- Purchase of power by BLCI from KEPCO SPC Power Corporation (KSPC), an associate, under the Power Sales Contract between BLCI and KSPC amounting to ₱353.5 million, ₱274.9 million and ₱263.7 million in 2018, 2017 and 2016, respectively (see Note 25). Outstanding amount due to KSPC on this transaction amounted to ₱57.6 million and ₱45.9 million as of December 31, 2018 and 2017, respectively, and is included as part of "Trade and other payables" in the consolidated statements of financial position (see Note 14).

- Extension of short-term, noninterest-bearing advances by the Parent Company to KSPC for the development of the 2x100 MW Circulating Fluidized Bed Combustion (CFBC) Boiler Coal-fired Power Plant in Naga, Cebu. Outstanding amount due from KSPC amounted to ₱0.7 million as of December 31, 2018 and 2017.

- Dividends received from KSPC amounting to ₱1,329.8 million, ₱968.3 million and ₱133.4 million in 2018, 2017 and 2016, respectively; and from MECO amounting to ₱80.0 million, ₱60.0 million and ₱80.0 million in 2018, 2017 and 2016, respectively (see Note 10).

Affiliates Under Common Ownership

- Sale of electricity to Bohol Water Utilities, Inc. (BWUI) at the same rates charged to BLCI's consumers amounted to ₱21.5 million, ₱18.4 million and ₱17.4 million in 2018, 2017 and 2016, respectively. Outstanding receivable from BWUI related to this transaction amounting to ₱1.9 million and ₱1.7 million as of December 31, 2018 and 2017, respectively, is included as part of "Trade and other receivables" in the consolidated statements of financial position (see Note 6).

The results of these transactions are presented in the appropriate accounts in the consolidated financial statements. The amounts due from/due to related parties, trade and other receivables, and trade and other payables follow:

		2018		
Category	Amount/Volume	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Associates				
Sales:				
MECO	₱41,252,611	₱3,681,281	30-day; Noninterest-bearing	Unsecured, No impairment
Technical services rendered to:				
MECO	120,007,156	–	60-day; Noninterest-bearing	Unsecured
Purchase of power from:				
KSPC	353,529,527	(57,604,568)	Interest-bearing; 91-day T-bill plus 3% per annum	Unsecured
Advances to:				
KSPC	–	719,579	Due and demandable	Unsecured, No impairment
MECO	–	1,950	60-day; Noninterest-bearing	Unsecured, No impairment
Dividend income (see Note 10):				
KSPC	1,329,823,954	–	Due and demandable	Unsecured
MECO	79,999,911	–	Due and demandable	Unsecured

(Forward)

		2018		
Category	Amount/Volume	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Affiliates (Companies Under Common Ownership)				
Sales:				
BWUI	₱21,529,792	₱1,937,141	10 days from receipt	Unsecured, No impairment
Lease of office space from:				
SPEC Properties, Inc. (SPEC)	3,319,206	(1,106,402)	30-day; Noninterest-bearing; 3% annual escalation as agreed by the parties	Unsecured
SII Properties Development Corporation (SPDC)	691,317	(230,439)	30-day; Noninterest-bearing; 3% annual escalation as agreed by the parties	Unsecured
BWUI	303,704	(698,116)	10% escalation every two years	Unsecured
Collection charges:				
BWUI	231,147	19,362	₱1.53 per receipt	Unsecured, No impairment
Advances to (from):				
BWUI	22,011,437	15,257,372	60-day; Noninterest-bearing	Unsecured, No impairment
SPDC	268,304	(89,658)	60-day; Noninterest-bearing	Unsecured
	81,464	164,325	60-day; Noninterest-bearing	Unsecured, No impairment
SPEC	67,231	133,623	60-day; Noninterest-bearing	Unsecured, No impairment
Salcon International, Inc. (SII)	47,673	98,621	60-day; Noninterest-bearing	Unsecured, No impairment
Salcon Philippines, Inc. (SPI)	41,350	87,520	60-day; Noninterest-bearing	Unsecured, No impairment
SIPC Water Resources, Inc. (SWRI)	17,862	176,026	60-day; Noninterest-bearing	Unsecured, No impairment
WPHC	17,362	80,866	60-day; Noninterest-bearing	Unsecured, No impairment
KV Holdings, Inc.	4,923	4,923	60-day; Noninterest-bearing	Unsecured, No impairment
Kepco Philippines Corp.	–	(497,043)	60-day; Noninterest-bearing	Unsecured
Pure and Pam, Inc.	–	75,000	60-day; Noninterest-bearing	Unsecured, No impairment
Officers and employees	5,105,534	4,853,571	60-day; Noninterest-bearing	Unsecured, No impairment

		2017		
Category	Amount/Volume	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Associates				
Sales:				
MECO	₱51,716,786	₱4,743,031	30-day; Noninterest-bearing	Unsecured, No impairment
Management services rendered to:				
MECO	100,006,366	–	60-day; Noninterest-bearing	Unsecured
Purchase of power from:				
KSPC	274,902,375	(45,911,977)	Interest-bearing; 91-day T-bill plus 3% per annum	Unsecured

(Forward)

Category	2017 Amount/Volume	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Advances to:				
KSPC	₱–	₱719,579	60-day; Noninterest-bearing	Unsecured, No impairment
Dividend income (see Note 10):				
KSPC	968,339,126	–	Due and demandable	Unsecured
MECO	59,999,933	–	Due and demandable	Unsecured
Affiliates (Companies Under Common Ownership)				
Sales:				
BWUI	18,410,999	1,660,524	10 days from receipt	Unsecured, No impairment
Lease of office space from:				
SPEC	3,192,902	(553,201)	30-day; Noninterest-bearing; 3% annual escalation as agreed by the parties	Unsecured
SPDC	671,177	(111,863)	30-day; Noninterest-bearing; 3% annual escalation as agreed by the parties	Unsecured
BWUI	303,704	(24,296)	10% escalation every two years	Unsecured
Collection charges:				
BWUI	230,056	20,015	₱1.53 per receipt	Unsecured, No impairment
Advances to (from):				
BWUI	671,441	559,625	60-day; Noninterest-bearing	Unsecured, No impairment
SPDC	434,027	(66,951)	60-day; Noninterest-bearing	Unsecured
	82,861	82,861	60-day; Noninterest-bearing	Unsecured, No impairment
SPEC	66,391	66,391	60-day; Noninterest-bearing	Unsecured, No impairment
SII	50,949	50,949	60-day; Noninterest-bearing	Unsecured, No impairment
SPI	46,170	46,170	60-day; Noninterest-bearing	Unsecured, No impairment
SWRI	11,738	158,164	60-day; Noninterest-bearing	Unsecured, No impairment
WPHC	11,238	63,504	60-day; Noninterest-bearing	Unsecured, No impairment
KV Holdings, Inc.	3,649	3,649	60-day; Noninterest-bearing	Unsecured, No impairment
Kepco Philippines Corp.	–	(497,043)	60-day; Noninterest-bearing	Unsecured No impairment
Pure and Pam, Inc.	–	75,000	60-day; Noninterest-bearing	Unsecured, No impairment
Officers and employees	5,231,290	10,336,824	60-day; Noninterest-bearing	Unsecured, No impairment

Compensation and Benefits of Key Management Personnel

The Group considers all senior officers as key management personnel. The compensation of key management personnel follows:

	2018	2017	2016
Short-term benefits	**₱34,979,375**	₱33,160,217	₱34,681,821
Pension expense	**450,572**	638,281	401,174
	₱35,429,947	₱33,798,498	₱35,082,995

6. Trade and Other Receivables

This account consists of:

	2018	2017
Receivable from customers (net of allowance for impairment loss of ₱36.3 million and ₱23.0 million as of 2018 and 2017, respectively) (see Note 5)	**₱357,596,696**	₱405,974,878
NPC/PSALM	**1,015,262**	1,497,011
Others (see Note 30)	**76,852,339**	50,435,362
	₱435,464,297	₱457,907,251

Receivable from customers arises from generation and sale of energy, distribution of purchased energy, and from provision of ancillary services.

Receivables from NPC/PSALM and customers are noninterest-bearing and are generally on a term of 1–30 days and 30–90 days, respectively.

Others mainly consist of advances to suppliers and contractors for refund in relation to services that will no longer be availed by the Parent Company, officers and employees, insurance claims, accrued interest receivables from short-term investments and PSALM deferred adjustments (see Note 30).

Allowance for impairment losses pertains to trade receivables that are individually determined to be impaired at reporting date. These relate to debtors who are either in significant financial difficulties, have defaulted on payments or whose accounts are under dispute and legal proceedings. These receivables are not secured by any collateral or credit enhancements.

Additional allowance for impairment loss amounting to ₱9.2 million and ₱7.0 million were provided in 2018 and 2017, respectively (see Note 21).

The following table shows the movement in the allowance for impairment:

	2018	2017
At January 1	**₱22,995,285**	₱16,040,588
PFRS 9 transition adjustments (see Note 2)	**4,066,846**	–
Provision (see Note 21)	**9,209,102**	6,954,697
Recovery of accounts written off	**37,892**	–
At December 31	**₱36,309,125**	₱22,995,285

7. Due from/Due to NPC/PSALM

This account consists of:

	Due from NPC/PSALM		Due to NPC/PSALM	
	2018	2017	**2018**	2017
Cost of fuel purchases and others (see Note 31)	**₱–**	₱–	**₱–**	₱511,650,588
Others	**1,175,128**	1,175,128	**–**	–
	₱1,175,128	₱1,175,128	**₱–**	₱511,650,588

Cost of fuel purchases and other adjustments substantially pertains to the cost of fuel used in the operation of the NPPC. Based on management's assessment of the timing when these are to be settled, cost of fuel purchases and other adjustments amounting to ₱511.7 million as of December 31, 2017 are presented as current liabilities (see Note 31).

Others mainly consist of amounts reimbursable by PSALM for other services rendered under OMSC.

8. Materials and Supplies

This account consists of:

	2018	2017
On hand - at NRV (net of allowance for inventory losses of nil and ₱85.5 million as of 2018 and 2017, respectively)	**₱334,177,686**	₱597,236,778
In transit - at cost	**15,893,908**	7,975,262
At lower of cost and NRV	**₱350,071,594**	₱605,212,040

Materials and supplies include fuel, lubricants, chemicals, spare parts, supplies and other consumables used in the operations, repairs and maintenance of the power generation and utility plants, property and equipment.

The cost of materials and supplies recognized as part of "Others - net" amounted to ₱135.6 million and ₱325.7 million in 2018 and 2017, respectively (see Notes 3 and 31) and "Cost of services" amounted to ₱583.9 million, ₱697.8 million and ₱916.7 million in 2018, 2017 and 2016, respectively, in the consolidated statements of comprehensive income (see Note 20).

9. Prepayments and Other Current Assets

This account consists of:

	2018	2017
Input VAT	**₱68,140,270**	₱84,883,754
Deferred input VAT	**3,671,753**	6,820,047
Deferred charges	**6,192,626**	8,645,102
Prepaid insurance	**4,152,209**	2,521,722
Prepaid rent (see Note 30)	**2,764,772**	3,229,772
Prepaid income tax	**427,996**	462,469
Others (see Note 31)	**8,945,797**	61,107,989
	₱94,295,423	₱167,670,855

As of December 31, 2017, others mainly consist of deferred input VAT of fuel owned by PSALM used in the operations of NPPC but still to be invoiced to the Parent Company. Payment was received in 2018 upon the turnover of NPPC (see Note 31).

10. Investments in Associates

This account consists of:

	2018	2017
Acquisition cost:	**₱2,852,565,368**	₱2,852,565,368
Accumulated equity in net earnings and other comprehensive income:		
At January 1	**3,329,241,170**	3,220,429,113
Share in PFRS 9 transition adjustments (see Note 2)	**(1,438,823)**	–
Equity in net earnings for the year	**1,265,412,079**	1,137,429,320
Share in remeasurement of employee benefits of associates, net of tax provision of ₱287,681 in 2018 and tax benefit of ₱82,216 in 2017	**981,507**	(278,202)
Dividends income	**(1,409,823,865)**	(1,028,339,061)
At December 31	**3,184,372,068**	3,329,241,170
	₱6,036,937,436	₱6,181,806,538

The Group's associates, corresponding equity ownerships, and acquisition costs follow:

	Principal Activity	% of Ownership	
KSPC	Power generation	40.0	₱2,472,464,616
MECO	Power distribution	40.0	380,000,752
SWRI	Water processing	40.0	100,000
			₱2,852,565,368

KSPC

KSPC was registered with the SEC on June 22, 2005 primarily to build, operate, maintain, own and manage the 2x100 MW CFBC boiler coal-fired base load power plant in Naga, Cebu, Philippines.

Summarized financial information pertaining to KSPC as of and for the years ended December 31 follows:

	2018	2017
Current assets	**₱3,438,166,969**	₱3,026,153,666
Noncurrent assets	**11,186,531,786**	11,862,369,837
Current liabilities	**895,386,982**	688,867,772
Noncurrent liabilities	**730,253,027**	714,506,077
Equity	**12,999,058,746**	13,485,149,654
Revenue	**8,812,187,718**	8,317,177,602
Gross profit	**3,559,735,642**	3,708,509,781
Net income	**2,841,290,406**	2,563,051,257
Other comprehensive income (loss)	**775,628**	(215,914)
Total comprehensive income	**2,842,066,034**	2,562,835,343
Group's share in net income	**1,136,516,162**	1,025,220,503
Carrying amount of the investment	**5,200,386,379**	5,394,822,743
Dividends received from KSPC	**1,329,823,954**	968,339,128

KSPC declared and paid cash dividends to the Parent Company amounting to ₱1,329.8 million, ₱968.3 million and ₱133.4 million in 2018, 2017 and 2016, respectively (see Note 5).

MECO

MECO is a distribution utility granted by the NEC under Presidential Decree No. 269, a franchise for 25 years from October 10, 1991 to engage in, conduct and carry on the business of generating, buying and selling electric light, heat and power for sale within the limits of the City of Lapu-lapu and the Municipality of Cordova, Cebu until October 9, 2016. On July 17, 2016, MECO was granted a renewal of its franchise for another 25 years.

Summarized financial information pertaining to MECO as of and for the years ended December 31 follows:

	2018	2017
Current assets	**₱2,655,644,061**	₱2,539,970,643
Noncurrent assets	**2,903,998,249**	2,135,870,438
Current liabilities	**932,821,162**	699,418,468
Noncurrent liabilities	**2,348,278,665**	1,799,843,043
Equity	**2,278,542,483**	2,176,579,570
Revaluation increment on property, plant and equipment, and others (adjusted at consolidated level following the Group's policy of cost model)	**188,241,004**	209,371,063
Revenue	**6,350,888,911**	5,432,571,289
Gross profit	**338,144,507**	316,827,449
Net income	**292,053,994**	250,336,245
Other comprehensive loss	**1,678,140**	(479,591)
Income after adjustment of depreciation on appraisal increase and others	**322,239,793**	280,522,042
Group's share in net income after adjustment of depreciation on appraisal increase and others	**128,895,917**	112,208,817
Carrying amount of the investment	**836,451,057**	786,883,795
Dividends received from MECO	**79,999,911**	59,999,933

MECO declared and paid cash dividends to the Parent Company amounting to ₱80.0 million, ₱60.0 million and ₱80.0 million in 2018, 2017 and 2016, respectively (see Note 5).

SWRI

SWRI is incorporated to engage in the business of providing water services for the operation, maintenance, refurbishment and expansion of power production and electrical generating facilities, including supply of water for the operation of said facilities. As of December 31, 2018, SWRI has not yet started operations.

11. Property, Plant and Equipment

This account consists of:

2018	Distribution Lines, Poles and Fixtures	Power Transformers, Switches and Devices	Plant Machinery and Equipment	Motor Vehicles	Structures	Furniture and Office Equipment	Land Held by Subsidiaries	Construction in Progress	Total
Cost									
At January 1	₱192,405,724	₱145,430,753	₱615,688,853	₱35,720,035	₱63,309,280	₱37,337,324	₱58,951,290	₱377,830,344	₱1,526,673,603
Additions	11,933,507	6,909,156	36,243,488	1,140,017	1,063,955	2,184,675	3,309,201	65,764,735	128,548,734
Transfers	–	–	387,585,973	–	–	–	–	(387,585,973)	–
Transfer to noncurrent assets held for sale	–	–	(68,716,152)	–	–	–	–	–	(68,716,152)
Disposals	–	–	(27,772,244)	(3,762,188)	–	(7,710,862)	–	–	(39,245,294)
At December 31	204,339,231	152,339,909	943,029,918	33,097,864	64,373,235	31,811,137	62,260,491	56,009,106	1,547,260,891
Accumulated Depreciation and Impairment									
At January 1	111,965,780	103,220,152	433,831,315	27,674,087	36,448,581	35,188,086	–	–	748,328,001
Depreciation (see Note 23)	8,665,413	7,239,962	66,669,800	769,523	3,988,899	1,638,406	–	–	88,972,003
Other adjustments	–	–	3,606,770	–	–	–	–	–	3,606,770
Transfer to noncurrent assets held for sale	–	–	(50,503,152)	–	–	–	–	–	(50,503,152)
Disposals	–	–	(27,183,795)	(3,762,188)	–	(7,665,349)	–	–	(38,611,332)
At December 31	120,631,193	110,460,114	426,420,938	24,681,422	40,437,480	29,161,143	–	–	751,792,290
Net Book Value Before Impairment	83,708,038	41,879,795	516,608,980	8,416,442	23,935,755	2,649,994	62,260,491	56,009,106	795,468,601
Impairment (see Note 21)	–	–	14,266,880	–	–	–	–	–	14,266,880
Net Book Value	₱83,708,038	₱41,879,795	₱502,342,100	₱8,416,442	₱23,935,755	₱2,649,994	₱62,260,491	₱56,009,106	₱781,201,721

2017	Distribution Lines, Poles and Fixtures	Power Transformers, Switches and Devices	Plant Machinery and Equipment	Motor Vehicles	Structures	Furniture and Office Equipment	Land Held by Subsidiaries	Construction in Progress	Total
Cost									
At January 1	₱183,551,183	₱141,427,929	₱617,552,050	₱31,053,481	₱62,169,587	₱37,411,523	₱33,870,952	₱248,521,098	₱1,355,557,803
Additions (see Notes 17 and 30)	8,854,541	4,002,824	5,348,214	5,884,821	1,139,693	381,783	25,080,338	140,253,994	190,946,208
Transfers/adjustments	–	–	1,661,633	–	–	–	–	(10,944,748)	(9,283,115)
Disposals	–	–	(8,873,044)	(1,218,267)	–	(455,982)	–	–	(10,547,293)
At December 31	192,405,724	145,430,753	615,688,853	35,720,035	63,309,280	37,337,324	58,951,290	377,830,344	1,526,673,603
Accumulated Depreciation									
At January 1	103,758,082	94,737,416	388,294,589	26,848,304	32,670,864	34,245,149	–	–	680,554,404
Depreciation (see Note 23)	8,207,698	8,482,736	54,409,770	2,044,048	3,777,717	1,396,490	–	–	78,318,459
Disposals	–	–	(8,873,044)	(1,218,265)	–	(453,553)	–	–	(10,544,862)
At December 31	111,965,780	103,220,152	433,831,315	27,674,087	36,448,581	35,188,086	–	–	748,328,001
Net Book Value	₱80,439,944	₱42,210,601	₱181,857,538	₱8,045,948	₱26,860,699	₱2,149,238	₱58,951,290	₱377,830,344	₱778,345,602

Acquisition and Rehabilitation of Power Barge (PB) 104
On June 30, 2016, PSALM turned over the 32 MW PB 104 to the Group for rehabilitation prior to commercial operations. Units 1, 2 and 3 with total rated capacity of 24 MW started commercial operations on August 1, 2018 while Unit 4 (8 MW) is still under rehabilitation as of December 31, 2018. Total acquisition and rehabilitation costs charged to "Property, plant and equipment" in the consolidated statement of financial position amounted to ₱402.5 million under "Plant machinery and equipment" and ₱14.9 million under "Construction in progress" as of December 31, 2018.

The Certificates of Compliance were issued by the ERC on December 19, 2018 for Unit 1, valid until December 18, 2023, and on June 20, 2018 for units 2 and 3, valid from February 20, 2018 to February 19, 2023.

Noncurrent Assets Held for Sale
On its resolution dated May 28, 2018, the BOD announced its decision to sell group of assets, including machineries and equipment, and spare parts inventories. In March 2019, the Group engaged the services of an appraiser to determine the disposal group's fair value less cost to sell as follows:

	Carrying Amount at Reporting Date Before Reclassified as Held for Sale	Impairment Losses (see Note 21)	Carrying Amount After Impairment Losses*
Machineries and equipment	₱32,479,880	₱14,266,880	₱18,213,000
Inventories	–	–	–
	₱32,479,880	₱14,266,880	₱18,213,000

**Based on fair values as determined by an independent appraiser.*

As of December 31, 2018, the Group considers its noncurrent assets held for sale with fair value of ₱18.2 million under Level 3 classification (see Note 2). In valuing the noncurrent assets held for sale, the Group used the Sales Comparison Approach, using price per net weight as its key valuation. The Sales Comparison Approach 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.

For the Sales Comparison Approach, a significant increase (decrease) in price per net weight, in isolation, would result to a higher (lower) fair value.

The Group has determined that the highest and best use of its noncurrent assets held for sale is its current use.

The ARO related to the disposal group has been remeasured to ₱2.2 million as of December 31, 2018, resulting to reversal of ARO amounting to ₱21.3 million in 2018 (see Note 17). The ARO is presented as "Liabilities directly associated with noncurrent assets held for sale" in the consolidated statement of financial position as of December 31, 2018 (see Note 17).

The cost of fully depreciated property, plant and equipment that are still being used by the Group amounted to ₱373.4 million and ₱336.8 million as of December 31, 2018 and 2017, respectively.

12. Other Noncurrent Assets

This account consists of:

	2018	2017
PSALM deferred adjustments (see Notes 6 and 30)	**₱182,765,769**	₱–
Goodwill (see Note 13)	**32,522,016**	32,522,016
Investment in proprietary club shares	**6,500,000**	1,300,000
Noncurrent portion of prepaid rent (see Notes 9 and 30)	**5,265,394**	5,610,666
Software costs (net of accumulated amortization of ₱1.8 million and ₱1.2 million as of 2018 and 2017, respectively)	**4,257,760**	4,866,011
Franchise (net of accumulated amortization of ₱8.6 million and ₱8.1 million as of 2018 and 2017, respectively)	**3,342,034**	3,819,467
Noncurrent receivable (see Note 31)	**–**	1,143,240,000
Others	**9,962,621**	9,021,616
	₱244,615,594	₱1,200,379,776

Current portion of PSALM deferred adjustments amounting to ₱36.8 million is presented as part of "Others" under "Trade and other receivables" in the consolidated statement of financial position as of December 31, 2018 (see Note 6).

Noncurrent portion of prepaid rent pertains to unamortized advance payments of lease rentals in relation to the Parent Company and SIPC's LLAs with PSALM (see Note 30).

Franchise pertains to the costs incurred by BLCI to acquire the franchise to operate the Bohol Provincial Electric System which is amortized over 25 years.

As of December 31, 2017, investment in proprietary club shares has a carrying value of ₱1.3 million (see Note 2). Upon adoption of PFRS 9 effective January 1, 2018, the Group recognized transition adjustments of ₱3.7 million directly charged to the Group's beginning other comprehensive income (see Note 2) and ₱1.5 million recognized as "Unrealized valuation gain on financial asset at FVOCI" in the 2018 consolidated statement of comprehensive income.

13. Impairment Testing of Goodwill

Goodwill acquired through business combinations have been allocated to a single cash-generating unit composing the distribution business, which is a reportable segment. The recoverable amount of each unit 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.

Carrying amount of goodwill related to BLCI amounted to ₱32.5 million as of December 31, 2018 and 2017. The goodwill is attributed to the expected synergies and other benefits from combining the assets of the distribution utility with those of the Group.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Interest rate used to discount the net cash flows from operations is BLCI's WACC of 13.0% and 14.97% as of December 31, 2018 and 2017, respectively, using the capital asset pricing model.

- Energy sold is projected at 4% to 7% annual growth based on the actual average for 2018 and 2017, depending on the customer category.

- Operating expenses are projected to increase from 5% to 7% depending on the nature of expenses.

- The computation of terminal value assumes no growth in projected cash flows beyond five years.

Based on the impairment testing, no impairment on goodwill was recognized in 2018 and 2017.

Sensitivity to Changes in Assumptions
With regard to the assessment of value-in-use of BLCI, 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.

14. Trade and Other Payables

This account consists of:

	2018	2017
Trade (see Note 25)	**₱261,163,452**	₱527,945,252
Nontrade (see Note 30)	**164,449,765**	117,173,866
Accrued expenses (see Note 16)	**64,371,364**	67,618,607
	₱489,984,581	₱712,737,725

Trade payables include purchases of goods and services that are noninterest-bearing and are normally settled on 30–60 day terms.

Nontrade payables include accrual for deferred output VAT of ₱85.7 million and ₱72.2 million as of December 31, 2018 and 2017, respectively, current portion of PSALM deferred adjustments of ₱36.8 million as of December 31, 2018 (see Note 30) and various accounts with nontrade suppliers and contractors.

Accrued expenses include accrued interest on bank loans and customers' deposits, withholding taxes, and terminal leave pay of certain employees who were rehired following the termination of the ROMM Agreement on March 25, 2012 (see Note 1).

15. Long-term Debt

On October 28, 2014, the Parent Company availed of a six-year-term loan amounting to ₱650.0 million from a local bank maturing on October 28, 2020.

The loan proceeds were used to pay-off the ₱650.0 million short-term debt availed by the Parent Company in May 2014 that was used to finance the acquisition of the Naga Power Plant on September 2014 (see Note 31). The outstanding loan balance was prepaid on October 28, 2017.

Interest expense from this loan amounted to ₱19.2 million and ₱26.0 million in 2017 and 2016, respectively, including amortization of transaction costs of ₱1.5 million and ₱0.8 million in 2017 and 2016, respectively, (see Note 32).

The loan agreement provides, among others, that the Parent Company shall not, without prior written consent of the creditor: incur additional loans; purchase its issued and outstanding shares of stocks; change, alter or modify or permit any changes, alteration or modification in the nature of its business on which it is presently conducted, or otherwise change, alter or modify the purpose for which the Parent Company was formed; declare or distribute dividends (see Note 19) or allow advances to its officers and/or stockholders or any of its subsidiaries or affiliates or return any capital to its stockholders. The Parent Company complied with the debt covenants.

In October 2009, the Parent Company availed of a seven-year-term loan amounting to US$4.0 million from a local bank to partly finance the acquisition of the Panay and Bohol Diesel Power Plants by SIPC. The loan was fully paid on October 28, 2016. Interest expense from this loan amounted to ₱0.6 million in 2016.

16. Customers' Deposits

This account consists of:

	2018	2017
Bill deposits	**₱87,000,075**	₱75,707,947
Material deposits	**45,093,438**	41,337,734
	₱132,093,513	₱117,045,681

Bill Deposits

Bill deposits are obtained from customers and maintained at approximately equivalent to one month consumption principally as guarantee for any uncollected bills upon termination of the service contract. Under the Magna Carta for Residential Electricity Consumers (Magna Carta) as amended and Distribution Service and Open Access Rules (DSOAR) as amended, dated November 15, 2010 and February 22, 2010, respectively, bill deposits shall earn interest equivalent to the peso savings account interest rate of Land Bank of the Philippines or other government banks subject to the approval of the ERC and the same shall be credited yearly to the bills of the registered customer.

The Magna Carta and DSOAR also provide that bill deposits, together with accrued interests, shall be refunded within one month from the termination of the services if all bills have been paid. In addition to this, the customer who has paid his electric bills on or before its due date for three consecutive years may demand for the full refund of the deposit even prior to the termination of the service.

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.

Material Deposits
Large load consumers applying for power connection may pay for the transformers and poles in advance. This is subject to a refund which can be applied as a reduction from the accounts of the consumers at 25% of the consumers' monthly billing for deposits prior to June 2010 and 75% of the consumers' monthly billing from June 2010 onwards until such amounts are fully refunded or for five years, whichever period is shorter.

Interest on Bill Deposits
The implementing guidelines of the Magna Carta provide that the interest rate then on meter deposits shall be at 6% for contracts of service entered into prior to the effectivity of the then Energy Regulatory Board (ERB) Resolution No. 95-21 issued on August 3, 1995. The ERB Resolution No. 95-21 was issued adopting a 10% interest on customers' deposits. Pursuant to the Magna Carta as amended, bill deposits shall earn interest equivalent to the peso savings account interest rate of Land Bank of the Philippines or other government banks subject to the approval of the ERC. In the case of non-residential customers, the DSOAR, as amended provides that BLCI shall pay interest on bill deposits at the rate equivalent to the peso savings account interest rate of Land Bank of the Philippines or other government banks subject to the approval of the ERC. Interest expense on bill deposits amounting to ₱0.2 million, ₱0.2 million and ₱0.5 million in 2018, 2017 and 2016, respectively, are presented as part of "Interest expense" in the consolidated statements of comprehensive income. Outstanding interest expense accrued on bill deposits amounted to ₱2.7 million as of December 31, 2018 and 2017 and are presented as part of "Accrued expenses" under "Trade and other payables" in the consolidated statements of financial position (see Note 14).

17. Asset Retirement Obligation

As discussed in Notes 2, 3 and 30 to the consolidated financial statements, the Parent Company and SIPC have contractual obligations under the LLA with PSALM to dismantle installed assets and restore the leased premises to their original condition at the end of the lease term. In this regard, the Parent Company and SIPC established an obligation to recognize its estimated liability for asset retirement.

The Parent Company and SIPC also have an option under the LLA to purchase optioned assets within the lease premises that may be offered by the Lessor.

The movement of the asset retirement obligation follows:

	2018	2017
At January 1	**₱97,198,403**	₱112,303,852
Accretion of interest	**5,130,253**	6,006,307
Changes in ARO (see Notes 11 and 30)	**(39,119,121)**	(21,111,756)
Transfer to liabilities directly associated with noncurrent assets held for sale (see Note 11)	**(2,234,000)**	–
At December 31	**₱60,975,535**	₱97,198,403

As of December 31 2017, SIPC has exercised its option to purchase the optioned assets covering all the lots underlying the Bohol Diesel Power Plant (BDPP) with a total area of 27,527 square meters (see Note 30). As a result of the purchase, the ARO recognized for BDPP amounting to ₱21.1 million was reversed in 2017.

Changes in ARO in 2018 represents the reversal of the Parent Company's ARO amounting to ₱21.3 million as a result of remeasuring it being part of the disposal group held for sale (see Note 11) and reversal of SIPC's ARO amounting to ₱17.8 million to reflect changes in the assumptions used based on the current best estimates. As of December 31, 2018 and 2017, estimates for SIPC's ARO are projected using an inflation rates ranging from 1.30% to 5.20% and 2.54% to 3.83%, respectively, and discounted using a risk-free rate of 7.61% and 5.11%, respectively.

The actual dismantlement and restoration cost could vary substantially from the above estimate because of new regulatory requirements, changes in technology, increased cost of labor, materials, and equipment and/or actual time required to complete all dismantlement and removal activities.

18. Pension Plan

Under the existing regulatory framework, Republic Act No. 7641, *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, provided, however, 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 Parent Company has a funded defined benefit pension plan covering substantially all of its employees which require contributions to be made to a separately administered fund, while SIPC and BLCI have unfunded, noncontributory, defined benefit pension plan covering substantially all of its regular and permanent employees.

The following tables summarize the components of pension expense recognized in the consolidated statements of comprehensive income and amounts recognized in the consolidated statements of financial position.

The components of pension expense recognized under "Plant operations" and "General and administrative" in the consolidated statements of comprehensive income follow:

	2018	2017
Current service cost	**₱3,708,435**	₱14,575,118
Interest cost on benefit obligation	**1,082,822**	546,527
	₱4,791,257	₱15,121,645

Remeasurement effects, net of tax of nil and ₱1.9 million, recognized under "Other comprehensive income" in the consolidated statements of comprehensive income amounted to ₱4.2 million and ₱5.4 million in 2018 and 2017, respectively.

Net pension asset follows:

	2018	2017
Fair value of plan assets	**₱18,803,054**	₱–
Present value of defined benefit obligation	**17,395,127**	–
	₱1,407,927	₱–

Net pension liabilities follow:

	2018	2017
Present value of defined benefit obligation	**₱18,472,143**	₱32,646,992
Fair value of plan assets	**–**	12,539,614
	₱18,472,143	₱20,107,378

Changes in the present value of the defined benefit obligation follow:

	2018	2017
At January 1	**₱32,646,992**	₱22,097,565
Current service cost	**3,708,435**	14,575,118
Interest cost	**1,797,580**	810,119
Benefits paid	**(2,285,737)**	–
Remeasurement loss (gain) due to:		
Experience adjustments	**–**	(987,641)
Changes in demographic assumptions	**–**	(4,297,702)
Changes in financial assumptions	**–**	449,533
At December 31	**₱35,867,270**	₱32,646,992

Changes in the fair value of plan assets follow:

	2018	2017
At January 1	**₱12,539,614**	₱10,758,874
Contributions to the retirement fund	**1,336,585**	917,640
Interest income included in net interest cost	**714,758**	263,592
Gains on return on plan assets	**4,212,097**	599,508
At December 31	**₱18,803,054**	₱12,539,614

Changes in the amounts recognized in the consolidated statements of financial position for net pension liabilities follows:

	2018	2017
At January 1	**₱20,107,378**	₱11,338,691
Pension expense	**4,791,257**	15,121,645
Remeasurement gain	**(4,212,097)**	(5,435,318)
Benefits paid	**(2,285,737)**	–
Contribution to the retirement fund	**(1,336,585)**	(917,640)
At December 31	**₱17,064,216**	₱20,107,378

The fair value of plan assets by each class as at December 31 follows:

	2018	2017
Cash and cash equivalents	**₱2,531,315**	₱1,473,531
Investments in government securities	**13,840,069**	9,663,536
Investment in bonds	**1,500,000**	–
Investment in listed preferred shares	**760,743**	775,968
Accrued interest income and others	**193,329**	631,652
Total assets	**18,825,456**	12,544,687
Total liabilities	**22,402**	5,073
Fair value of plan assets	**₱18,803,054**	₱12,539,614

The Parent Company does not expect to contribute to the retirement fund in 2019.

The principal assumptions used in determining pension benefit obligation for the Group's plans as of December 31 are shown below:

	2018	2017
Discount rate	**5.70–6.06%**	5.70–6.06%
Future salary increase	**5.00–6.00%**	5.00–6.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation of the most recent actuarial valuation report, as of December 31, 2018 and 2017, assuming all other assumptions were held constant:

	Increase (Decrease)	Present Value Change of Defined Benefit Obligation 2018	2017
Discount rate	+100 basis points	**(₱11,185,737)**	(₱1,852,135)
	−100 basis points	**3,503,090**	2,142,197
Future salary increase rate	+100 basis points	**3,407,105**	2,269,190
	−100 basis points	**(1,668,806)**	(2,000,107)

The weighted average duration of the benefit payments ranges from 11.50 to 20.06 years and 12.26 to 19.67 years as of December 31, 2018 and 2017, respectively. The expected benefit payment assumes that all actuarial assumptions will materialize. Shown below is the maturity analysis of the undiscounted benefit payments as of December 31:

Plan Year	2018	2017
Less than one year	**₱11,336,977**	₱12,502,020
One year to less than five years	**12,410,357**	12,973,348
Five years to less than 10 years	**15,636,024**	14,477,322
10 years to less than 15 years	**17,271,390**	18,018,242
15 years to less than 20 years	**14,784,727**	14,117,555
20 years and above	**58,900,356**	61,872,688
	₱130,339,831	₱133,961,175

19. Equity

Capital Stock

There were no changes in the Parent Company's authorized, issued and outstanding common shares as of December 31, 2018 and 2017:

Issued shares	1,569,491,900
Treasury shares	72,940,097
Issued and outstanding shares	1,496,551,803

On various dates in 2002 and 2012, the Parent Company registered with SEC its 1,569,491,900 common shares that were offered to the public at an issue price of ₱1.80 per share. Gross proceeds from this issuance of new shares amounted to ₱2.8 billion. As of December 31, 2018, the Parent Company has 717 stockholders including 82 depository participants counted as one stockholder each.

As of December 31, 2018 and 2017, the Parent Company complied with the Minimum Public Ownership requirement of the PSE for listed entities.

Retained Earnings

Retained earnings are also restricted for dividend declaration to the extent of the accumulated equity in net earnings of associates amounting to ₱3.2 billion and ₱3.3 billion as of December 31, 2018 and 2017 respectively, until actually declared by the associates. It is further restricted for dividend declaration to the extent of the acquisition price of the treasury shares amounting to ₱131.0 million as of December 31, 2018 and 2017.

Upon adoption of PFRS 9 effective January 1, 2018, the Group recognized transition adjustments of ₱4.2 million directly charged to the Group's beginning retained earnings in the consolidated statement of changes in equity (see Note 2).

Appropriation

On December 3, 2014, the Board of Directors (BOD) of the Parent Company approved a total appropriation to ₱850.0 million for the construction of a new CFBC Coal-fired Power Plant with a capacity of 2x100 MW upon acquisition of the Naga Power Plant Complex (see Note 31).

On November 24, 2015, the BOD of the Parent Company approved additional appropriation of ₱400.0 million from the unappropriated retained earnings of the Parent Company in compliance with the negative covenants provided in its loan agreement with a local bank executed on October 27, 2014.

On March 30, 2016, the Board of Directors (BOD) of the Parent Company approved the reversal of appropriation amounting to ₱850.0 million and the appropriation of retained earnings by the same amount for the construction of a CFBC coal-fired thermal power plant with a capacity of at least 300 MW in the province of Cebu or Visayas region within the years 2016–2020.

On November 20, 2017, the BOD of the Parent Company approved the following: (i) reversal of retained earnings appropriated on November 24, 2015 amounting to ₱400.0 million due to the full prepayment of the related long-term debt on October 28, 2017 (see Note 15) and the reinstatement of the same amount as unappropriated retained earnings; (ii) retention of previously approved appropriation of retained earnings amounting to ₱850.0 for the construction of a CFBC coal-fired thermal power plant with a capacity of at least 300 MW in the province of Cebu or Visayas within the years 2018-2020; and (iii) appropriation of ₱500.0 million out of the unappropriated retained earnings of the Parent Company for the construction of two run-of-river hydro-electric power plant projects in Palawan with a capacity of 15.8 MW to commence within the years 2018–2019.

On November 28, 2018, the BOD of the Parent Company approved the following: (i) reversal of ₱850.0 million appropriation for the construction of a CFBC coal-fired thermal power plant with a capacity of at least 300 MW due to the adverse Supreme Court decision that led to the return of the Naga Power Plant Complex to PSALM pursuant to a Memorandum of Agreement and Certificate of Turnover executed between the Parent Company and PSALM on July 9, 2018 and July 13, 2018, respectively (see Note 31); (ii) reversal of ₱500.0 million appropriation for two run-of-river hydro-electric power plant projects in Palawan due to unsuccessful conclusion of final studies/negotiations; and (iii) appropriation of ₱1.5 billion out of the unappropriated retained earnings of the Parent Company for the acquisition of a 100% ownership interest in a power generation company and for 1Bohol Power Project that will serve the long-term power requirements of three distribution utilities in Bohol within the years 2024–2033.

However, in January 2019, the Parent Company lost in its bid to acquire the power generation company. Consequently, on April 4, 2019, the Parent Company' Board of Directors approved the reversal of a portion of its 2018 appropriation amounting to ₱1.0 billion.

Dividends

Cash dividends declared by the Parent Company and its subsidiaries in the last three years are summarized as follows:

			Amount	
Declared By	Date of Declaration	Record Date	Gross (in millions)	Per Share
2018				
SPC	May 28, 2018	June 11, 2018	₱598.6	₱0.40
	November 28, 2018	December 12, 2018	598.6	0.40
SIPC	November 28, 2018	December 12, 2018	350.0	14.0 (common)
SLCI	April 3, 2018	December 20, 2018	40.0	1.27
BLCI	April 12, 2018	April 16, 2018	30.0	0.40
	December 10, 2018	December 14, 2018	10.0	0.13
SECI	April 3, 2018	December 20, 2018	14.0	0.74
2017				
SPC	May 30, 2017	June 14, 2017	598.6	0.40
	November 20, 2017	December 6, 2017	598.6	0.40
SIPC	November 20, 2017	December 6, 2017	700.0	28.0 (common)
SLCI	November 20, 2017	December 6, 2017	5.0	0.1586
BLCI	August 8, 2017	August 15, 2017	15.0	0.20
	December 6, 2017	December 15, 2017	22.5	0.30
SECI	November 20, 2017	December 6, 2017	20.0	1.0574
SMPC	November 20, 2017	December 6, 2017	3.65	14.60
2016				
SPC	March 30, 2016	April 18, 2016	449.0	0.30
	December 9, 2016	December 26, 2016	429.0	0.29
SLCI	December 13, 2016	December 2, 2016	50.0	1.59
BLCI	June 17, 2016	June 30, 2016	42.0	0.56
	December 12, 2016	December 19, 2016	48.8	0.65
SIPC	November 21, 2016	December 1, 2016	450.0	18.0 (common)

Upon adoption of PFRS 9 effective January 1, 2018, the Group recognized transition adjustments of ₱1.3 million directly charged to the Group's beginning non-controlling interests in the consolidated statement of changes in equity (see Note 2).

As of December 31, 2018 and 2017, outstanding dividends payable amounted to ₱0.8 million and nil, respectively (see Note 32).

To comply with the requirements of Section 43 of the Corporation Code, the Parent Company plans to address excess retained earnings by declaring dividends in 2019. On April 4, 2019, the BOD of the Parent Company approved the declaration of interim cash dividends equivalent to ₱0.40 per share or for a total of ₱598.6 million to all stockholders of record as of April 23, 2019 payable on April 30, 2019.

Non-controlling Interest

As of December 31, 2018 and 2017, the Group has 53.66% direct and indirect ownership interest in BLCI which is primarily engaged in the business of supply and distribution of electricity in the area presently comprised by Tagbilaran City, Bohol. The summarized financial information of BLCI as of December 31 is provided below:

	2018	2017
Statements of financial position:		
Current assets	**₱362,673,926**	₱308,966,847
Noncurrent assets	**386,003,738**	161,448,280
Current liabilities	**211,876,511**	136,255,146
Noncurrent liabilities	**321,050,473**	122,464,058
Equity	**215,750,680**	211,695,923
Statements of comprehensive income:		
Revenue	**1,083,337,673**	914,288,398
Costs and expenses	**1,039,172,158**	861,701,716
Net income	**46,903,901**	53,408,075
Total comprehensive income	**46,903,901**	57,856,478
Net income attributable to non-controlling interest	**21,735,268**	24,749,302
Total comprehensive income attributable to non-controlling interest	**21,735,268**	26,810,692
Accumulated non-controlling interest	**99,978,865**	98,099,891

As of December 31, 2018 and 2017, total non-controlling interest amounted to ₱146.5 million and ₱149.2 million, respectively.

Capital Management

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2018 and 2017.

The Group considers its total equity attributable to equity holders of the Parent, excluding other comprehensive income, as its core capital and is not subject to any externally imposed capital requirements. As of December 31, 2018 and 2017, the Group's core capital amounted to ₱9,866.7 million and ₱9,213.8 million, respectively.

20. Plant Operations

This account consists of:

	2018	2017	2016
Purchased power (see Notes 5 and 25)	**₱992,017,735**	₱824,759,636	₱823,656,610
Fuel, lubricants and chemicals (see Note 8)	**534,664,530**	653,021,718	846,432,688
Personnel costs (see Note 22)	**89,665,534**	91,082,912	93,691,104
Depreciation and amortization (see Note 23)	**86,693,131**	76,447,813	76,996,773
Spares, materials and supplies (see Note 8)	**49,231,712**	44,771,908	70,300,443
Repairs and maintenance	**26,176,169**	15,914,310	23,225,637
Others (see Note 25)	**31,048,678**	29,572,936	43,106,001
	₱1,809,497,489	₱1,735,571,233	₱1,977,409,256

21. General and Administrative Expenses

This account consists of:

	2018	2017	2016
Personnel costs (see Note 22)	**₱42,192,202**	₱50,214,568	₱40,374,295
Business development	**37,471,927**	27,519,729	68,903,481
Provisions (see Notes 6, 8 and 11)	**23,475,982**	6,954,697	9,509,288
Directors' fees	**16,456,381**	15,451,969	15,267,856
Professional fees	**15,620,611**	13,000,590	12,509,261
Transportation and travel	**13,581,231**	8,301,520	7,246,331
Shared expenses	**13,257,495**	13,539,434	12,603,473
Insurance	**12,944,046**	7,936,556	3,264,397
Taxes, licenses and regulatory charges	**10,807,311**	8,977,629	20,036,128
Corporate social responsibility	**9,389,299**	1,745,645	1,331,838
Repairs and maintenance	**7,573,599**	3,909,747	4,461,234
Rentals (see Notes 5 and 30)	**6,353,282**	6,660,922	6,337,801
Communications	**4,365,480**	3,576,133	3,707,678
Depreciation and amortization (see Note 23)	**3,831,121**	3,235,371	3,387,340
Power and water	**3,328,988**	2,661,134	2,562,188
Entertainment, amusement and recreation	**2,777,872**	1,549,041	1,816,136
Office supplies	**2,763,396**	2,632,006	2,720,092
Association dues	**1,874,423**	1,857,594	2,074,873
Janitorial and security	**1,828,939**	1,771,602	1,558,656
Supervision and regulation	**750,000**	750,000	750,000
Trainings and seminars	**575,727**	342,595	468,054
Freight and handling	**473,506**	472,026	500,781
Brokerage fees	**152,634**	146,063	183,293
Others	**7,622,449**	5,577,215	5,937,884
	₱239,467,901	₱188,783,786	₱227,512,358

Provisions include provision for credit and impairment losses, inventory losses and impairment of machineries and equipment (see Notes 6, 8 and 11).

22. Personnel Costs

This account consists of:

	2018	2017	2016
Salaries and wages	**₱91,304,401**	₱82,455,364	₱95,948,852
Retirement (see Note 18)	**4,791,257**	15,121,645	2,524,707
Other employee benefits	**35,762,078**	43,720,471	35,591,840
	₱131,857,736	₱141,297,480	₱134,065,399

23. Depreciation and Amortization

This account consists of:

	2018	2017	2016
Depreciation of property, plant and equipment (see Note 11):			
Plant operations (see Note 20)	**₱86,215,698**	₱75,970,380	₱76,519,340
General and administrative (see Note 21)	**2,756,305**	2,348,079	2,271,896
	88,972,003	78,318,459	78,791,236
Amortization of franchise:			
Plant operations (see Note 20)	**477,433**	477,433	477,433
Amortization of software costs:			
General and administrative (see Note 21)	**608,251**	608,251	608,251
Amortization of prepaid rent:			
General and administrative (see Note 21)	**466,565**	279,041	507,193
	₱90,524,252	₱79,683,184	₱80,384,113

24. Unbundling of Rates

Unbundling of Electricity Bill

In compliance with EPIRA, BLCI started to bill its customers using the final unbundled rates approved by the ERC in May 2008, per ERC decision dated March 27, 2008. The Uniform Rate Filing Requirements (UFR) on the rate unbundling released by the ERC on October 30, 2001 specified that BLCI billing will have the following components: Generation Charge, Transmission Charge, System Loss Charge, Distribution Charge, Supply Charge, Metering Charge, and Interclass and Lifeline Subsidies. Local Franchise Taxes, the Power Act Reduction (PAR, for Residential Customers) and the Universal Charge are also separately indicated in the customer's billing statements. The Universal Charges, which are billed and collected merely on behalf of the national government agency, do not form part of BLCI's revenues.

The components of the unbundled bill presented below pertain only to those with recovery mechanism.

Unbundled Bill Component	Mechanism
Generation and System Loss Charges	▪ Guidelines for the Automatic Adjustment of Generation Rates and System Loss Rates by Distribution Utilities (DU), as Amended (AGRA)
Transmission Charge	▪ Guidelines for the Adjustment of Transmission Rates by DU (TRAM) ▪ Rules for Calculation of the Over or Under Recovery in the Implementation of Transmission Rates and the Corresponding System Loss Rates by DU
Inter-class Subsidy	▪ Guidelines for a "True-Up" Mechanism of the Over or Under Recovery in the Implementation of Inter-class Cross Subsidy Removal by DU
Lifeline Rate/Subsidy	▪ Guidelines for the Calculation of the Over or Under Recovery in the Implementation of Lifeline Rates by DU

For the years ended December 31, 2018, 2017 and 2016, BLCI's revenue from distribution of power amounted to ₱1,083.3 million, ₱914.3 million and ₱931.2 million, respectively (see Note 27).

Implementation of VAT
With the enactment of R.A. No. 9337, the ERC issued on November 7, 2005 Resolution No. 20, Series of 2005 which prescribed the Guidelines for Implementing the Recovery of VAT and Other Provisions of R.A. No. 9337 affecting the Power Industry. R.A. No. 9337 removes the 2% national franchise tax but imposes a VAT on generation, transmission, distribution, and supply of electricity. Similar to the local franchise tax, the VAT is a separate item in the customers' bills. The 12% VAT is imposed on electricity consumptions starting February 1, 2006.

25. Significant Contracts

The Group has the following significant contracts:

Parent Company
On May 26, 2015, the Parent Company entered into an Ancillary Services Procurement Agreement (ASPA) with National Grid Corporation of the Philippines (NGCP) that took effect on September 26, 2015 after getting the provisional approval of the ERC. The Parent Company and NGCP executed the ASPA for the supply of dispatchable reserve and reactive power support from its Cebu Diesel Power Plant located in the City of Naga, Cebu for a period of five (5) years under a non-firm arrangement. The ASPA was preterminated on July 13, 2018 due to the return of the Cebu Diesel Power Plant to PSALM (see Note 31).

On December 18, 2018, the Parent Company entered into an ASPA with NGCP for the supply of dispatchable reserve and reactive power support from the former's 4x7 MW Power Barge (PB) 104 located in Tapal Wharf, Ubay, Bohol under firm and non-firm arrangements. The term of this agreement is for a period of five (5) years commencing upon receipt of a final approval, or in the absence thereof, a provisional approval by the ERC of the application filed on February 14, 2019. As of December 31, 2018, the agreement is not yet approved by the ERC.

SIPC

SIPC and NGCP entered into a Connection Agreement on August 28, 2010, in order for SIPC's generation facilities to remain connected to the transmission system of the NGCP and to continue to avail of the transmission services. This Agreement is subject to the terms and conditions for the connection of the generation facility to the transmission system pursuant to the Revised Rules, Terms and Conditions for the Provision of Open Access Transmission Service. Total transmission charges, lodged in "Others" under "Plant operations" amounted to ₱8.2 million, ₱7.7 million and ₱6.8 million in 2018, 2017 and 2016, respectively (see Note 20).

On April 18, 2013, SIPC entered into an ASPA with NGCP with provisional approval granted by the ERC on November 11, 2013. The ASPA, however, was made effective only on February 25, 2014 due to the impact of super typhoon Yolanda in November 2013. SIPC and NGCP executed the ASPA for the supply of contingency reserve, dispatchable reserve, reactive power support, and black start service from the Panay and Bohol Diesel Power Plants for a period of five (5) years under a non-firm arrangement. The agreement will expire on February 25, 2019. Due to the necessity of extending the services of providing the same ancillary services, SIPC and NGCP have agreed per letter dated November 26, 2018 to extend the ASPA until a new ASPA for each power plant is approved by the ERC.

On November 20, 2018, SIPC entered into an ASPA with NGCP for the supply of dispatchable reserve and black start service under firm and non-firm arrangements, respectively, from SIPC's Bohol Diesel Power Plant. The term of this agreement is for a period of five (5) years commencing upon receipt of a final approval, or in the absence thereof, a provisional approval by the ERC. As of December 31, 2018, the agreement is not yet approved by the ERC.

As of December 31, 2018, SIPC has power supply contracts with five distribution utilities (including three for approval by the ERC) for the supply of peaking power requirements with terms ranging from three to five years from effectivity of the contracts.

BLCI

BLCI entered into a Contract for the Supply of Electric Energy (CSEE) consisting of the Transition Supply Contract (TSC) and the Regular Bilateral Contract for the purchase of electricity from the NPC, effective for a period of ten years from August 26, 2005 to August 25, 2015.

The Wholesale Electricity Spot Market (WESM) started operation in the Visayas region on December 26, 2010. BLCI is registered as a direct WESM participant.

Pursuant to Section 8 of R.A. No. 9136, the National Transmission Corporation (TransCo) was created and assumed the electrical transmission functions of the NPC. On November 13, 2006, BLCI and TransCo entered into a Transmission Service Agreement (TSA) to support the CSEE between BLCI and NPC. By virtue of R.A. No. 9511 dated December 1, 2008, the NGCP was granted a franchise to engage in the business of conveying or transmitting electricity through high voltage backbone system of interconnected transmission lines, substations and related facilities and for other purposes. These activities were previously undertaken by TransCo.

On March 22, 2013, the ERC provisionally approved the Power Sales Contract (PSC) between BLCI and KSPC that was executed on October 12, 2012. Contract period is 10 years with an annual contract quantity of 43,800,000 kWh. KSPC started its supply to BLCI on July 26, 2013. On June 29, 2015, ERC issued the final approval on the PSC between BLCI and KPSC with modification on the base price particularly on the fuel cost component.

On August 11, 2015, BLCI entered into a PSC with Unified Leyte Geothermal Energy, Inc. (ULGEI). Contract period is 6 years with an annual contract quantity of 67,452,000 kWh. ULGEI started to supply electricity to BLCI on August 26, 2015.

Total power purchases from ULGEI, KSPC, NGCP and PEMC, net of discounts, amounted to ₱830.0 million, ₱799.3 million and ₱809.4 million in 2018, 2017 and 2016, respectively, and presented as "Purchased power" under "Plant operations" in the consolidated statements of comprehensive income (see Note 20).

The outstanding payables to ULGEI, KSPC, NGCP and PEMC, included under "Trade and other payables" (see Note 14), on purchased power amounted to ₱102.0 million and ₱85.6 million as of December 31, 2018 and 2017, respectively.

26. Income Tax

	2018	2017	2016
Current	**₱169,473,510**	₱157,359,677	₱185,682,524
Deferred	**5,146,406**	368,847	(2,719,004)
	₱174,619,916	₱157,728,524	₱182,963,520

The reconciliation between the amounts of provision for income tax computed at the statutory tax rate to provision for income tax in the consolidated statements of comprehensive income for the years ended December 31, 2018, 2017 and 2016 follows:

	2018	2017	2016
Income before income tax	**₱2,068,825,887**	₱1,831,852,935	₱1,970,361,854
Provision for income tax computed at 30%	**₱620,647,766**	₱549,555,881	₱591,108,556
Adjustments to income tax resulting from:			
Equity in net earnings of associates	**(379,623,624)**	(341,228,796)	(352,657,493)
Impact of OSD	**(41,880,062)**	(44,729,860)	(47,224,340)
Interest income already subjected to final tax	**(14,690,438)**	(1,934,497)	(6,965,871)
Others	**(9,833,726)**	(3,934,204)	(1,297,332)
	₱174,619,916	₱157,728,524	₱182,963,520

The Group's deferred income tax assets and deferred income tax liabilities relate to the following:

	2018	2017
Deferred income tax assets on:		
Asset retirement obligation	**₱23,643,002**	₱29,159,520
Pension liability	**5,526,274**	5,255,920
	29,169,276	34,415,440
Deferred income tax liability on		
Excess of fair value over acquisition cost - property, plant and equipment and inventory	**917,444**	1,175,462
Unrealized foreign exchange gain	**902,463**	744,203
	1,819,907	1,919,665
Net deferred income tax assets	**₱27,349,369**	₱32,495,775

On July 7, 2008, R.A. 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the OSD. Corporations, except for non-resident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made. On November 26, 2008, the BIR issued Revenue Regulation 16-2008 for the implementing guidelines of the law.

The Parent Company, SIPC and BLCI availed of the OSD in the computation of their taxable income in 2018, 2017 and 2016.

27. Segment Information

For management purposes, the Group is organized into business units based on their products and services provided as follows:

- Generation - generation and supply of power and ancillary services to NPC/PSALM, NGCP, distribution utilities, WESM and other customers.
- Distribution - distribution and sale of electricity to the end-users.
- Others - includes the operations of SECI and SLCI such as to manage, operate and invest in power generating plants and related facilities.

These operating segments are consistent with those reported to the BOD, the Group's Chief Operating Decision Maker (CODM).

The Group operates and generates revenue principally only in the Philippines (i.e., one geographical location). Thus, geographical segment information is not presented.

The CODM monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss in the consolidated financial statements.

No inter-segment revenues are earned within the Group for 2018, 2017 and 2016.

	2018					
	Before Adjustments and Eliminations				Adjustments and	After Eliminations/
	Generation	Distribution	Others	Total	Eliminations	Consolidated
Revenue	₱1,302,816,658	₱1,083,337,673	₱–	₱2,386,154,331	(₱239,820)	₱2,385,914,511
Income before income tax	2,519,248,156	62,441,041	34,212,476	2,615,901,673	(547,075,786)	2,068,825,887
Net income	2,360,165,380	46,903,901	34,212,476	2,441,281,757	(547,075,786)	1,894,205,971
Total assets	7,630,481,671	748,677,664	94,739,820	8,473,899,155	2,470,685,844	10,944,584,999
Property, plant and equipment (see Note 11)	586,522,811	194,678,910	–	781,201,721	–	781,201,721
Total liabilities	740,203,678	532,926,984	118,395	1,273,249,057	(353,334,838)	919,914,219
Depreciation and amortization (see Note 23)	72,320,861	18,203,391	–	90,524,252	–	90,524,252
Capital expenditures	69,062,876	59,485,858	–	128,548,734	–	128,548,734

	2017					
	Before Adjustments and Eliminations				Adjustments and Eliminations	After Eliminations/ Consolidated
	Generation	Distribution	Others	Total		
Revenue	₱1,435,832,793	₱914,288,398	₱–	₱2,350,121,191	₱–	₱2,350,121,191
Income before income tax	2,372,999,117	69,518,729	14,428,929	2,456,946,775	(625,093,840)	1,831,852,935
Net income	2,231,381,248	53,408,074	14,428,929	2,299,218,251	(625,093,840)	1,674,124,411
Total assets	7,319,348,133	470,415,127	114,519,457	7,904,282,717	2,967,806,291	10,872,089,008
Property, plant and equipment (see Note 11)	625,426,592	152,919,010	–	778,345,602	–	778,345,602
Total liabilities	1,250,188,474	258,719,204	110,508	1,509,018,186	(1,083,494)	1,507,934,692
Depreciation and amortization (see Note 23)	60,765,167	18,918,017	–	79,683,184	–	79,683,184
Capital expenditures	168,706,281	22,239,927	–	190,946,208	–	190,946,208

	2016					
	Before Adjustments and Eliminations				Adjustments and Eliminations	After Eliminations/ Consolidated
	Generation	Distribution	Others	Total		
Revenue	₱1,989,513,231	₱931,216,019	₱–	₱2,920,729,250	₱–	₱2,920,729,250
Income before income tax	1,435,762,866	78,079,595	50,074,688	1,563,917,149	406,444,705	1,970,361,854
Net income	1,270,779,584	60,099,357	50,074,688	1,380,953,629	406,444,705	1,787,398,334
Total assets	7,454,751,125	477,485,373	175,107,861	8,107,344,359	2,317,841,154	10,425,185,513
Property, plant and equipment (see Note 11)	525,881,301	149,122,098	–	675,003,399	–	675,003,399
Total liabilities	1,715,161,728	286,145,926	50,127,843	2,051,435,497	(542,236,571)	1,509,198,926
Depreciation and amortization (see Note 23)	61,613,521	18,770,592	–	80,384,113	–	80,384,113
Capital expenditures	291,299,097	27,044,758	–	318,343,855	–	318,343,855

The Group's revenue from contracts with customers is mainly from distribution services. Set out below is the disaggregation of the Group's revenue from contracts with customer in 2018:

	Generation	Distribution	Total
Revenue from power supply contracts	₱168,756,984	₱–	₱168,756,984
Revenue from ancillary services	860,525,855	–	860,525,855
Revenue from market power trading	273,293,999	–	273,293,999
Revenue from distribution services (see Note 24)	–	1,083,337,673	1,083,337,673
Revenue from management services (see Note 5)	120,007,156	–	120,007,156
	₱1,422,583,994	₱1,083,337,673	₱2,505,921,667

The revenue from contracts with customers, except for revenue from management services, is consistent with the revenue with external customers presented in Segment information.

Revenue from the Group's major external customers, which account for 48%, 50% and 61% in 2018, 2017 and 2016, respectively, amounted to ₱1,133.8 million, ₱1,176.9 million and ₱1,753.5 million, respectively.

Adjustments and Eliminations

Adjustments and eliminations are part of detailed reconciliations presented below:

Reconciliation of Net Income

	2018	2017	2016
Segment net income	**₱2,441,281,757**	₱2,299,218,251	₱1,380,953,629
Equity in net earnings of associates (see Note 10)	**1,265,412,079**	1,137,429,320	1,175,524,975
Dividend income	**(1,812,487,865)**	(1,762,523,160)	(769,080,270)
Group net income	**₱1,894,205,971**	₱1,674,124,411	₱1,787,398,334

Reconciliation of Total Assets

	2018	2017
Segment assets	**₱8,473,899,155**	₱7,904,282,717
Inter-segment receivables	**(356,705,798)**	(4,454,453)
Investments in associates and subsidiaries	**2,794,869,626**	2,939,738,728
Goodwill	**32,522,016**	32,522,016
Group assets	**₱10,944,584,999**	₱10,872,089,008

Reconciliation of Total Liabilities

	2018	2017
Segment liabilities	**₱1,273,249,057**	₱1,509,018,186
Inter-segment payables	**(353,334,838)**	(1,083,494)
Group liabilities	**₱919,914,219**	₱1,507,934,692

Key Performance Indicators

The following financial indicators are used, among others, by management to evaluate the performance of the Group as of and for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
For the years ended December 31:			
Earnings per share (see Note 28)	**₱1.24**	₱1.10	₱1.16
Share in net earnings of associates (see Note 10)	**1,265,412,079**	1,137,429,320	1,175,524,975
Return on equity (total comprehensive income divided by average total equity)	**19.61%**	18.35%	21.09%
Return on assets (total comprehensive income divided by average total assets)	**17.43%**	15.75%	17.93%
Cash flows:			
Net cash flows from operating activities	**301,093,533**	677,925,987	981,803,074
Net cash flows from (used in) investing activities	**2,426,046,583**	843,738,524	(181,555,534)
Net cash flows used in financing activities	**(1,237,727,455)**	(1,829,013,293)	(994,940,718)
As of December 31:			
Cash and cash equivalents (see Note 4)	**2,937,042,859**	1,445,250,136	1,749,497,644
Current ratio (total current assets including noncurrent assets held for sale divided by total current liabilities including liabilities directly associated with noncurrent assets held for sale)	**7.33**	2.10	2.88
Debt ratio (total liabilities divided by total assets)	**0.08**	0.14	0.14
Debt-to-equity ratio (total liabilities divided by total equity)	**0.09**	0.16	0.17
Solvency ratio (total comprehensive income before depreciation and amortization divided by total liabilities)	**2.16**	1.17	1.24

28. Earnings Per Share

The following presents information necessary to calculate earnings per share attributable to equity holders of the Parent Company:

	2018	2017	2016
Net income attributable to equity holders of the Parent	**₱1,854,292,292**	₱1,643,265,605	₱1,733,661,950
Weighted average number of common shares issued and outstanding	**1,496,551,803**	1,496,551,803	1,496,551,803
Basic/Diluted earnings per share	**₱1.24**	₱1.10	₱1.16

Computation of weighted average number of common shares issued and outstanding follows:

Number of shares issued	1,569,491,900
Less weighted average number of treasury shares	72,940,097
	1,496,551,803

There are no potentially dilutive common shares issued as of December 31, 2018, 2017 and 2016.

29. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of long-term debt and cash and cash equivalents. The Group has various other financial assets and liabilities such as trade and other receivables, trade and other payables, due from/due to NPC/PSALM, other noncurrent receivable included under "Other noncurrent assets", due from/due to related parties, dividend payable, and customers' deposits which arise directly from its operations.

The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk and credit risk.

The Group's senior management oversees the management of these risks. The Group's senior management ensures that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk appetite.

The BOD reviews and approves policies for managing each of these risks and they are summarized below.

<u>Interest Rate Risk</u>
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group's policy is to manage its interest cost using the variable-rate debts.

As of December 31, 2018 and 2017, the Group does not have a financial liability that is exposed to interest rate risk since all the outstanding short and long-term debts had been paid as of October 28, 2017 (see Note 15).

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 Group's objective is to maintain a balance between continuity of funding and flexibility. 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 dividend declarations.

The tables below summarize the maturity profile of the Group's financial assets used to manage liquidity risk and financial liabilities at December 31 based on contractual undiscounted payments:

			2018			
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Assets						
At amortized cost:						
Cash and cash equivalents	₱2,937,042,859	₱2,937,042,859	₱–	₱–	₱–	₱–
Trade and other receivables						
NPC	1,015,262	–	–	–	–	1,015,262
Receivable from customers	357,596,696	239,570,576	30,208,165	18,991,678	18,519,596	50,306,681
Others	76,852,339	47,747,098	2,547,077	2,503,727	632,032	23,422,405
	435,464,297	287,317,674	32,735,242	21,495,405	19,151,628	74,744,348
Due from NPC/PSALM	1,175,128	–	–	–	–	1,175,128
Due from related parties	16,810,651	15,232,502	31,180	38,840	31,877	1,476,252
PSALM deferred adjustments (included in "Other noncurrent assets")	182,765,769	–	–	–	–	182,765,769
	3,573,258,704	3,239,593,035	32,786,422	21,534,245	19,183,505	260,161,497
At FVOCI:						
Investment in proprietary club shares	6,500,000	–	–	–	–	6,500,000
	3,579,758,704	3,239,593,035	32,786,422	21,534,245	19,183,505	266,661,497
Financial Liabilities						
Trade and other payables						
Trade	298,599,019	263,197,727	11,362,210	4,609,145	2,251,126	17,178,811
Accrued expenses	33,064,242	20,372,907	380,710	334,210	381,615	11,594,800
Nontrade	55,907,137	24,308,487	1,153	627,980	788,805	30,180,712
	387,570,398	307,879,121	11,744,073	5,571,335	3,421,546	58,954,323
Dividends payable	849,987	849,987	–	–	–	–
Due to NPC/PSALM	–	–	–	–	–	–
Due to related parties	586,700	22,552	67,106	–	–	497,042
Customers' deposits	132,093,513	–	–	–	–	132,093,513
Other noncurrent liability	182,765,769	–	–	–	–	182,765,769
	703,866,367	308,751,660	11,811,179	5,571,335	3,421,546	374,310,647
Net Financial Assets (Liabilities)	₱2,875,892,337	₱2,930,841,375	₱20,975,243	₱15,962,910	₱15,761,959	(₱107,649,150)

			2017			
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Assets						
Loans and receivables:						
Cash and cash equivalents	₱1,445,250,136	₱1,445,250,136	₱–	₱–	₱–	₱–
Trade and other receivables						
NPC	1,497,011	–	–	–	–	1,497,011
Receivable from customers	405,974,878	302,960,726	31,407,755	15,428,333	29,007,423	27,170,641
Others	50,435,362	19,376,748	2,023,952	1,496,866	507,258	27,030,538
	457,907,251	322,337,474	33,431,707	16,925,199	29,514,681	55,698,190
Due from NPC/PSALM	1,175,128	–	–	–	–	1,175,128
Due from related parties	1,845,907	106,643	17,300	473,708	33,110	1,215,146
	1,906,178,422	1,767,694,253	33,449,007	17,398,907	29,547,791	58,088,464
AFS:						
Investment in proprietary club shares	1,300,000	1,300,000	–	–	–	–
	1,907,478,422	1,768,994,253	33,449,007	17,398,907	29,547,791	58,088,464

(Forward)

	2017					
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Liabilities						
Trade and other payables						
Trade	₱526,206,010	₱411,579,834	₱96,048,060	₱1,645,788	₱562,052	₱16,370,276
Accrued expenses	47,443,412	36,408,744	528,934	198,859	234,753	10,072,122
Nontrade	48,971,352	17,995,469	1,181,994	316,821	431,909	29,045,159
	622,620,774	465,984,047	97,758,988	2,161,468	1,228,714	55,487,557
Due to NPC/PSALM	511,650,588	–	–	–	–	511,650,588
Due to related parties	563,995	22,259	44,693	–	–	497,043
Customers' deposits	117,045,681	–	–	–	–	117,045,681
	1,251,881,038	466,006,306	97,803,681	2,161,468	1,228,714	684,680,869
Net Financial Assets (Liabilities)	₱655,597,384	₱1,302,987,947	(₱64,354,674)	₱15,237,439	₱28,319,077	(₱626,592,405)

Foreign Currency Risk

Foreign currency risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Fair value foreign currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and exposures in US dollar currency.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities). Bankers Association of the Philippines (BAP) and Philippine Dealing System (PDS) closing rates used are ₱52.58 and ₱49.93 on December 31, 2018 and 2017, respectively. There is no other impact on the Group's equity other than those already affecting the profit and loss.

	Increase (Decrease) in US Dollar Rate	Effect on Income Before Income Tax
2018	**+1**	**₱1,631,443**
	–1	**(1,631,443)**
2017	+1	₱1,753,725
	–1	(1,753,725)

Foreign-Currency-denominated Monetary Assets and Liabilities

The foreign-currency-denominated monetary assets and monetary liabilities and their Philippine Peso equivalents follow:

	U.S. Dollar		Peso Equivalent	
	2018	2017	**2018**	2017
Cash and cash equivalents	**\$3,113,782**	\$3,517,368	**₱163,722,675**	₱175,622,193
Trade and other payables:				
Trade	**(11,000)**	(5,000)	**(578,380)**	(249,650)
Net foreign currency-denominated monetary assets	**\$3,102,782**	\$3,512,368	**₱163,144,295**	₱175,372,543

As a result of the translation of these foreign currency-denominated assets and liabilities, the Group reported a net unrealized foreign exchange gain of ₱2.4 million and ₱3.6 million in 2018 and 2016, respectively, and net unrealized foreign exchange loss of ₱0.2 million in 2017.

Credit Risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting to a financial loss.

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers 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 exposure to bad debts is not significant.

With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, due from NPC/PSALM, due from related parties and noncurrent receivable, the Group's exposure to credit risk arises from default of the counterparty.

The Group's credit risk from cash and cash equivalents is mitigated by Philippine Deposit Insurance Corporation's (PDIC) insurance coverage on the cash in bank. While the Group does not hold collateral as security, its credit risk from trade and other receivables is mitigated by the customers' deposits which are collected to guarantee any uncollected bills from the customers upon termination of the service contract.

The Group's maximum exposure equals to the carrying amount of the aforementioned instruments, excluding cash on hand, and is offset by the PDIC insurance coverage and customers' deposits. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk management purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes.

	2018		
	Maximum exposure	Offset	Exposure to credit risk
At amortized cost:			
Cash and cash equivalents (excluding cash on hand)	**₱2,928,731,599**	**(₱8,067,264)**	**₱2,920,664,335**
Trade and other receivables	**435,464,297**	**(87,000,075)**	**348,464,222**
Due from related parties	**16,810,651**	**–**	**16,810,651**
Due from NPC/PSALM	**1,175,128**	**–**	**1,175,128**
PSALM deferred adjustments (included in "Other noncurrent assets")	**182,765,769**	**–**	**182,765,769**
	₱3,564,947,444	**(₱95,067,339)**	**₱3,469,880,105**

	2017		
	Maximum exposure	Offset	Exposure to credit risk
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand)	₱1,444,922,676	(₱8,167,421)	₱1,436,755,255
Trade and other receivables	457,907,251	(75,707,947)	382,199,304
Due from related parties	1,845,907	–	1,845,907
Due from NPC/PSALM	1,175,128	–	1,175,128
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	–	1,143,240,000
	₱3,049,090,962	(₱83,875,368)	₱2,965,215,594

As of December 31, 2018 and 2017, the Group's significant concentration of credit risk pertains to its trade and other receivables, due from NPC/PSALM, PSALM deferred adjustments and noncurrent receivable amounting to ₱619.4 million and ₱1,602.3 million, respectively, and impaired financial assets, determined based on probability of collection, are adequately covered with allowance.

Applicable for the year ended December 31, 2018

The following are the details of the Group's assessment of credit quality and the related ECLs as at December 31, 2018:

General Approach

- *Cash and cash equivalents* - As of December 31, 2018, the ECL relating to the cash and cash equivalents of the Group is minimal as these are deposited in reputable banks which have good bank standing, and is considered to have low credit risk.

- *Due from NPC/PSALM, related parties, and other receivables* - As of December 31, 2018, there were no individually impaired accounts. No ECL is recognized for these receivables since there were no history of default payments. This assessment is undertaken each financial year through examining the financial position of the parties and the markets in which the parties operate.

Simplified Approach

- *Trade and other receivables* - The Group applied the simplified approach under PFRS 9, using a 'provision matrix'. As of December 31, 2018, the allowance for impairment losses as a result from performing collective and specific impairment test amounted to ₱36.3 million. Management evaluated that the Parent Company's trade receivables are of high grade and of good credit quality.

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	₱–	₱–	₱33,626,948	₱438,146,474	₱471,773,422
Loss allowance	–	–	(32,647,485)	(3,661,640)	(36,309,125)
Carrying amount	₱–	₱–	₱979,463	₱434,484,834	₱435,464,297

The following tables set out the aging analysis per class of financial assets, including those that were past due but not impaired, as of December 31, 2018:

	Total	Neither Past Due nor Impaired	Past Due but Not Impaired: 1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Impaired
At Amortized Cost							
Cash and cash equivalents (excluding cash on hand)	₱2,928,731,599	₱2,928,731,599	₱–	₱–	₱–	₱–	₱–
Trade and other receivables:							
NPC/PSALM	1,015,262	–	–	–	–	1,015,262	–
Receivable from customers	393,905,821	239,570,576	30,208,165	18,991,678	18,519,596	50,306,681	36,309,125
Others	76,852,339	47,747,098	2,547,077	2,503,727	632,032	23,422,405	–
	471,773,422	287,317,674	32,755,242	21,495,405	19,151,628	74,744,348	36,309,125
Due from NPC/PSALM	1,175,128	–	–	–	–	1,175,128	–
Due from related parties	16,810,651	15,232,502	31,180	38,840	31,877	1,476,252	–
Noncurrent receivable (included in "Other noncurrent assets")	182,765,769	182,765,769	–	–	–	–	–
	₱3,601,256,569	₱3,414,047,544	₱32,786,422	₱21,534,245	₱19,183,505	₱77,395,728	₱36,309,125

Applicable for the year ended December 31, 2017 and prior years

The table below shows the credit quality by class of the Group's financial assets (gross of allowance for impairment losses):

	Total	Neither Past Due nor Impaired	Past Due but Not Impaired				Impaired
			1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	
Loans and Receivables							
Cash and cash equivalents (excluding cash on hand)	₱1,444,922,676	₱1,444,922,676	₱–	₱–	₱–	₱–	₱–
Trade and other receivables:							
NPC/PSALM	1,497,011	–	–	–	–	1,497,011	–
Receivable from customers	428,970,163	302,960,725	31,407,754	15,428,333	29,007,424	27,170,642	22,995,285
Others	50,435,362	19,376,748	2,023,953	1,496,865	507,258	27,030,538	–
	480,902,536	322,337,473	33,431,707	16,925,198	29,514,682	55,698,191	22,995,285
Due from NPC/PSALM	1,175,128	–	–	–	–	1,175,128	
Due from related parties	1,845,907	106,644	17,300	473,709	33,109	1,215,145	–
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	–	–	–	–	1,143,240,000	–
	₱3,072,086,247	₱1,767,366,793	₱33,449,007	₱17,398,907	₱29,547,791	₱1,201,328,464	₱22,995,285

Financial assets classified as neither past due nor impaired are assessed by the Group to be highly probable of collection, taking into consideration the parties involved and its collection experience.

The tables below summarize the credit quality of the Group's neither past due nor impaired financial assets as of December 31:

	2018					
		Neither Past Due nor Impaired				
		High Grade	Standard	Substandard	Past Due	Individually Impaired
At Amortized Cost						
Cash and cash equivalents (excluding cash on hand)	₱2,928,731,599	₱2,928,731,599	₱–	₱–	₱–	₱–
Trade and other receivables:						
NPC/PSALM	1,015,262	–	–	–	1,015,262	–
Receivable from customers	393,905,821	174,573,682	61,232,735	3,764,159	118,026,120	36,309,125
Others	76,852,339	46,446,430	1,300,668	–	29,105,241	–
	471,773,422	221,020,112	62,533,403	3,764,159	148,146,623	36,309,125
Due from NPC/PSALM	1,175,128	–	–	–	1,175,128	–
Due from related parties	16,810,651	30,367	15,202,135	–	1,578,149	–
Noncurrent receivable (included in "Other noncurrent assets")	182,765,769	182,765,769	–	–	–	–
	₱3,601,256,569	₱3,332,547,847	₱77,735,538	₱3,764,159	₱150,899,900	₱36,309,125

	2017					
		Neither Past Due nor Impaired				
		High Grade	Standard	Substandard	Past Due	Individually Impaired
Loans and Receivables						
Cash and cash equivalents (excluding cash on hand)	₱1,444,922,676	₱1,444,922,676	₱–	₱–	₱–	₱–
Trade and other receivables:						
NPC/PSALM	1,497,011	–	–	–	1,497,011	–
Receivable from customers	428,970,163	188,139,334	111,428,522	3,392,869	103,014,153	22,995,285
Others	50,435,362	18,409,057	967,691	–	31,058,614	–
	480,902,536	206,548,391	112,396,213	3,392,869	135,569,778	22,995,285
Due from NPC/PSALM	1,175,128	–	–	–	1,175,128	–
Due from related parties	1,845,907	25,764	80,880	–	1,739,263	–
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	–	–	–	1,143,240,000	–
	₱3,072,086,247	₱1,651,496,831	₱112,477,093	₱3,392,869	₱1,281,724,169	₱22,995,285

The Group grades its financial assets as follows:

- *Cash and Cash Equivalents*: These are assessed as high grade since these are deposited in reputable banks which have good bank standing, thus credit risk is minimal.

- *Receivable/Due from NPC/PSALM, NGCP and Distribution Utilities*: These are assessed as high grade since these receivables arose from the contract provisions of the ROMM Agreement, Operation and Maintenance Service Contracts (OMSC), Ancillary Services Procurement Agreements (ASPA), Power Supply Contracts (PSCs), and/or collectible from government institution.

- *Receivable from Customers of BLCI*: Receivables from commercial customers are classified as high grade; receivables from residential customers as standard; and receivables from the government, hospitals and radio stations as substandard. Classification is based on the collection history with these customers.

- *Due from Related Parties*: These are assessed as standard, although recoverability of these receivables is certain, as these are given secondary priority as to settlement by the related parties compared to third party obligations.

- *Other Receivables*: Grading of financial assets is determined individually based on the Group's collection experience with the counterparty.

Fair Value of Financial Assets and Financial Liabilities
Fair value is defined as 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. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

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, and Trade and Other Payables.* The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their value due to the relatively short-term maturity of these financial instruments.

- *Investment in Proprietary Club Shares.* Market values have been used to determine the fair value of listed proprietary club shares.

- *Noncurrent Receivable (included in "Other Noncurrent Assets").* The fair value of noncurrent receivable is based on the net present value of cash flows using the prevailing market rate of interest. The noncurrent receivable with carrying amount of ₱182.8 million and fair value of ₱163.1 million as of December 31, 2018 pertains to the receivable from customers arising from PSALM's cost recovery adjustments (see Note 30). The noncurrent receivable amounting to ₱1,143.2 million as of December 31, 2017 was already collected on July 13, 2018 (see Note 31).

- *Other Noncurrent Liability.* The fair value of other noncurrent liability is based on the net present value of cash flows using the prevailing market rate of interest. The noncurrent payable with carrying amount of ₱182.8 million and fair value of ₱163.1 million as of December 31, 2018 pertains to the payable to PSALM arising from PSALM's cost recovery adjustments (see Note 30).

- *Long-term Debt.* The fair value of borrowings with floating interest rate is based on the discounted net present value of cash flows using an effective discount rate as at reporting date. The balance of the long-term debt was already prepaid in full on October 28, 2017 (see Note 15).

As of December 31, 2018 and 2017, except for the noncurrent receivable and payable arising from PSALM's cost recovery adjustments, the carrying values of the Group's financial instruments, approximate its fair values due to their relatively short-term maturity.

As of December 31, 2018 and 2017, the Group considers its investment in proprietary club shares with fair values of ₱6.5 million and ₱1.3 million under Level 1 classification, respectively (see Notes 2 and 12).

During the reporting period ended December 31, 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.

30. Other Matters

Electricity Power Industry Reform Act (EPIRA) of 2001

On June 8, 2001, the EPIRA was signed into law and took effect on June 26, 2001. The law provides, among others, for the privatization of the assets of NPC, the creation of PSALM to accept transfers of all assets and assume all outstanding obligations of NPC, and the restructuring of the electric power industry sector as a whole. The law also provides for the mandate and framework to introduce competition in the electricity market and penalize anti-competitive behaviour. The IRR of the EPIRA was approved by the Joint Congressional Power Commission on February 27, 2002.

The EPIRA and its covering IRR provide for significant changes in the power industry including the following: (i) Competition in the retail supply of electricity; (ii) Open access to the transmission and distribution systems; (iii) Establishment of a Wholesale Electricity Spot Market (WESM); (iv) Unbundling of the generation, transmission and distribution rates; and (v) Removal of existing cross-subsidies provided by industrial and commercial users to residential customers.

An important milestone in the Philippine power industry was reached when the WESM began commercial operations on June 23, 2006. In the Visayas region, WESM started operations on December 26, 2010. The establishment of the WESM is one of the preconditions to retail competition and open access required by the EPIRA.

SIPC, after complying with the requirements set under WESM rules, has been participating in the WESM since the start of commercial operation of the WESM in the Visayas Grid on December 26, 2010 up to the present. The Parent Company started participating in the WESM starting in the last quarter of 2014.

Land Lease Agreements (LLAs)
The Parent Company and SIPC entered into LLAs with PSALM (as Lessor) in furtherance of and as an ancillary contract to the respective Asset Purchase Agreements (APA) with PSALM, governing the sale of assets as follows:

- *Panay and Bohol Diesel Power Plants.* The purchase of the Panay and Bohol Diesel Power Plants was covered by LLA between the Parent Company and PSALM which provides, among others, that the control and possession of the facilities will be turned over to the Parent Company upon completion of the conditions precedent to closing. Subsequently, with the written consent of PSALM, the Parent Company assigned its rights and obligations under the APA and LLA to SIPC. Following the completion of the conditions precedent and the completion of the respective Certificates of Closing of the Parent Company, SIPC and PSALM, the control and possession of the purchased assets were turned over and transferred to SIPC on March 25, 2009 (the "Closing Date").

  The term of the LLA is 25 years from Closing Date, which may be renewed or extended for another period of 25 years or the remaining corporate life of PSALM, whichever is shorter, upon the mutual written agreement of the parties. The rentals which were paid in full on Closing Date (March 25, 2009) amounted to ₱10.6 million.

- *LBGTs.* On January 29, 2010, the Parent Company executed the LLA with a term of 10 years from Closing Date, which may be renewed or extended for another period of 10 years or the remaining corporate life of PSALM, whichever is shorter, upon the mutual written agreement of the parties. The rentals which were paid in full on Closing Date amounted to ₱1.2 million.

- *153.1 MW Naga Power Plant (consisting of CTPP 1, CTPP 2 and CDPP 1) (see Note 31).* On September 25, 2014, the Parent Company executed the LLA with a term of 25 years from Closing Date, which may be renewed or extended for another period of 25 years or the remaining corporate life of PSALM, whichever is shorter, upon the mutual written agreement of the parties. The rentals which were paid in full in 2014 amounted to ₱712.5 million including withholding tax borne by the Parent Company.

Under the LLAs, the Parent Company and SIPC shall use and occupy the leased premises primarily for the operation, management, expansion and maintenance of the power plants, and shall not assign or transfer any of their right under the LLA or sublease all or any part of the leased premises without the prior consent of PSALM. The Parent Company and SIPC, at their own expense, shall be solely responsible for obtaining all the necessary authorizations, licenses and permits for any alterations, additions, facilities, improvements and installations introduced on the leased premises. Within a period of 180 days from the termination of the LLAs or expiration of the lease terms, the Parent Company and SIPC are obliged to perform activities to facilitate clean-up, return and surrender of the leased premises (see Notes 2 and 3).

The LLAs also cover an option to purchase optioned assets within the leased premises that may be offered by the Lessor. The purchase price (on a per square meter basis) shall be equivalent to the highest of the following valuations and/or amounts: (i) the assessment of the Provincial Assessor; (ii) the assessment of the Municipal or City Assessor; and (iii) the zonal valuation of the Bureau of Internal Revenue. The unused rentals corresponding to the area of the optioned assets over which the option was exercised shall be deducted from the purchase price.

As of December 31, 2017, SIPC has exercised its option to purchase the optioned assets covering all the lots underlying the Bohol Diesel Power Plant with a total area of 27,527 square meters. The aggregate of the purchase price amounting to ₱35.6 million is shown as part of "Property, plant and equipment" account in the consolidated statements of financial position (see Note 11).

The current portion of the remaining prepaid rent amounting to ₱0.4 million as of December 31, 2018 and 2017, respectively, is presented as part of "Prepayments and other current assets" and the noncurrent portion amounting to ₱5.3 million and ₱5.6 million as of December 31, 2018 and 2017, respectively, is presented as part of "Other noncurrent assets", in the consolidated statements of financial position (see Notes 9 and 12).

Rent expense under the LLAs amounted to ₱0.2 million in 2018 and 2017 and ₱0.4 million in 2016 (see Notes 21 and 23).

<u>PSALM's Cost Recovery Adjustments</u>

Deferred Accounting Adjustments (DAA). The ERC issued an Order dated June 20, 2017, the ERC authorized PSALM to implement the methodology for the recovery/refund of the approved DAA pertaining to GRAM and ICERA, which was granted by ERC in a Decision dated March 26, 2012.

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.

The ERC subsequently 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, subsequently, the ERC issued an Order directing PSALM and the DUS to abide with the clarifications issued by the ERC.

The current and noncurrent portions of the Group's PSALM deferred adjustments amounting to ₱36.8 million and ₱182.8 million, respectively, are recorded as part of "Others" under "Trade and other receivables" and as "PSALM deferred adjustments" under "Other noncurrent assets", respectively, in the consolidated statement of financial position as of December 31, 2018. The current and noncurrent portions of the corresponding amount due to PSALM was presented as part of "Nontrade" under "Trade and other payables" and "Other noncurrent liability" in the consolidated statement of financial position as of December 31, 2018.

Tax Reform for Acceleration and Inclusion Act (TRAIN)
Republic Act (RA) No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect on January 1, 2018. -The changes in the tax law do not have significant impact on the consolidated financial statements of the Group.

31. Acquisition and Turnover of the 153.1 MW Naga Power Plant Complex (NPPC)

Prior to the expiration of the OMSC on September 25, 2014, the Parent Company purchased the NPPC after exercising its "right-to-top" (RTT) the winning bid, which right was pursuant to the LLA with PSALM that was executed when the LBGTs were acquired by the Parent Company in 2010. Pursuant to the APA executed by the Parent Company and PSALM covering the purchase of the assets consisting of the thermal and diesel power plants (CTPP 1 and CTPP 2, and CDPP 1), the Parent Company paid PSALM a total of ₱463.3 million. The Parent Company and PSALM also entered into an LLA, as an ancillary contract to the APA, covering the land where the purchased assets are located, and paid in full the total lease rentals amounting to ₱712.5 million. Following the issuance of Notice of Award on July 28, 2014 and after completing all the conditions for Closing, PSALM turned over the NPPC to the Parent Company on September 25, 2014, coinciding with the termination of the OMSC.

More than one year after PSALM awarded the NPPC to the Parent Company, the Supreme Court (SC) declared the APA and the LLA for the sale of the NPPC to be null and void per decision promulgated on September 28, 2015.

On December 1, 2015, the Parent Company filed its Motion for Reconsideration of the SC Decision dated September 28, 2015. In said Motion for Reconsideration, the Parent Company stressed that, as the owner of the LBGT and the lease on the land on which the LBGT stands, it has an interest in the whole of the Complex and not just within the leased premises. This is due to the fact that the Parent Company's payment for the LBGT necessarily includes payment for the RTT, the LBGT and the land subject of the LBGT-LLA which forms part of the Complex, and the Parent Company shares in the use, upkeep and maintenance of the Co-Use Facilities within the Complex, thus, showing that the Parent Company's interest extends to the whole of the Complex.

On December 9, 2015, the SC resolved to deny the Motion for Reconsideration. Thus, a Motion For Leave to File and Admit the Attached Urgent Motion for Second Reconsideration and/or Referral to the En Banc was filed by the Parent Company on February 2, 2016. However, on April 6, 2016, the SC issued a Resolution where it resolved among others to deny the said Motion For Leave and noted without action, the attached Urgent Motion for Second Reconsideration and /or Referral to En Banc, in view of the denial of the Motion for Leave. Accordingly, an amount equivalent to ₱1,143.2 million (i.e., amount paid by the Parent Company to PSALM in 2014, net of withholding tax) was recognized as other noncurrent receivable as of December 31, 2016 and 2015. On October 5, 2016, the SC granted the manifestation/motion of Therma Power Visayas, Inc. (TPVI) dated March 16, 2016 praying for the reinstatement of the notice of award in favor of TPVI dated April 30, 2014. The Parent Company then filed an Urgent Motion For Reconsideration with Alternative Motion to Refer to the En Banc, on November 2, 2016. In a Resolution dated November 28, 2016, the SC denied the same. Another Urgent Motion For Reconsideration was filed by the Parent Company on December 9, 2016. This was followed up by the filing on January 19, 2017 of a Supplemental Motion/Petition for Referral to the En Banc which argued that there was a violation of SPC's substantive right to due process in reinstating the Notice of Award in favor of TPVI and a violation of procedural due process in lifting the Entry of Judgment of September 28, 2015.

On February 21, 2017, the Parent Company received the Entry of Judgment through its legal counsel certifying that the September 28, 2015 Decision and October 5, 2016 Resolution have become final and executory on November 28, 2016 and were recorded in the Books of Entries of Judgments.

On April 26, 2017, the SC issued a final resolution denying both the Motion for Reconsideration and the Supplemental Motion/Petition for Referral to the En Banc filed on December 9, 2016 and January 19, 2017, respectively. In its final resolution, the SC confirmed that the September 28, 2015 Decision and the October 5, 2016 Resolution became final on November 28, 2016.

After receipt of the Notice of the Second Entry of Judgment in February 2017, the Parent Company was anticipating a speedy turnover of the NPPC. However, serious negotiations never transpired as of December 31, 2017 through no fault of the Parent Company.

Considering that the NPPC has been in the possession of the Parent Company even after November 28, 2016, it has to operate the plant as the best way to preserve it pending the eventual turn-over to PSALM and the return of the purchase price, as well as the reimbursement of necessary and useful expenses made on the NPPC. The incidental income and expenses derived from operating and preserving the NPPC after November 28, 2016 are recognized as part of "Others - net" in the consolidated statements of comprehensive income (see Note 3).

On July 9, 2018, PSALM and the Parent Company finally entered into a Memorandum of Agreement (MOA) containing the terms and conditions for the return of the NPPC to PSALM, return of the SPC Bid to the Parent Company, and the settlement of all claims between the parties.

In accordance with the MOA, PSALM and the Parent Company executed the Joint Certificate of Turnover on July 13, 2018. Thus, the Parent Company turned over the NPPC and paid the entire payable to PSALM through cash amounting to ₱75.7 million, net of withholding tax, for fuel and coal consumed and through replacement of fuel while PSALM returned the SPC Bid to the Parent Company amounting to ₱1,143.2 million (see Note 12).

32. Notes to Consolidated Statements of Cash Flows

Changes in liabilities arising from financing activities in 2018 and 2017 are as follows:

	2018					
	At January 1	Dividend Declaration	Dividend Attributable to NCI	Amortization of Transaction Costs	Cash Flows	At December 31
Dividends payable (see Note 19)	₱–	₱1,197,241,442	₱41,336,000	₱–	(₱1,237,727,455)	₱849,987

	2017					
	At January 1	Dividend Declaration	Dividend Attributable to NCI	Amortization of Transaction Costs	Cash Flows	At December 31
Long-term debt (see Note 15)	₱576,228,515	₱–	₱–	₱1,549,263	(₱577,777,778)	₱–
Dividends payable (see Note 19)	22,028,175	1,197,241,440	31,965,900	–	(1,251,235,515)	–
Total liabilities from financing activities	₱598,256,690	(₱1,197,241,440)	₱31,965,900	₱1,549,263	(₱1,829,013,293)	₱–

SGV
Building a better working world

SyCip Gorres Velayo & Co.
Unit 1003 & 1004, Insular Life
Cebu Business Centre
Mindanao Avenue corner
Biliran Road
Cebu Business Park
Cebu City
6000 Cebu, Philippines

Tel: (032) 266 2947 to 49
Fax: (032) 266 2313
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and the Stockholders
SPC Power Corporation
7th Floor, Cebu Holdings Center
Archbishop Reyes Avenue, Cebu Business Park
Cebu City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SPC Power Corporation and Subsidiaries as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, included in this Form 17-A, and have issued our report thereon dated April 4, 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 the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Alvin M. Pinpin
Partner
CPA Certificate No. 94303
SEC Accreditation No. 0781-AR-3 (Group A),
April 3, 2018, valid until April 2, 2021
Tax Identification No. 198-819-157
BIR Accreditation No. 08-001998-70-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332596, January 3, 2019, Makati City

April 4, 2019

SPC POWER CORPORATION AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
RECEIVABLES, INVESTMENT IN PROPRIETARY CLUB SHARES AND OTHER SHORT-TERM INVESTMENTS
DECEMBER 31, 2018

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet/Notes	Value Based on Market Quotations at Balance Sheet Date	Income Received and Accrued
Financial assets at amortized cost:				
Cash and cash equivalents	–	₱2,937,042,859	₱2,937,042,860	₱48,968,128
Trade and other receivables:				
National Power Corporation	–	1,015,262	1,015,262	–
Receivable from customers	–	357,596,696	357,596,696	–
Others	–	76,852,339	76,852,339	–
		435,464,297	435,464,297	–
Due from National Power Corporation	–	1,175,128	1,175,128	–
Due from related parties	–	16,810,651	16,810,651	–
PSALM deferred adjustments (included in "Other noncurrent assets")		182,765,769	163,063,364	
		3,573,258,704	181,049,143	48,968,128
Financial assets at fair value through other comprehensive income:				
Investment in proprietary club shares	1	6,500,000	6,500,000	–
Total financial assets	–	₱3,579,758,704	₱3,560,056,300	₱48,968,128

See Note 29 of the Consolidated Financial Statements.

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)

DECEMBER 31, 2018

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Collections	Write Offs	Balance at End of Period		
					Current	Noncurrent	Total
– Not applicable –							

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

DECEMBER 31, 2018

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Collections	Write Offs	Balance at End of Period		
					Current	Noncurrent	Total
SPC Malaya Power Corporation	₱2,248,452	₱18,147	(₱98,452)	₱–	₱2,168,147	₱–	₱2,168,147
SPC Island Power Corporation	607,769	351,360,827	(607,769)	–	351,360,827	–	351,360,827
Bohol Light Company, Inc.	116,950	923,212	(790,783)	–	249,379	–	249,379
Cebu Naga Power Corporation	102,636	19,566	–	–	122,202	–	122,202
SPC Electric Company, Inc.	5,959	6,693	–	–	12,652	–	12,652
SPC Light Company, Inc.	5,599	6,793	(5,599)	–	6,793	–	6,793
	₱3,087,365	₱352,335,238	(₱1,502,603)	₱–	₱353,920,000	–	₱353,920,000

SPC POWER CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2018

Description	Beginning Balance	Additions at Cost	Charged to Cost and Expenses	Charged to Other Accounts	Other changes Additions (Deductions)	Ending Balance
Goodwill	₱32,522,016	₱–	₱–	₱–	₱–	₱32,522,016
Franchise	3,819,467	–	477,433	–	–	3,342,034
	₱36,341,483	₱–	₱477,433	₱–	₱–	₱35,864,050

See Notes 12 and 13 of the Consolidated Financial Statements.

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE E - LONG-TERM DEBT

DECEMBER 31, 2018

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Current Portion of Long-term Debt	Long-term Debt
– Not applicable –			

See Note 15 of the Consolidated Financial Statements.