant and equipment	137,740	144,117
Unrealized foreign exchange gains	2,749	4,004
Unamortized customs duties and taxes capitalized	5,618	9,008
Pension asset (liability):		
Recognized in other comprehensive income	147,884	127,798
Recognized in statements of income	(168,678)	(149,723)
Unamortized past service cost	(35,972)	(42,743)
Allowances for impairment and probable losses	(22,934)	(33,738)
Others	10,532	4,947
Net deferred income tax liabilities	₱848,471	₱858,290

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 Group's NOLCO and MCIT amounting to ₱7.80 billion and ₱67.7 million, respectively, as of December 31, 2019 and ₱5.44 billion and ₱58.3 million, respectively, as of December 31, 2018, 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:

	2019	2018	2017
a. Net income attributable to equity holders of the parent	₱17,322,677	₱21,707,603	₱20,416,442
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)	₱2.35	₱2.95	₱2.77

There are no dilutive potential common shares for the years ended December 31, 2019, 2018 and 2017.

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:

2019

	Power Generation	Power Distribution	Parent and Others	Total
Revenue from power supply contracts	₱46,783,955	—	—	₱46,783,955
Revenue from distribution services	—	46,120,403	—	46,120,403
Revenue from retail electricity sales	—	—	22,805,450	22,805,450
Revenue from non-power supply contracts	9,111,632	—	—	9,111,632
Revenue from technical and management services	—	—	813,717	813,717
	₱55,895,587	₱46,120,403	₱23,619,167	₱125,635,157

2018

	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%, 22%, and 24% of the power generation revenues of the Group in 2018, 2018, and 2017 respectively.

Financial information on the operations of the various business segments are summarized as follows:

2019

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱55,895,587	₱46,120,403	₱23,619,167	₱-	₱125,635,157
Inter-segment	28,483,698	1,327,759	2,911,436	(32,722,893)	-
Total Revenue	₱84,379,285	₱47,448,162	₱26,530,603	(₱32,722,893)	₱125,635,157
Segment Results	₱21,830,533	₱5,885,145	₱1,140,196	₱-	₱28,855,874
Unallocated corporate income - net	2,406,999	956,784	119,604	-	3,483,387
INCOME FROM OPERATIONS	24,237,532	6,841,929	1,259,800	-	32,339,261
Interest expense and other financing costs	(10,957,821)	(507,019)	(2,582,806)	-	(14,047,646)
Interest income	943,542	41,972	306,189	-	1,291,703
Share in net earnings of associates and joint ventures	3,648,999	164,080	19,003,726	(19,002,843)	3,813,962
Provision for income tax	(1,230,697)	(1,742,500)	(242,301)	-	(3,215,498)
NET INCOME	₱16,641,555	₱4,798,462	₱17,744,608	(₱19,002,843)	₱20,181,782
OTHER INFORMATION					
Investments	₱59,646,763	₱881,812	₱161,528,818	(₱161,201,414)	₱60,855,979
Capital Expenditures	₱6,237,592	₱3,319,554	₱31,393	₱-	₱9,588,539
Segment Assets	₱298,890,572	₱33,688,098	₱191,993,277	(₱114,102,590)	₱410,469,357
Segment Liabilities	₱190,812,375	₱27,267,433	₱71,179,680	(₱12,433,142)	₱276,826,346
Depreciation and Amortization	₱8,694,303	₱1,010,396	₱37,397	₱153,599	₱9,895,695

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

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:

- The Company provides services to certain associates and joint ventures such as technical and legal assistance for various projects and other services.
- 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)
- 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 ₱958.3 million in 2019, ₱1.02 billion in 2018 and ₱1.04 billion in 2017.

The above transactions are settled 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		Terms	Conditions
	2019	2018	2017	2019	2018		
<i>Associates:</i>							
SFELAPCO	₱106,760	₱132,623	₱72,158	₱57,440	₱36,851	30-day; interest-free	Unsecured; no impairment
CEDC	74,074	71,880	101,367	24,615	—	30-day; interest-free	Unsecured; no impairment
GNPD	41,768	42,360	40,556	3,441	3,960	30-day; interest-free	Unsecured; no impairment
APO AGUA	24,545	—		24,194	—	30-day; interest-free	Unsecured; no impairment
Aboitiz InfraCapital, Inc.	1,055	—		281	—	30-day; interest-free	Unsecured; no impairment
	₱248,202	₱246,863	₱214,081	₱109,970	₱40,811		



b. Revenue - Sale of power

	Revenue			Receivable		Terms	Conditions
	2019	2018	2017	2019	2018		
<i>AEV and subsidiaries:</i>							
Pilmico Foods Corporation	₱203,398	₱166,121	₱216,330	₱19,850	₱5,765	30-day; interest-free	Unsecured; no Impairment
Lima Land, Inc.	9,842	47,947	3,031	2,709	1,509	30-day; interest-free	Unsecured; no Impairment
Cebu Industrial Park Developers, Inc.	2,540	2,640	2,650	156	237	30-day; interest-free	Unsecured; no Impairment
Aboitizland, Inc. and subsidiaries	—	14,588	18,060	—	1,698	30-day; interest-free	Unsecured; no Impairment
Lima Water Corporation	—	1,943	17,141	—	2,084	30-day; interest-free	Unsecured; no Impairment
<i>Associates and joint ventures</i>							
SFELAPCO	2,655,153	2,290,390	2,487,557	227,478	160,375	30-day; interest-free	Unsecured; no Impairment
MEC	312,055	—	—	44,017	—	30-day; interest-free	Unsecured; no Impairment
GNPD	37,212	—	—	—	—	30-day; interest-free	Unsecured; no Impairment
SNAP RES	28,983	19,442	14,209	1	1,583	30-day; interest-free	Unsecured; no Impairment
SNAP M	22,802	9,193	—	—	—	30-day; interest-free	Unsecured; no Impairment
<i>Other related parties</i>							
Republic Cement & Building Materials, Inc. (an associate of AEV)	1,295,957	1,341,456	101,092	52,320	129,905	30-day; interest-free	Unsecured; no impairment
Aboitiz Construction International, Inc.	—	11,218	2,410	—	1,263	30-day; interest-free	Unsecured; no impairment
	₱4,733,196	₱4,256,884	₱3,268,846	₱346,533	₱343,897		

c. Cost of purchased power

	Purchases			Payable		Terms	Conditions
	2019	2018	2017	2019	2018		
Associates and joint ventures							
CEDC	₱3,619,999	₱4,196,052	₱4,540,798	₱339,494	₱303,563	30-day; interest-free	Unsecured
SNAP M	109,142	110,432	158,015	8,012	8,722	30-day; interest-free	Unsecured
SFELAPCO	—	14,287	23,592	—	—	30-day; interest-free	Unsecured
SNAP B	—	—	126,731	—	—	30-day; interest-free	Unsecured
	₱3,729,141	₱4,320,771	₱4,849,136	₱347,506	₱312,285		



d. Expenses

		Purchases/Expenses			Payable			
	Nature	2019	2018	2017	2019	2018	Terms	Conditions
Ultimate Parent								
ACO	Professional fees	₱1,663	₱9,105	₱18,296	₱1,309	₱955	30-day; interest-free	Unsecured
AEV and subsidiaries								
AEV	Professional and Technical fees	591,310	487,770	766,866	91,168	18,858	30-day; interest-free	Unsecured
Lima Land, Inc.	Concession fees	78,516	67,044	59,151	5,378	5,421	30-day; interest-free	Unsecured
AAI	Aviation Services	55,537	46,217	61,189	10,847	—	30-day; interest-free	Unsecured
CPDC	Rental	34,862	26,939	34,711	—	—	30-day; interest-free	Unsecured
AEV	Rental	2,213	—	—	—	—	30-day; interest-free	Unsecured
Aboitizland, Inc. and subsidiaries	Rental	280	258	1,163	—	—	30-day; interest-free	Unsecured
CPDC	Professional and Technical fees	64	—	7	—	—	30-day; interest-free	Unsecured
ACI	Professional and Technical fees	—	—	16,789	—	—	30-day; interest-free	Unsecured
		₱764,445	₱637,333	₱958,172	₱108,702	₱25,234		

e. Capitalized construction and rehabilitation costs

	Purchases			Payable		Terms	Conditions
	2019	2018	2017	2019	2018		
<i>Other related parties</i>							
ACI	P458,564	P399,105	P727,378	P212,358	P—	30-day; interest-free	Unsecured

f. Capitalized construction and rehabilitation costs

	Interest Expense			Payable		Terms	Conditions
	2019	2018	2017	2019	2018		
Parent							
AEV	P17,919	P22,390	P44,299	P607,620	P930,960	Promissory note; interest-bearing	Unsecured

g. Notes receivable

	Interest Income			Receivable		Terms	Conditions
	2019	2018	2017	2019	2018		
Joint venture							
Sacasun	P—	P—	P151,040	P—	P—	Loan agreement; interest-bearing	Unsecured



h. Cash deposits and placements with UBP

	Interest Income			Outstanding Balance		Terms	Conditions
	2019	2018	2017	2019	2018		
Company	₱106,743	₱67,982	₱54,450	₱22,806	₱6,143,040	90 days or less; interest-bearing	No impairment
TPI and subsidiaries	67,184	269,597	57,888	4,644,453	6,091,050	90 days or less; interest-bearing	No impairment
ARI and subsidiaries	40,802	71,686	47,101	1,708,116	3,243,580	90 days or less; interest-bearing	No impairment
AESI	15,026	9,556	14,084	856,115	880,422	90 days or less; interest-bearing	No impairment
AI	15,332	7,091	3,501	729,907	1,241,725	90 days or less; interest-bearing	No impairment
CPPC	11,710	5,234	2,396	607,526	405,191	90 days or less; interest-bearing	No impairment
VECO	10,144	2,304	3,525	988,027	57,761	90 days or less; interest-bearing	No impairment
EAUC	5,740	3,932	4,629	212,010	229,886	90 days or less; interest-bearing	No impairment
DLP	3,025	1,564	3,505	122,147	156,235	90 days or less; interest-bearing	No impairment
PEI	888	121	76	175,572	99,358	90 days or less; interest-bearing	No impairment
CLP	402	157	306	3,025	40,783	90 days or less; interest-bearing	No impairment
MEZ	311	153	213	3,145	37,875	90 days or less; interest-bearing	No impairment
SEZ	262	176	1,575	4,044	73,548	90 days or less; interest-bearing	No impairment
BEZ	205	156	174	2,515	20,375	90 days or less; interest-bearing	No impairment
LEZ	41	2,635	2,034	27,872	28,819	90 days or less; interest-bearing	No impairment
MVEZ	35	—	—	32,290	3,280	90 days or less; interest-bearing	No impairment
CIPI	—	—	—	200	200	90 days or less; interest-bearing	No impairment
MHSCI	—	—	—	49	49	90 days or less; interest-bearing	No impairment
SACASUN	—	—	—	178	—	90 days or less; interest-bearing	No impairment
APInt	—	—	—	105	105	90 days or less; interest-bearing	No impairment
	₱277,850	₱442,344	₱195,457	₱10,140,102	₱18,753,282		

The Company's Fund is in the form of a trust being maintained and managed by AEV. In 2019 and 2018, 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:

	2019	2018	2017
Short-term benefits	₱456,844	₱439,859	₱461,779
Post-employment benefits	30,616	25,998	28,518
	₱487,460	₱465,857	₱490,297



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, lease liabilities, 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. 6.97% and 6.08% of the Group's debt will mature in less than one year as of December 31, 2019 and 2018 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 ₱37.50 billion and ₱23.90 billion, respectively, as of December 31, 2019 and ₱46.34 billion and ₱24.90 billion, respectively, as of December 31, 2018 (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, 2019 and 2018 based on contractual undiscounted payments:

December 31, 2019

	Total Carrying Value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Short-term loans	₱10,335,420	₱10,547,767	₱—	₱10,547,767	₱—	₱—
Trade and other payables*	24,882,034	24,882,034	2,115,302	15,954,482	6,812,250	—
Long-term debts	177,971,622	243,705,445	—	17,883,835	129,204,381	96,617,229
Customers' deposits	6,521,469	6,521,469	—	25,199	184,625	6,311,645
Lease liabilities	44,789,644	63,070,543	—	9,117,883	44,872,854	9,079,806
Long-term obligation on PDS	199,350	360,000	—	40,000	200,000	120,000
Derivative liabilities	2,468,324	2,468,324	—	2,255,736	212,588	—
	₱267,167,863	₱351,555,582	₱2,115,302	₱55,824,902	₱181,486,698	₱112,128,680

*Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent liabilities in the consolidated balance sheet.

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
Lease liabilities	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.

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, 2019, 16% of the Group's long-term debt had annual floating interest rates ranging from 3.09% to 4.81%, and 84% have annual fixed interest rates ranging from 4.05% to 9.00%. 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%.



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, 2019

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	₱1,887,609	₱23,257,354	₱4,183,912	₱29,328,875

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

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 2019	200	(₱586,577)
	(100)	293,289
December 2018	200	(₱325,094)
	(100)	162,547

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:

	2019	2018	2017
Short-term loans and long-term debt (see Notes 16 and 17)	₱9,443,882	₱7,237,217	₱6,458,347
Lease liabilities (see Note 35)	4,350,043	4,659,794	4,757,379
Customers' deposits (see Note 18)	4,353	2,143	3,230
Other long-term obligations (see Notes 13 and 19)	249,368	183,004	28,824
	₱14,047,646	₱12,082,158	₱11,247,780

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 32% and 31% of total consolidated borrowings as of December 31, 2019 and 2018, respectively.

Presented below are the Group's foreign currency denominated financial assets and liabilities as of December 31, 2019 and 2018, translated to Philippine Peso:

	December 31, 2019		December 31, 2018	
	US Dollar	Philippine Peso equivalent ¹	US Dollar	Philippine Peso equivalent ²
Financial assets:				
Cash and cash equivalents	\$43,352	₱2,195,129	\$227,911	₱11,983,534
Trade and other receivables	18,725	948,140	26,591	1,398,184
Advances to associates	-	-	592	31,127
Total financial assets	62,077	3,143,269	255,094	13,412,845
Financial liabilities:				
Short-term loans	12,000	607,620	12,000	630,960
Trade and other payables	13,439	680,493	2,934	154,294
Long-term debt	300,000	15,190,500	-	-
Lease liabilities	443,002	22,431,406	479,512	25,212,741
Total financial liabilities	768,441	38,910,019	494,446	25,997,995
Total net financial liabilities	(\$706,364)	(₱35,766,750)	(\$239,352)	(₱12,585,150)

¹US\$1 = ₱50.64

²US\$1 = ₱52.58

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
2019		
US Dollar denominated accounts	US Dollar strengthens by 5%	(₱1,788,338)
US Dollar denominated accounts	US Dollar weakens by 5%	1,788,338
2018		
US Dollar denominated accounts	US Dollar strengthens by 5%	(₱629,257)
US Dollar denominated accounts	US Dollar weakens by 5%	629,257



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:

	2019		2018	
	Philippine Peso	US Dollar Equivalent ¹	Philippine Peso	US Dollar Equivalent ²
Financial assets:				
Cash and cash equivalents	₱718,508	\$14,190	₱1,212,747	\$23,065
Trade and other receivables	461,052	9,105	801,466	15,243
	1,179,560	23,295	2,014,213	38,308
Financial liabilities:				
Trade and other payables	842,075	16,630	608,306	11,569
Net foreign currency denominated assets	₱337,485	\$6,665	₱1,405,907	\$26,739

¹US\$1 = ₱50.64

²US\$1 = ₱52.58

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
2019	
U.S. dollar appreciates against Philippine peso by 5.0%	(\$333)
U.S. dollar depreciates against Philippine peso by 5.0%	333
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

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, 2019 and 2018 is summarized in the following table:

	2019	2018
Power distribution:		
Industrial	₱5,554,969	₱4,973,567
Residential	1,825,217	1,676,936
Commercial	437,994	778,623
City street lighting	111,570	30,006
Power generation:		
Power supply contracts	1,481,760	4,567,682
Spot market	5,520,439	2,533,211
	₱14,931,949	₱14,560,025

The above receivables were provided with allowance for ECL amounting to ₱1.97 billion in 2019 and ₱1.75 billion in 2018 (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:

	2019			2018		
	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	₱7,639,069	₱7,639,069	₱-	₱7,619,514	₱7,619,514	₱-

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, 2019

	Neither past due nor impaired			Past due or individually impaired	Total
	High Grade	Standard	Sub-standard		
Cash and cash equivalents:					
Cash on hand and in banks	₱14,177,919	₱-	₱-	₱-	₱14,177,919
Short-term deposits	23,256,010	-	-	-	23,256,010
	37,433,929	-	-	-	37,433,929
Trade receivables:					
Power supply contracts	2,848,479	-	-	2,671,960	5,520,439
Spot market	84,853	-	-	1,396,907	1,481,760
Industrial	5,274,393	-	-	280,576	5,554,969
Residential	1,346,631	-	-	478,586	1,825,217
Commercial	301,098	-	-	136,896	437,994
City street lighting	99,320	-	-	12,250	111,570
	9,954,774	-	-	4,977,175	14,931,949
Other receivables*	10,929,212	-	-	-	10,929,212
Financial assets at FVTPL	3,906	-	-	-	3,906
Restricted cash	9,121,747	-	-	-	9,121,747
Derivative assets	82,327	-	-	-	82,327
Total	₱67,525,895	₱-	₱-	₱4,977,175	₱72,503,070

*Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent assets in the consolidated balance sheets.

December 31, 2018

	Neither past due nor impaired			Past due or individually impaired	Total
	High Grade	Standard	Sub-standard		
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.



	2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
High grade	P57,571,121	P9,954,774	P-	P67,525,895
Standard grade	-	-	-	-
Substandard grade	-	-	-	-
Default	-	3,027,476	1,949,699	4,977,175
Gross carrying amount	57,571,121	12,982,250	1,949,699	72,503,070
Loss allowance	-	23,821	1,949,699	1,973,520
Carrying amount	P57,571,121	P12,958,429	P-	P70,529,550

	2018			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
High grade	P64,101,115	P10,170,338	P-	P74,271,453
Standard grade	-	8,857	-	8,857
Substandard grade	-	162	-	162
Default	20,171	2,879,856	1,500,812	4,400,839
Gross carrying amount	64,121,286	13,059,213	1,500,812	78,681,311
Loss allowance	-	249,179	1,500,812	1,749,991
Carrying amount	P64,121,286	P12,810,034	P-	P76,931,320

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:

December 31, 2019

	Total	Neither past due nor impaired	Past due but not impaired			Individually impaired
			Less than 30 days	31 days to 60 days	Over 60 days	
Cash and cash equivalents:						
Cash on hand and in banks	P14,177,919	P14,177,919	P-	P-	P-	P-
Short-term deposits	23,256,010	23,256,010	-	-	-	-
	37,433,929	37,433,929	-	-	-	-
Trade receivables:						
Power supply contracts	5,520,439	2,848,479	208,094	222,758	1,663,483	577,625
Spot market	1,481,760	84,853	9,339	1,405	126,148	1,260,015
Industrial	5,554,969	5,274,393	77,650	18,126	169,528	15,272
Residential	1,825,217	1,346,631	166,663	30,187	182,435	99,301
Commercial	437,994	301,098	39,269	5,628	71,720	20,279
City street lighting	111,570	99,320	8,801	1,931	490	1,028
	14,931,949	9,954,774	509,816	280,035	2,213,804	1,973,520
Other receivables*	10,929,212	10,929,212	-	-	-	-
Financial assets at FVTPL	3,906	3,906	-	-	-	-
Restricted cash	9,121,747	9,121,747	-	-	-	-
Derivative assets	82,327	82,327	-	-	-	-
Total	P72,503,070	P67,525,895	P509,816	P280,035	P2,213,804	P1,973,520

*Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent assets in the consolidated balance sheets.

December 31, 2018

	Total	Neither past due nor impaired	Past due but not impaired			Individually impaired
			Less than 30 days	31 days to 60 days	Over 60 days	
Cash and cash equivalents:						
Cash on hand and in banks	P11,426,051	P11,426,051	P-	P-	P-	P-
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	P78,681,311	P74,280,472	P949,185	P245,639	P1,456,024	P1,749,991

*Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent assets in the consolidated balance sheets.

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 loans, long-term loans, and lease liabilities less cash and short-term deposits (including restricted cash).

Gearing ratios of the Group as of December 31, 2019 and 2018 are as follows:

	2019	2018
Short-term loans	₱10,335,420	₱11,546,560
Long-term debt	222,761,266	204,952,046
Cash and cash equivalents	(37,433,929)	(46,343,041)
Restricted cash	(9,121,747)	(5,289,145)
Net debt (a)	186,541,010	164,866,420
Equity	133,643,011	136,576,667
Equity and net debt (b)	320,184,021	301,443,087
Gearing ratio (a/b)	58.26%	54.69%

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, 2019 and 2018 (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, 2019 and 2018, 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, 2019 and 2018.

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.

	2019		2018	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Asset				
PSALM deferred adjustment	₱3,183,080	₱2,846,279	₱4,225,950	₱3,889,099
Financial Liabilities				
Lease liabilities	₱44,789,644	₱38,495,450	₱46,894,355	₱40,495,647
Long-term debt - fixed rate	148,642,748	152,786,437	141,802,994	138,103,091
PSALM deferred adjustment	3,183,080	2,846,279	4,225,950	3,889,099
Long-term obligation on power distribution system	199,350	320,194	213,496	297,790
	₱196,814,822	₱194,448,360	₱193,136,795	₱182,785,627

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 3.47% to 6.52% in 2019 and 3.15% to 7.53% in 2018.

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.

Lease liabilities. The fair value of lease liabilities was calculated by discounting future cash flows using discount rates of 3.10% to 4.13% for dollar payments and 6.68% to 7.04% for peso payments in 2019 and 2.33% to 2.73% for dollar payments and 5.26% to 6.67% for peso payments in 2018.

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.



Financial assets at FVTPL. 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, 2019, the outstanding notional amount and derivative asset as a result of the swap amounted to \$11.2 million and ₱2.2 million, respectively. As of December 31, 2018, the outstanding notional amount and derivative asset as a result of the swap amounted to \$16.6 million and ₱19.6 million, respectively.

GMCP 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 \$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, 2019, the outstanding notional amount and derivative liability as a result of the swap amounted to \$267.5 million and ₱252.3 million, respectively. As of December 31, 2018, the outstanding notional amount and derivative asset as a result of the swap amounted to \$288.5 million and ₱272.2 million, respectively.

In September 2019, the Company entered into an interest rate swap agreement effective September 30, 2019 to hedge \$150 million of its floating rate exposure on its loan (see Note 17). Under the interest rate swap agreement, the Company, on a quarterly basis, pays a fixed rate of 1.449300% per annum and received variable interest at 3-month LIBOR, subject to a floor of 0%. 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 interest rate swap has amortizing notional amounts which cover a period up to April 30, 2024. The Company designated the swap as a cash flow hedge.

As of December 31, 2019, the outstanding notional amount and fair value of the swap amounted to ₱7.60 billion and ₱80.1 million, respectively.

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 \$1.2 million and US\$2.6 million, respectively. The contracts were 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, 2019, the aggregate notional amount of the forward contracts is ₱13.09 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, 2019 and 2018, the aggregate notional amount of the par forward contracts is \$16.8 million (₱0.9 billion) and \$25.2 million (₱1.3 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:

December 31, 2019

	Maturity					Total
	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 years	More than 2 years	
IRS - Derivative Assets						
Notional amount (in PHP)	—	111,397	167,096	278,493	7,602,845	8,159,831
Average fixed interest rate (%)	1.45%-1.51%	1.45%-1.51%	1.45%-1.51%	1.45%-1.51%	1.45%-1.51%	
IRS - Derivative Assets						
Notional amount (in PHP)	505,084	—	319,001	744,335	11,973,912	13,542,332
Average fixed interest rate (%)	2.18%	2.18%	2.18%	2.18%	2.18%	
Foreign Currency Forward Contracts - Derivative Assets						
Notional amount (in PHP)	35,448	—	—	—	—	35,448
Average forward rate (in PHP)	51	—	—	—	—	
Foreign Currency Forward Contracts - Derivative Liability						
Notional amount (in PHP)	2,549,299	2,459,085	4,447,858	2,809,170	861,922	13,127,334
Average forward rate (in PHP)	53	53	53	55	54	
Commodity swaps - Derivative Liability						
Notional amount (in metric tonnes)	361,500	328,500	447,500	651,500	269,000	2,058,000
Notional amount (in PHP)	1,659,132	1,494,677	2,008,052	2,873,693	1,147,704	9,183,258
Average hedged rate (in PHP per metric tonne)	4,590	4,550	4,487	4,411	4,267	

December 31, 2018

	Maturity					Total
	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 years	More than 2 years	
IRS - Derivative Assets						
Notional amount (in PHP)	552,090	115,676	725,604	1,144,930	13,503,859	16,042,159
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 hedged items and hedging instruments in the consolidated balance sheet as of December 31, 2019 and 2018, and consolidated statements of income and comprehensive income for the years ended December 31, 2019 and 2018, is as follows:

As at 31 December 2019				
	Carrying amount	Change in fair value used for measuring ineffectiveness	Total hedging gain (loss) recognized in OCI	Ineffectiveness recognized in other comprehensive income (charges)
IRS				
Derivative asset	₱82,328	₱80,134	₱63,429	₱-
Derivative liability	(252,327)	-	(515,811)	-
Forward exchange currency forwards				
Derivative asset	13,116	13,116	13,116	-
Derivative liability	(521,528)	(521,528)	(405,516)	-
Commodity swaps				
Derivative asset	-	-	(195,428)	-
Derivative liability	(1,689,952)	(1,689,952)	(1,461,259)	(8,430)
As at 31 December 2018				
	Carrying amount	Change in fair value used for measuring ineffectiveness	Total hedging gain (loss) recognized in OCI	Ineffectiveness recognized in other comprehensive income (charges)
IRS				
Derivative asset	₱291,764	₱272,185	₱168,841	₱2,095
Forward exchange currency forwards				
Derivative asset	210	(539)	-	-
Derivative liability	(118,596)	(228,658)	(117,304)	(1,292)
Commodity swaps				
Derivative asset	1,200	22,141	195,428	1,003
Derivative liability	(40,311)	(154,829)	(235,351)	(8,141)

The movements in fair value changes of all derivative instruments for the year ended December 31, 2019 and 2018 are as follows:

	2019	2018
At beginning of year	₱132,902	₱294,364
Net changes in fair value of derivatives designated as cash flow hedges	(2,515,732)	(125,642)
Net changes in fair value of derivatives not designated as accounting hedges	(3,889)	(72,252)
Fair value of settled instruments	722	36,432
At end of year	(₱2,385,997)	₱132,902

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:

	2019	2018
Balance at beginning of year (net of tax)	₱261,378	₱139,879
Changes in fair value recorded in equity	(2,495,146)	203,751
	(2,233,768)	343,630
Transfer to construction in progress	-	(77,180)
Changes in fair value transferred to profit or loss	(8,218)	(7,579)
Balance at end of year before deferred tax effect	(2,241,986)	258,871
Deferred tax effect	(15,303)	2,507
Balance at end of year (net of tax)	(₱2,257,289)	₱261,378

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, 2019 and 2018, the Group held the following financial instruments that are measured and carried or disclosed at fair value:

December 31, 2019

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative assets	₱110,576	₱-	₱110,576	₱-
Derivative liabilities	2,468,324	-	2,468,324	-
Disclosed at fair value:				
Lease liabilities	38,495,450	-	-	38,495,350
Long-term debt - fixed rate	152,786,437	-	-	152,786,437
Long-term obligation on PDS	320,194	-	-	320,194

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:				
Lease liabilities	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



The fair values of the Group's investment properties were determined as follows:

- In valuing the land, the Group used the Sales Comparison Approach. This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison.
- The appraiser gathers data on actual sales and/or listings, offers, and renewal options, and identifies the similarities and differences in the data, ranks the data according to their relevance, adjusts the sales prices of the comparable to account for the dissimilarities with the unit being appraised, and forms a conclusion as to the most reasonable and probable market value of the subject property.

The elements of comparison include location, physical characteristics, available utilities, zoning, and highest and best use. The most variable elements of comparison are the site's physical characteristics, which include its size and shape, frontage, topography and location.

Fair value investment properties are estimated under Level 3 inputs.

During the years ended December 31, 2019 and 2018, 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 "Lease liabilities" 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 2019, 2018 and 2017 amounted to ₱4.14 billion, ₱4.66 billion, and ₱4.76 billion, 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 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

¹US\$1 = ₱52.58 in 2018

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 and 2017 (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.

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 on 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 as of December 31, 2018 (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 for a period of 25 years.



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).

Lease Disclosure in Accordance with PAS 17 (applicable prior to January 1, 2019)

Future minimum lease payments under the non-cancellable operating leases of GMCP, Sacasun, HI, HTI, HSI, Therma Mobile, EAUC and TPVI as of December 31, 2018 are as follows (amounts in millions):

Not later than 1 year	₱292.9
Later than 1 year but not later than 5 years	749.5
Later than 5 years	6,039.2
	<u>₱7,081.6</u>

Total lease charged to operations related to these contracts amounted to ₱263.5 million in 2018 and ₱163.7 million in 2017 (see Note 25).

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

Lease Disclosure in Accordance with PFRS 16 (applicable beginning January 1, 2019)

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the year ended December 31, 2019:

	Right-of-use assets				Total	Lease liability
	Land	Building	Power plant	Equipment and others		
As at January 1, as previously stated	₱—	₱—	₱—	₱—	₱—	₱—
Effect of adoption - PFRS 16 (see Note 3)	2,804,819	249,400	34,669,713	116,437	37,840,369	49,190,986
As at January 1, 2019, as restated	2,804,819	249,400	34,669,713	116,437	37,840,369	49,190,986
Additions	24,249	—	—	—	24,249	—
Amortization expense	(98,992)	(19,166)	(1,094,513)	(10,402)	(1,223,073)	—
Interest expense	—	—	—	—	—	4,350,043
Payments	—	—	—	—	—	(7,424,990)
Others	—	—	—	11,567	11,567	(1,326,395)
As at December 31	₱2,730,076	₱230,234	₱33,575,200	₱117,602	₱36,653,112	₱44,789,644

The carrying amount of the Group's right-of-use assets as of December 31, 2019 is presented as part of "Property, plant and equipment".

The Group also has certain leases of equipment, meeting rooms and event sites with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemption of these leases.



Set out below, are the amounts recognized in the consolidated statements of income for the year ended December 31, 2019:

Amortization expense of right-of-use assets	₱1,223,073
Interest expense on lease liabilities	4,350,043
Rent expense - short-term leases	58,896
	<u>₱5,632,012</u>

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):

- Supply and deliver all fuel for the power plant in accordance with the specifications of the original Energy Conservation Agreement (ECA); and
- 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:

- The right to receive, manage and control the Capacity of the power plant for its own account and at its own cost and risk;
- 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;
- 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
- 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

- APRI total steam supply cost reported as part of "Cost of generated power" amounted to ₱5.01 billion in 2019, ₱5.23 billion in 2018, and ₱4.98 billion in 2017 (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 nil and ₱526.7 million as of December 31, 2019 and 2018, respectively. Total payments made for the commitments amounted to \$5.7 million and nil as of December 31, 2019 and 2018.
- c. TLI enters into short-term coal supply agreements. Outstanding coal supply agreements as of December 31, 2019 have aggregate supply amounts of 560,000 MT (equivalent dollar value is estimated to be at \$28.6 million), which are due for delivery from January 2020 to April 2020. 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. The agreement was extended for two (2) months ending on December 31, 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. The joint operation has a retention payable amounting to ₱280.3 million as of December 31, 2019 and 2018, which is presented as part of "Trade and other payables" 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	July 2, 2018 ⁶	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 Irian-1 hydroelectric plant.

⁶ For Manolo-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, 2019 and 2018, 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, 2019

	January 1, 2019	Net cash flows	Effect of Adoption - PFRS 16 (see Note 3)	Non-cash Changes					December 31, 2019
				Dividend declaration	Amortized deferred financing costs	Foreign exchange movement	Changes in Fair values	Accreted interest	
Current interest-bearing loans and borrowings, excluding obligations under finance leases	P20,243,964	(P9,885,204)	P-	P-	P-	(P23,340)	P-	P-	P20,721,731
Non-current interest-bearing loans and borrowings, excluding obligations under finance leases	149,360,287	30,378,265	-	-	231,245	(1,506,799)	-	-	167,585,311
Current obligations under lease liabilities	-	(7,424,990)	7,424,990	-	-	-	-	-	5,486,745
Non-current obligations under lease liabilities	-	-	41,765,996	-	-	-	-	-	39,302,899
Current obligations under finance leases	4,131,059	-	(4,131,059)	-	-	(2,018,791)	-	4,350,043	-
Non-current obligations under finance leases	42,763,296	-	(42,763,296)	-	-	-	-	-	-
Dividends payable	-	(10,817,148)	-	10,817,148	-	-	-	-	-
Derivatives	159,926	-	-	-	-	-	2,308,398	-	2,468,324
Total liabilities from financing activities	P216,658,532	P2,250,923	P2,296,631	P10,817,148	P231,245	(P3,548,930)	P2,308,398	P4,350,043	P201,020
									P235,565,010

December 31, 2018

	January 1, 2018	Net cash flows	Dividend declaration	Amortization of 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	P25,410,051	(P14,075,303)	P-	P260,372	(P48,560)	P-	P-	P8,697,404	P20,243,964
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
Current obligations under lease liabilities	3,316,165	(7,804,460)	-	-	-	-	-	8,619,354	4,131,059
Non-current obligations under lease liabilities	45,909,089	-	-	-	873,546	-	4,600,015	(8,619,354)	42,763,296
Dividends payable	-	(10,228,460)	P10,228,460	-	-	-	-	-	-
Derivatives	47,577	-	-	-	-	112,349	-	-	159,926
Total liabilities from financing activities	P206,043,631	(P7,335,504)	P10,228,460	P379,212	P2,625,837	P112,349	P4,600,015	P4,532	P216,658,532



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 ₱958.3 million in 2019, ₱1.02 billion in 2018 and ₱1.04 billion in 2017 (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, 2019, 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, 2019, 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, 2019, 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, 2019, 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.

In 2018, 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, 2019.

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, 2019.

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.

I. CSR Projects

The Group has several CSR projects in 2019, 2018 and 2017 which are presented as part of "General and administrative expenses" (see Note 24).



**INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

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 as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore

Maria Veronica Andresa R. Pore

Partner

CPA Certificate No. 90349

SEC Accreditation No. 0662-AR-4 (Group A),

November 21, 2019, valid until November 20, 2022

Tax Identification No. 164-533-282

BIR Accreditation No. 08-001998-71-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125281, January 7, 2020, Makati City

March 6, 2020



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 as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 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 Revised Securities Regulation Code Rule 68 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-4 (Group A),

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February 26, 2018, valid until February 25, 2021

PTR No. 8125281, January 7, 2020, Makati City

March 6, 2020



Aboitiz Power Corporation
and Subsidiaries

Supplementary Schedules
to the Financial Statements
Required by the Securities and Exchange Commission
For the Year Ended December 31, 2019

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, 2019

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NA: NOT APPLICABLE

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

AS OF DECEMBER 31, 2019
(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		P126	P-
Banco de Oro		4,730,415	259,580
Bank of Commerce		936	-
Bank of the Philippine Islands		570,521	17,409
Bank of Tokyo - Mitsubishi UFJ		91	-
Citibank		8,326	-
Development Bank of the Philippines		5,152	3
EPCI Bank		51	-
ING Bank N.V.		3,491	-
Land Bank of the Philippines		2,989	8
Metropolitan Bank and Trust Company		223,090	977
Philippine National Bank		99,107	34
Rizal Commercial Banking Corporation		2,443	19
Rural Bank of Davao		9,856	-
Security Bank Corporation		103,361	247
Standard Chartered Bank		59,988	681
Union Bank of the Philippines		8,211,548	125,597
Cash on Hand, Cash in Vault and Revolving Fund		146,428	-
TOTAL		P14,177,919	P404,555
MONEY MARKET PLACEMENT			
Banco de Oro		P1,944,117	P59,719
Bank of the Philippine Islands		690,132	36,936
China Trust Banking Corporation		-	9,707
City Savings Bank		14,267,875	492,210
First Metro Investment Corporation		700,000	2,455
Metropolitan Bank and Trust Company		303,716	18,097
Philippine National Bank		6,884	189
Security Bank Corporation		3,415,086	48,360
Mizuho Corporate Bank, Ltd.		-	67,222
Union Bank of the Philippines		1,928,200	152,253
TOTAL		P23,256,010	P887,148
TRADE AND OTHER RECEIVABLES			
Trade Receivables (net of allowance):		P1,725,916	P-
Residential		417,715	-
Commercial		5,539,697	-
Industrial		110,542	-
City street Lighting		221,745	-
Spot market		4,942,814	-
Power supply contracts		1,199,068	-
Dividends Receivable		63,339	-
Advances to contractors		3,462,523	-
Accrued Revenues		2,450,311	-
Non-trade Receivables		48,666	-
Interest receivable		1,042,861	-
PSALM Adjustment		522,225	-
Other Receivables			-
TOTAL		P21,747,422	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	-
Philex Mining Corp	2,168	5	-
Others	375,000	375	-
TOTAL		P3,906	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, 2019
(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.	P673,852	P7,220,068	(P7,148,780)	P-	P745,140	P-	P745,140
Therma Power, Inc. and Subsidiaries	12,956	823,006	(185,943)	-	650,019	-	650,019
Cotabato Light & Power Company	14,137	278,549	(268,619)	-	24,067	-	24,067
Aboitiz Renewables, Inc. and Subsidiaries	2,654	111,744	(108,666)	-	5,732	-	5,732
Subic Enerzone Corporation	170,171	381,307	(376,888)	-	174,590	-	174,590
Visayan Electric Co., Inc.	617,691	6,888,229	(6,682,757)	-	823,163	-	823,163
Aboitiz Energy Solutions, Inc.	1,329,516	9,330,541	(9,313,479)	-	1,346,578	-	1,346,578
Mactan Enerzone Corporation	1,052	5,430	(6,482)	-	0	-	0
Balamban Enerzone Corporation	1,134	4,848	(5,982)	-	0	-	0
Cebu Private Power Corporation	62,974	20,901	(1,162)	-	82,713	-	82,713
Lima Enerzone Corporation	33,338	353,996	(315,758)	-	71,576	-	71,576
East Asia Utilities Corporation	365.00	3,191	(2,772)	-	784	-	784
Prism Energy, Inc.	96,469.00	1,036,535	(1,048,652)	-	84,352	-	84,352
San Carlos Sun Power, Inc.	-	11	-	-	11	-	11
Adventenergy, Inc.	1,314,209	6,896,867	(7,533,449)	-	677,627	-	677,627
TOTAL	P4,330,518	P33,355,223	(P32,999,389)	P-	P4,686,352	P-	P4,686,352

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS

AS OF DECEMBER 31, 2019
(Amount in Thousands)

Description	Beginning Balance	Additions At Cost	DEDUCTIONS		Other Changes Additions (Deductions)	Ending Balance
			Charged to Costs and Expenses	Charged to Other Accounts		
A. Intangibles						
Goodwill	P40,224,411	P-	P-	P-	P651,671	P40,876,082
Service concession rights	2,789,610	60,625	(361,599)	-	(82,316)	2,406,320
Project development costs	388,468	234,023	-	-	-	622,491
Franchise	2,648,732	-	(76,960)	-	-	2,571,772
Customer contracts	8,582	-	(8,582)	-	-	-
Software and licenses	105,691	160,785	(30,640)	-	-	235,836
Total	P46,165,494	P455,433	(P477,781)	P-	P569,355	P46,712,501
B. Other Noncurrent Assets						
Restricted cash	P-	P-	P-	P-	P4,672,031	P4,672,031
Input vat and tax credit receivable	5,276,346	-	-	-	(841,997)	4,434,349
PSALM adjutment - net of current	3,183,089	-	-	-	(1,042,870)	2,140,219
Prepaid taxes	159,942	-	-	-	719,497	879,439
Advances to contractors and projects	464,139	-	-	-	89,141	553,280
Receivable from NGCP	-	-	-	-	-	-
Refundable deposits	375,014	-	-	-	(48,164)	326,850
Investment properties	3,300	-	-	-	129,000	132,300
Prepaid rent	1,051,102	-	-	-	(1,051,102)	-
Others	147,247	-	-	-	233,597	380,844
Total	P10,660,179	P-	P-	P-	P2,859,133	P13,519,312
Total	P56,825,673	P455,433	(P477,781)	P-	P3,428,488	P60,231,813

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE E - LONG-TERM DEBT

AS OF DECEMBER 31, 2019
(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	P50,079,825	P-	P50,079,825	
Subsidiaries:				
Hedcor, Inc.	1,739,170	118,729	1,620,441	
Subic Enerzone Corporation	113,000	56,500	56,500	
Luzon Hydro Corporation	563,664	277,839	285,825	
Davao Light & Power Co., Inc.	582,000	147,750	434,250	
Cotabato Light & Power Company	116,400	29,550	86,850	
Therma South, Inc.	19,893,083	1,283,069	18,610,014	
Pagbilao Energy Corp. (Joint Operation)	13,163,854	1,111,887	12,051,967	
Visayan Electric Co., Inc.	774,732	196,476	578,256	
GNPower Mariveles Coal Plant Ltd. Co.	37,044,441	3,219,539	33,824,902	
Therma Visayas, Inc.	31,229,677	2,065,254	29,164,423	
Therma Power - Visayas, Inc.	1,290,250	-	1,290,250	
AP Renewables, Inc.	7,997,979	1,215,355	6,782,624	
Hedcor Sibulan, Inc.	3,770,735	93,171	3,677,564	
Hedcor Bukidnon, Inc.	9,312,812	571,192	8,741,620	
Total	P177,671,622	P10,386,311	P167,285,311	

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

**SCHEDULE F - INDEBTEDNESS TO AFFILIATES
(LONG-TERM LOANS FROM AFFILIATED COMPANIES)**

AS OF DECEMBER 31, 2019
(Amounts in Thousands)

Name of Affiliate	Beginning Balance	Ending Balance
Aboitiz Equity Ventures, Inc.	P-	P300,000
	-	-
	-	-
Total	P -	P300,000

ABOITIZ POWER CORPORATION

SCHEDULE H - CAPITAL STOCK

AS OF DECEMBER 31, 2019
(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	140,087	1,399,582
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, 2019
(Amounts in Thousands)**

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Davao Light & Power Co., Inc.	P713,780	P31,360	P745,140	P7,220,068	P-	P-	30 days
Therma Power, Inc. and Subsidiaries	-	650,019	650,019	287,006	-	-	30 days
Cotabato Light & Power Company	21,849	2,218	24,067	278,549	-	-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	-	5,732	5,732	111,744	-	-	30 days
Subic Enerzone Corporation	174,590	-	174,590	381,307	-	-	30 days
Visayan Electric Co., Inc.	704,355	118,808	823,163	6,888,229	-	-	30 days
Aboitiz Energy Solutions, Inc.	1,341,295	5,283	1,346,578	9,330,541	-	-	30 days
Mactan Enerzone Corporation	-	-	-	5,430	-	-	30 days
Balamban Enerzone Corporation	-	-	-	4,848	-	-	30 days
Cebu Private Power Corporation	-	82,713	82,713	20,901	-	-	30 days
Lima Enerzone Corporation	71,576	-	71,576	353,996	-	-	30 days
East Asia Utilities Corporation	-	784	784	3,191	-	-	30 days
Prism Energy, Inc.	84,296	56	84,352	1,036,535	-	-	30 days
San Carlos Sun Power, Inc.	-	11	11	-	-	-	30 days
Adventenergy, Inc.	670,390	7,237	677,627	6,896,867	-	-	30 days
TOTAL	P3,782,131	P904,221	P4,686,352	P32,819,212	P-	P-	

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

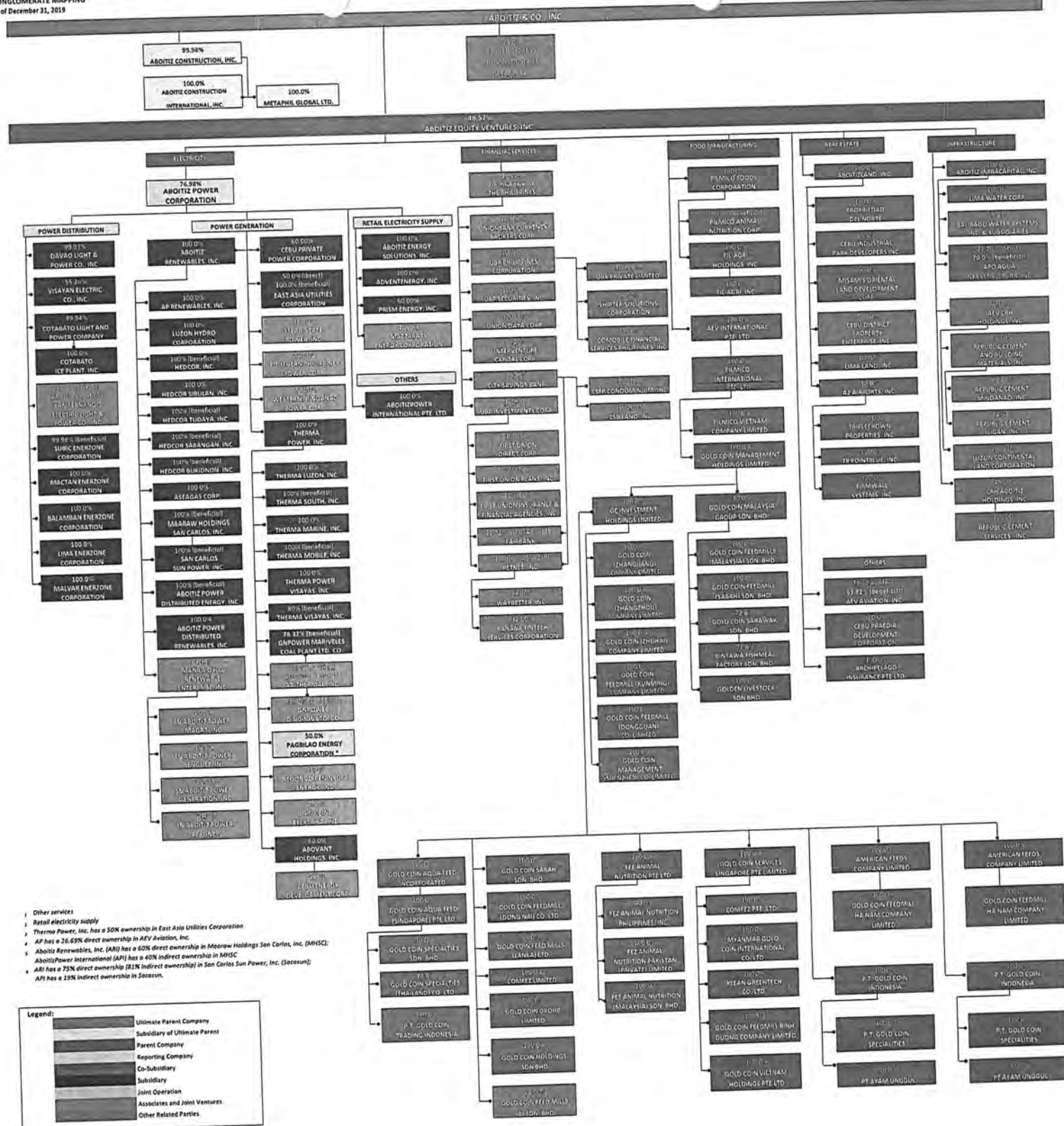
**SCHEDULE J - TRADE AND OTHER PAYABLES FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2019
(Amounts in Thousands)**

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Parent Company	P-	P904,221	P904,221	P1,151,221	P-	P-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	679,120	-	679,120	6,253,401	-	-	30 days
Cebu Private Power Corporation	122,370	-	122,370	1,346,687	-	-	30 days
Therma Power, Inc. and Subsidiaries	2,691,944	-	2,691,944	20,660,912	-	-	30 days
Aboitiz Energy Solutions, Inc.	206,125	-	206,125	1,760,211	-	-	30 days
East Asia Utilities Corporation	13,867	-	13,867	319,021	-	-	30 days
Subic Enerzone Corporation	18,427	-	18,427	262,946	-	-	30 days
Balamban Enerzone Corporation	4,987	-	4,987	55,143	-	-	30 days
Mactan Enerzone Corporation	6,938	-	6,938	78,566	-	-	30 days
Lima Enerzone Corporation	38,353	-	38,353	478,694	-	-	30 days
Visayan Electric Co., Inc.	-	-	-	452,410	-	-	30 days
TOTAL	P3,782,131	P904,221	P4,686,352	P32,819,212	P-	P-	

Aboitiz Power Corporation
Reconciliation of Retained Earnings Available for Dividend Declaration
For the Year Ended December 31, 2019
(Amount in Philippine Currency)

Unappropriated Retained Earnings, <i>beginning</i>		P21,658,436,837
Less:		
Reversal of appropriation for the year 2019		400,000,000
Effect of adoption – PFRS 16		(22,665,932)
		<u>22,035,770,905</u>
Net income based on face of audited financial statements	P12,304,362,581	
Less: Non-actual/unrealized income (net of tax)	-	
Add: Non-actual loss (net of tax)	<u>-</u>	
Net income actual/realized for the period		12,304,362,581
Less:		
Dividend declaration during the period		<u>(10,817,148,331)</u>
UNAPPROPRIATED RETAINED EARNINGS, AS ADJUSTED, ENDING		<u><u>P23,522,985,155</u></u>



ABOITIZ POWER CORPORATION AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

	FORMULA	2019	2018
LIQUIDITY RATIOS			
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.50	1.89
Acid test ratio	$\frac{\text{Cash + Marketable securities} + \text{Accounts receivable} + \text{Other liquid assets}}{\text{Current liabilities}}$	1.15	1.46
SOLVENCY RATIOS			
Debt to equity ratio	$\frac{\text{Total liabilities}}{\text{Total equity}}$	2.07	1.85
Asset to equity ratio	$\frac{\text{Total assets}}{\text{Total equity}}$	3.07	2.85
Net debt to equity ratio	$\frac{\text{Debt - Cash \& cash equivalents}}{\text{Total equity}}$	1.40	1.21
Gearing ratio	$\frac{\text{Debt - Cash \& cash equivalents}}{\text{Total equity} + (\text{Debt - Cash \& cash equivalents})}$	58.26%	54.69%
Interest coverage ratio	$\frac{\text{EBIT}}{\text{Interest expense}}$	2.83	3.53
PROFITABILITY RATIOS			
Operating margin	$\frac{\text{Operating profit}}{\text{Total revenues}}$	23.0%	27.7%
Return on equity	$\frac{\text{Net income after tax}}{\text{Total equity adjusted for cash dividends}}$	14.48%	20.20%

Annex C. Reporting Template

(For additional guidance on how to answer the Topics, organizations may refer to Annex B: Topic Guide)

We are pleased to present, on our 11th year of sustainability reporting, the Aboitiz Power Corporation (AboitizPower) Annual and Sustainability Report (the “2019 Integrated Annual Report”). The theme for 2019 report is *“Guided by Values for a Sustainable Future”* as the Aboitiz Group continues to integrate the principles sustainability in fulfilling our purpose and brand promise: to drive change for a better world by advancing business and communities.

The 2019 Integrated Annual Report provides information on AboitizPower’s financial, operational, governance, social, and environmental performance that are material to its businesses and various stakeholders. This report also provides our progress through various programs guided by the UN Sustainable Development Goals. This report has been prepared in accordance with the GRI Standards: Core Option. GRI Materiality Disclosures Services reviewed that the GRI content index is clearly presented and the references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report. The GRI content index is found starting on page 253 of the 2019 Integrated Annual Report.

This report is in compliance with the Securities and Exchange Commission Memorandum Circular No. 4 Series of 2019: “Sustainability Reporting Guidelines for Publicly Listed Companies.”

Kindly refer to the 2019 Integrated Annual Report: Guided by Values for a Sustainable Future, available for downloading at <https://aboitizpower.com/investor-relations/latest-annual-report/>

Contextual Information

Company Details	
Name of Organization	Aboitiz Power Corporation
Location of Headquarters	NAC Tower, 32nd Street, Bonifacio Global City, Taguig City, 1643 Philippines
Location of Operations	The locations where the operations of the Aboitiz Group’s businesses are found on pages 200 to 201 of the 2019 Integrated Annual Report.
Report Boundary: Legal entities (e.g. subsidiaries) included in this report*	The reporting scope is found on page 5 of the 2019 Integrated Annual Report.
Business Model, including Primary Activities, Brands, Products, and Services	Kindly refer to pages 6 to 9 of the 2019 Integrated Annual Report.
Reporting Period	January 1, 2019 to December 31, 2019

Highest Ranking Person responsible for this report	Emmanuel V. Rubio President and Chief Executive Officer
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**If you are a holding company, you could have an option whether to report on the holding company only or include the subsidiaries. However, please consider the principle of materiality when defining your report boundary.*

Materiality Process

Explain how you applied the materiality principle (or the materiality process) in identifying your material topics.¹

The discussion on the materiality assessment process can be found on page 5 of the 2019 Integrated Annual Report (About the Report)

Materiality, as defined by the GRI reporting framework, includes topics and disclosures that reflect the Group's significant economic, environmental, and social impacts, or those that would substantially influence the assessments and decisions of our stakeholders. Our process involved an internal analysis of the importance of a broad list of sustainability issues related to our core businesses of power, banking and financial services, food, infrastructure, land, and our corporate foundations. At the parent company level, we integrated the common material issues that are within the medium-term horizon of our reporting parameters.

We used our stakeholder dialogues and company-wide feedback channels to inform the selection of these material issues, which were discussed and approved by the Aboitiz Group Management Committee as part of the focus areas of our Aboitiz Sustainability Framework.

Supporting references are found on pages 139 (Key Dialogue Channel for Stakeholders) and 252 (Summary of Material Concerns) of the 2019 Integrated Annual Report.

ECONOMIC

Economic Performance

Direct Economic Value Generated and Distributed

AboitizPower's financial performance is summarized on pages 12 to 13 (Financial Highlights), and discussed on pages 28 to 37 (CFO Message) of the 2019 Integrated Annual Report.

Disclosure	Amount	Units
Direct economic value generated (revenue)		PhP
Direct economic value distributed:		

¹ See [GRI 102-46](#) (2016) for more guidance.

a. Operating costs		PhP
b. Employee wages and benefits		PhP
c. Payments to suppliers, other operating costs		PhP
d. Dividends given to stockholders and interest payments to loan providers		PhP
e. Taxes given to government		PhP
f. Investments to community (e.g. donations, CSR)		PhP

A discussion on management's approach in addressing material economic indicators are found on pages 130 to 155 of the 2019 Integrated Annual Report (Management Approach)

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i> <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>(e.g. employees, community, suppliers, government, vulnerable groups)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<i>Identify risk/s related to material topic of the organization</i>		
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
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Climate-related risks and opportunities²

A discussion on the Aboitiz Group's Climate-related actions is found on pages 142 and 143, and Climate-related risk management on pages 147 to 152 of the 2019 Integrated Annual Report.

In 2019, the Aboitiz Group embarked on preparatory activities to align with the recommendations of the Task Force on Climate-related Financial Disclosures. In February 2020, the Aboitiz Group officially signed to support TCFD and will further improve our reports in the succeeding year to include climate-related risks and opportunities. Kindly refer to the CFO Message on pages 28 to 35 of the 2019 Integrated Annual Report.

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities	Disclose the actual and potential impacts ³ of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material	Disclose how the organization identifies, assesses, and manages climate-related risks	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material
Recommended Disclosures			
a) Describe the board's oversight of climate-related risks and opportunities	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term	a) Describe the organization's processes for identifying and assessing climate-related risks	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process
b) Describe management's role in assessing and managing climate-related risks and opportunities	b) Describe the impact of climate-related risks and opportunities on the organization's businesses,	b) Describe the organization's processes for managing climate-related risks	b) Describe the targets used by the organization to manage climate-related risks and opportunities and

² Adopted from the Recommendations of the Task Force on Climate-Related Financial Disclosures. The TCFD Recommendations apply to non-financial companies and financial-sector organizations, including banks, insurance companies, asset managers and asset owners.

³ For this disclosure, impact refers to the impact of climate-related issues on the company.

	strategy and financial planning.		performance against targets
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios including a 2°C or lower scenario	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	

Procurement Practices

Proportion of spending on local suppliers

Disclosure	Quantity	Units
Percentage of procurement budget used for significant locations of operations that is spent on local suppliers		%

Refer to pages 130 to155 (Management Approach) of the 2019 Integrated Annual Report.

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<i>Identify risk/s related to material topic of the organization</i>		
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<i>Identify the opportunity/ies related to material topic of the organization</i>		
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Anti-corruption

Refer to pages 166 to 181 (Corporate Governance) of the 2019 Integrated Annual Report.

Training on Anti-corruption Policies and Procedures

Disclosure	Quantity	Units
Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to		%
Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to		%
Percentage of directors and management that have received anti-corruption training		%
Percentage of employees that have received anti-corruption training		%

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Incidents of Corruption

Corruption-related reports or incidents are discussed on page 180 (Key Company Policies) of the 2019 Integrated Annual Report.

Disclosure	Quantity	Units
Number of incidents in which directors were removed or disciplined for corruption		#
Number of incidents in which employees were dismissed or disciplined for corruption		#
Number of incidents when contracts with business partners were terminated due to incidents of corruption		#

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ENVIRONMENT

Information on environmental indicators material to the Aboitiz Group are found on pages 257 to 259 (Appendix Table) of the 2019 Integrated Annual Report.

A discussion on the Aboitiz Group's management approach to environmental stewardship is found on pages 134 to 155 (Management Approach) of the 2019 Integrated Annual Report.

Resource Management

Energy consumption within the organization:

Disclosure	Quantity	Units
Energy consumption (renewable sources)		GJ
Energy consumption (gasoline)		GJ
Energy consumption (LPG)		GJ
Energy consumption (diesel)		GJ
Energy consumption (electricity)		kWh

Reduction of energy consumption

Disclosure	Quantity	Units
Energy reduction (gasoline)		GJ
Energy reduction (LPG)		GJ
Energy reduction (diesel)		GJ
Energy reduction (electricity)		kWh
Energy reduction (gasoline)		GJ

Refer to pages 130 to 155 (Management Approach) of the 2019 Integrated Annual Report.

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<i>linked to impacts through its business relationship)</i>		
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
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Water consumption within the organization

Disclosure	Quantity	Units
Water withdrawal		Cubic meters
Water consumption		Cubic meters
Water recycled and reused		Cubic meters

Refer to pages 130 to 155 (Management Approach) of the 2019 Integrated Annual Report.

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Materials used by the organization

Disclosure	Quantity	Units
Materials used by weight or volume		
• renewable		kg/liters
• non-renewable		kg/liters
Percentage of recycled input materials used to manufacture the organization's primary products and services		%

Refer to pages 130 to 155 (Management Approach) of the 2019 Integrated Annual Report.

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Ecosystems and biodiversity (whether in upland/watershed or coastal/marine)

Disclosure	Quantity	Units
Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	(identify all sites)	
Habitats protected or restored		ha
IUCN ⁴ Red List species and national conservation list species with habitats in areas affected by operations	(list)	

Refer to pages 130 to 155 (Management Approach) of the 2019 Integrated Annual Report.

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⁴ International Union for Conservation of Nature

Environmental impact management

Air Emissions

GHG

Disclosure	Quantity	Units
Direct (Scope 1) GHG Emissions		Tonnes CO ₂ e
Energy indirect (Scope 2) GHG Emissions		Tonnes CO ₂ e
Emissions of ozone-depleting substances (ODS)		Tonnes

Refer to pages 130 to 155 (Management Approach) and 257 to 259 (Appendix Tables) of the 2019 Integrated Annual Report.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
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Air pollutants

Disclosure	Quantity	Units
NO _x		kg
SO _x		kg
Persistent organic pollutants (POPs)		kg
Volatile organic compounds (VOCs)		kg
Hazardous air pollutants (HAPs)		kg
Particulate matter (PM)		kg

Refer to pages 130 to 155 (Management Approach) and 257 to 259 (Appendix Tables) of the 2019 Integrated Annual Report.

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Solid and Hazardous Wastes

Solid Waste

Disclosure	Quantity	Units
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Total solid waste generated		kg
Reusable		kg
Recyclable		kg
Composted		kg
Incinerated		kg
Residuals/Landfilled		kg

Refer to pages 130 to 155 (Management Approach) of the 2019 Integrated Annual Report.

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Hazardous Waste

Disclosure	Quantity	Units
Total weight of hazardous waste generated		kg
Total weight of hazardous waste transported		kg

Refer to pages 130 to155 (Management Approach) of the 2019 Integrated Annual Report.

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Effluents

Disclosure	Quantity	Units
Total volume of water discharges		Cubic meters
Percent of wastewater recycled		%

Refer to pages 130 to155 (Management Approach) of the 2019 Integrated Annual Report.

What is the impact and where does it occur? What is the	Which stakeholders are affected?	Management Approach
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organization's involvement in the impact?		
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i> <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>(e.g. employees, community, suppliers, government, vulnerable groups)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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Environmental compliance

Non-compliance with Environmental Laws and Regulations

Disclosure	Quantity	Units
Total amount of monetary fines for non-compliance with environmental laws and/or regulations		PhP
No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations		#
No. of cases resolved through dispute resolution mechanism		#

Refer to pages 130 to155 (Management Approach) of the 2019 Integrated Annual Report.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
--	---	----------------------------

<p><i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i></p> <p><i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i></p>	<p><i>(e.g. employees, community, suppliers, government, vulnerable groups)</i></p>	<p><i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i></p>
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SOCIAL

Information on social indicators material to the Aboitiz Group are found on pages 257 to 259 (Appendix Table) of the 2019 Integrated Annual Report.

A discussion on the Aboitiz Group's management approach and focus areas focused on people is found on pages 134 to 155 (Management Approach), and pages 110 to 129 (Corporate Social Responsibility) of the 2019 Integrated Annual Report.

Employee Management

Employee Hiring and Benefits

Employee data

Disclosure	Quantity	Units
Total number of employees ⁵		
a. Number of female employees		#
b. Number of male employees		#
Attrition rate ⁶		rate
Ratio of lowest paid employee against minimum wage		ratio

Employee benefits

List of Benefits	Y/N	% of female employees who availed for the year	% of male employees who availed for the year
SSS			
PhilHealth			
Pag-ibig			
Parental leaves			
Vacation leaves			
Sick leaves			
Medical benefits (aside from PhilHealth))			
Housing assistance (aside from Pag-ibig)			
Retirement fund (aside from SSS)			
Further education support			
Company stock options			

⁵ Employees are individuals who are in an employment relationship with the organization, according to national law or its application ([GRI Standards 2016 Glossary](#))

⁶ Attrition are = (no. of new hires – no. of turnover)/(average of total no. of employees of previous year and total no. of employees of current year)

Telecommuting			
Flexible-working Hours			
(Others)			

Refer to pages 130 to 155 (Management Approach), and pages 158-165 (Talent Management and Talent Analytics) of the 2019 Integrated Annual Report.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i> <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
What are the Risk/s Identified?	Management Approach
<i>Identify risk/s related to material topic of the organization</i>	
What are the Opportunity/ies Identified?	Management Approach
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Employee Training and Development

Disclosure	Quantity	Units
Total training hours provided to employees		
a. Female employees		hours
b. Male employees		hours
Average training hours provided to employees		
a. Female employees		hours/employee
b. Male employees		hours/employee

Refer to pages 130 to 155 (Management Approach), and pages 158-165 (Talent Management and Talent Analytics) of the 2019 Integrated Annual Report.

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Labor-Management Relations

Disclosure	Quantity	Units
% of employees covered with Collective Bargaining Agreements		%
Number of consultations conducted with employees concerning employee-related policies		#

Refer to pages 130 to 155 (Management Approach), and pages 257-259 (Appendix Tables) of the 2019 Integrated Annual Report.

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What are the Opportunity/ies Identified?	Management Approach
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Diversity and Equal Opportunity

Disclosure	Quantity	Units
% of female workers in the workforce		%
% of male workers in the workforce		%
Number of employees from indigenous communities and/or vulnerable sector*		#

*Vulnerable sector includes, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E).

Refer to pages 130 to 155 (Management Approach), and pages 257-259 (Appendix Tables) of the 2019 Integrated Annual Report.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
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Workplace Conditions, Labor Standards, and Human Rights

Occupational Health and Safety

Disclosure	Quantity	Units
Safe Man-Hours		Man-hours
No. of work-related injuries		#

No. of work-related fatalities		#
No. of work related ill-health		#
No. of safety drills		#

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Labor Laws and Human Rights

Disclosure	Quantity	Units
No. of legal actions or employee grievances involving forced or child labor		#

Do you have policies that explicitly disallows violations of labor laws and human rights (e.g. harassment, bullying) in the workplace?

Topic	Y/N	If Yes, cite reference in the company policy
Forced labor		
Child labor		
Human Rights		

Refer to pages 130 to 155 (Management Approach) of the 2019 Integrated Annual Report.

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Supply Chain Management

Do you have a supplier accreditation policy? If yes, please attach the policy or link to the policy:

Do you consider the following sustainability topics when accrediting suppliers?

Topic	Y/N	If Yes, cite reference in the supplier policy
Environmental performance		
Forced labor		
Child labor		
Human rights		
Bribery and corruption		

Refer to pages 130 to 155 (Management Approach) of the 2019 Integrated Annual Report.

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<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms,</i>

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Relationship with Community

Significant Impacts on Local Communities

Refer to pages 110 to 129 (Corporate Social Responsibility) of the 2019 Integrated Annual Report.

Operations with significant (positive or negative) impacts on local communities (exclude CSR projects; this has to be business operations)	Location	Vulnerable groups (if applicable)*	Does the particular operation have impacts on indigenous people (Y/N)?	Collective or individual rights that have been identified that or particular concern for the community	Mitigating measures (if negative) or enhancement measures (if positive)

**Vulnerable sector includes children and youth, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E)*

For operations that are affecting IPs, indicate the total number of Free and Prior Informed Consent (FPIC) undergoing consultations and Certification Preconditions (CPs) secured and still operational and provide a copy or link to the certificates if available: _____

Certificates	Quantity	Units
FPIC process is still undergoing		#
CP secured		#

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Customer Management

Customer Satisfaction

Disclosure	Score	Did a third party conduct the customer satisfaction study (Y/N)?
Customer satisfaction		

Refer to pages 130 to 155 (Management Approach) of the 2019 Integrated Annual Report.

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Health and Safety

Disclosure	Quantity	Units
No. of substantiated complaints on product or service health and safety*		#
No. of complaints addressed		#

*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

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Marketing and labelling

Disclosure	Quantity	Units
No. of substantiated complaints on marketing and labelling*		#
No. of complaints addressed		#

*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

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Customer privacy

Disclosure	Quantity	Units
No. of substantiated complaints on customer privacy*		#
No. of complaints addressed		#
No. of customers, users and account holders whose information is used for secondary purposes		#

*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

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Data Security

Disclosure	Quantity	Units
No. of data breaches, including leaks, thefts and losses of data		#

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UN SUSTAINABLE DEVELOPMENT GOALS

Product or Service Contribution to UN SDGs

Key products and services and its contribution to sustainable development.

The Value Creation Business model of the Aboitiz Group provides societal value and contribution to the UN SDGs.

Guided by UN SDGs we provide management approaches to minimize our potential negative impacts to various programs we implement across the group. Kindly refer to pages 142-146 (Aboitiz Sustainability Programs) of the 2019 Integrated Annual Report.

Our Businesses	Key Products and Services	Societal Value / Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
Power	Power Generation & Distribution Service	<ul style="list-style-type: none"> • Ample and reliable power supply • Reasonable and competitive price • Availability of a right mix of energy supply SDG 7	Potential negative impacts of Carbon footprint to SDG 13 14 and 15	<ul style="list-style-type: none"> • Managing Carbon footprint of our operations through compliance to regulatory standards and minimizing by promoting Carbon sequestration and biodiversity programs

** None/Not Applicable is not an acceptable answer. For holding companies, the services and products of its subsidiaries may be disclosed.*