

#### 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)	<b>P182,765,769</b>	<b>P-</b>
Goodwill (see Note 13)	<b>32,522,016</b>	32,522,016
Investment in proprietary club shares	<b>6,500,000</b>	1,300,000
Noncurrent portion of prepaid rent (see Notes 9 and 30)	<b>5,265,394</b>	5,610,666
Software costs (net of accumulated amortization of P1.8 million and P1.2 million as of 2018 and 2017, respectively)	<b>4,257,760</b>	4,866,011
Franchise (net of accumulated amortization of P8.6 million and P8.1 million as of 2018 and 2017, respectively)	<b>3,342,034</b>	3,819,467
Noncurrent receivable (see Note 31)	-	1,143,240,000
Others	<b>9,962,621</b>	9,021,616
	<b>P244,615,594</b>	<b>P1,200,379,776</b>

Current portion of PSALM deferred adjustments amounting to P36.8 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 P1.3 million (see Note 2). Upon adoption of PFRS 9 effective January 1, 2018, the Group recognized transition adjustments of P3.7 million directly charged to the Group's beginning other comprehensive income (see Note 2) and P1.5 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 P32.5 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.

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#### 14. Trade and Other Payables

This account consists of:

	2018	2017
Trade (see Note 25)	<b>P261,163,452</b>	P527,945,252
Nontrade (see Note 30)	<b>164,449,765</b>	117,173,866
Accrued expenses (see Note 16)	<b>64,371,364</b>	67,618,607
	<b>P489,984,581</b>	P712,737,725

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 P85.7 million and P72.2 million as of December 31, 2018 and 2017, respectively, current portion of PSALM deferred adjustments of P36.8 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).

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#### 15. Long-term Debt

On October 28, 2014, the Parent Company availed of a six-year-term loan amounting to P650.0 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
	<b>₱132,093,513</b>	<b>₱117,045,681</b>

### 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	₱14,575,113
Interest cost on benefit obligation	1,082,822	546,527
	<b>₱4,791,257</b>	<b>₱15,121,640</b>

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	-
	<b>₱1,407,927</b>	<b>₱</b>



Net pension liabilities follow:

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

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

	2018	2017
At January 1	<b>₱32,646,992</b>	₱22,097,565
Current service cost	<b>3,708,435</b>	14,575,118
Interest cost	<b>1,797,580</b>	810,119
Benefits paid	<b>(2,285,737)</b>	–
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	<b>₱35,867,270</b>	<b>₱32,646,992</b>

Changes in the fair value of plan assets follow:

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

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

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



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

	2018	2017
Cash and cash equivalents	P2,531,315	P1,473,531
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	P18,803,054	P12,539,614

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:

		Present Value Change of Defined Benefit Obligation	
	Increase (Decrease)	2018	2017
Discount rate	+100 basis points	(P11,185,737)	(P1,852,135)
	-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	P11,336,977	P12,502,020
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
	P130,339,831	P133,961,175





## 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 IBohol 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:

Declared By	Date of Declaration	Record Date	Amount	
			Gross (in millions)	Per Share
2018				
SPC	May 28, 2018	June 11, 2018	P598.6	P0.40
	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	0.1536
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 P0.8 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 P0.40 per share or for a total of P598.6 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	P362,673,926	P308,966,847
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 P146.5 million and P149.2 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 P9,866.7 million and P9,213.8 million, respectively.



## 20. Plant Operations

This account consists of:

	2018	2017	2016
Purchased power (see Notes 5 and 25)	P992,017,735	P824,759,636	P823,656,610
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
	<b>P1,809,497,489</b>	<b>P1,735,571,233</b>	<b>P1,977,409,256</b>

## 21. General and Administrative Expenses

This account consists of:

	2018	2017	2016
Personnel costs (see Note 22)	P42,192,202	P50,214,568	P40,374,295
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	1,349,041	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
	<b>P239,467,901</b>	<b>P188,783,786</b>	<b>P227,512,358</b>

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	P91,304,401	P82,455,364	P95,948,852
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
	<b>P131,857,736</b>	<b>P141,297,480</b>	<b>P134,065,399</b>

## 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)	P86,215,698	P75,970,380	P76,519,340
General and administrative (see Note 21)	2,756,305	2,348,079	2,271,896
	<b>88,972,003</b>	<b>78,318,459</b>	<b>78,791,236</b>
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
	<b>P90,524,252</b>	<b>P79,683,184</b>	<b>P80,384,113</b>

## 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	<ul style="list-style-type: none"> <li>Guidelines for the Automatic Adjustment of Generation Rates and System Loss Rates by Distribution Utilities (DU), as Amended (AGRA)</li> </ul>
Transmission Charge	<ul style="list-style-type: none"> <li>Guidelines for the Adjustment of Transmission Rates by DU (TRAM)</li> <li>Rules for Calculation of the Over or Under Recovery in the Implementation of Transmission Rates and the Corresponding System Loss Rates by DU</li> </ul>
Inter-class Subsidy	<ul style="list-style-type: none"> <li>Guidelines for a "True-Up" Mechanism of the Over or Under Recovery in the Implementation of Inter-class Cross Subsidy Removal by DU</li> </ul>
Lifeline Rate/Subsidy	<ul style="list-style-type: none"> <li>Guidelines for the Calculation of the Over or Under Recovery in the Implementation of Lifeline Rates by DU</li> </ul>

For the years ended December 31, 2018, 2017 and 2016, BLCT'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 P8.2 million, P7.7 million and P6.8 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 KSPC 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 P830.0 million, P799.3 million and P809.4 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 P102.0 million and P85.6 million as of December 31, 2018 and 2017, respectively.

## 26. Income Tax

	2018	2017	2016
Current	P169,473,510	P157,359,677	P185,682,524
Deferred	5,146,406	368,847	(2,719,004)
	<u>P174,619,916</u>	<u>P157,728,524</u>	<u>P182,963,520</u>

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	<u>P2,068,825,887</u>	<u>P1,831,852,935</u>	<u>P1,970,361,854</u>
Provision for income tax computed at 30%	P620,647,766	P549,555,881	P591,108,556
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)
	<u>P174,619,916</u>	<u>P157,728,524</u>	<u>P182,963,520</u>

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	P23,643,002	P29,159,520
Pension liability	5,526,274	5,255,920
	<u>29,169,276</u>	<u>34,415,440</u>
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
	<u>1,819,907</u>	<u>1,919,665</u>
Net deferred income tax assets	<u>P27,349,369</u>	<u>P32,495,775</u>



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 Eliminations/ After	
	Generation	Distribution	Others	Total	Eliminations	Eliminations/ Consolidated	
Revenue	P1,302,816,658	P1,383,337,673	—	P2,386,154,331	(P239,820)	P2,385,914,511	
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	46,903,991	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	P1,435,832,793	P914,288,398	P-	P2,350,121,191	P-	P2,350,121,191
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	114,519,437	7,904,282,717	2,967,806,291	10,872,089,008
Property, plant and equipment (see Note 11)	625,425,592	152,919,010	-	778,344,602	-	778,344,602
Total liabilities	1,250,188,474	258,719,204	112,508	1,509,018,186	(1,083,494)	1,507,934,692
Depreciation and amortization (see Note 23)	60,765,167	18,518,017	-	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	P1,989,513,231	P931,216,019	P-	P2,920,729,250	P-	P2,920,729,250
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	149,122,998	-	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	P168,756,984	P-	P168,756,984
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
	P1,422,583,994	P1,083,337,673	P2,505,921,667

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 P1,133.8 million, P1,176.9 million and P1,753.5 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	P2,441,281,757	P2,299,218,251	P1,380,953,629
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	P1,894,205,971	P1,674,124,411	P1,787,398,334





*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	<b>P1,854,292,292</b>	P1,643,265,605	P1,733,661,950
Weighted average number of common shares issued and outstanding	<b>1,496,551,803</b>	1,496,551,803	1,496,551,803
Basic/Diluted earnings per share	<b>P1.24</b>	P1.10	P1.16

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
	<u>1,496,551,803</u>

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.

### Interest Rate Risk

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
<b>Financial Assets</b>						
At amortized cost:						
Cash and cash equivalents	P2,937,042,859	P2,937,042,859	P-	P-	P-	P-
Trade and other receivables						
NPC	1,015,262	-	-	-	-	1,015,262
Receivable from customers	357,596,596	239,570,576	30,208,163	18,991,678	18,519,596	30,306,681
Others	76,852,339	47,747,098	2,547,077	2,503,727	632,032	23,422,405
Due from NPC/PSALM	435,464,297	287,317,674	32,755,242	21,495,405	19,151,628	74,744,343
Due from related parties	1,175,128	-	-	-	-	1,175,128
PSALM deferred adjustments (included in "Other noncurrent assets")	16,810,651	15,232,502	31,180	38,840	31,877	1,476,252
	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
<b>At FVOCI:</b>						
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
<b>Financial Liabilities</b>						
Trade and other payables						
Trade	298,599,019	263,197,727	11,362,210	4,609,145	2,251,126	17,178,911
Accrued expenses	33,064,242	20,372,907	380,710	334,210	381,515	11,594,800
Nontrade	55,907,137	24,308,487	1,153	627,980	783,805	30,150,712
Dividends payable	387,570,398	307,879,131	11,744,973	5,571,335	3,421,546	58,954,323
Due to NPC/PSALM	849,987	849,987	-	-	-	-
Due to related parties	-	-	-	-	-	-
Due to related parties	586,700	22,552	67,106	-	-	497,042
Customers' deposits	132,093,313	-	-	-	-	132,093,313
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
<b>Net Financial Assets (Liabilities)</b>	<b>P2,875,892,337</b>	<b>P2,930,941,375</b>	<b>P20,975,243</b>	<b>P15,962,910</b>	<b>P15,761,959</b>	<b>(P107,649,150)</b>

  

	2017					
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
<b>Financial Assets</b>						
Loans and receivables:						
Cash and cash equivalents	P1,445,250,136	P1,445,250,136	P-	P-	P-	P-
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
Due from NPC/PSALM	457,907,251	322,337,474	33,431,707	16,925,199	29,514,681	55,698,190
Due from related parties	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	58,083,464
<b>AFS:</b>						
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	58,083,464

(Forward)



	2017					
	Total	Current	1 to 30 Days	31 to 90 Days	61 to 90 Days	Over 90 Days
Financial Liabilities						
Trade and other payables						
Trade	P526,206,010	P411,579,834	P96,043,060	P1,645,738	P562,052	P16,370,276
Accrued expenses	47,443,412	35,408,744	528,934	198,859	234,753	10,072,122
Nontrade	48,971,352	17,995,469	1,181,894	316,821	431,909	29,045,159
	622,620,774	464,984,047	97,753,888	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	22,239	44,693	-	-	497,043
Customers' deposits	117,045,681	-	-	-	-	117,045,581
	1,251,881,038	466,006,306	97,803,681	2,161,468	1,228,714	684,680,869
Net Financial Assets (Liabilities)	P653,597,384	P1,302,987,947	(P64,354,674)	P15,237,419	P28,319,077	(P626,592,405)

### 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 P52.58 and P49.93 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	P1,631,443
	-1	(1,631,443)
2017	+1	P1,753,725
	-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	P163,722,675	P175,622,193
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	P163,144,295	P175,372,543

As a result of the translation of these foreign currency-denominated assets and liabilities, the Group reported a net unrealized foreign exchange gain of P2.4 million and P3.6 million in 2018 and 2016, respectively, and net unrealized foreign exchange loss of P0.2 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)	P2,928,731,599	(P8,067,264)	P2,920,664,335
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
	<b>P3,564,947,444</b>	<b>(P85,067,339)</b>	<b>P3,469,880,105</b>

  

	2017		
	Maximum exposure	Offset	Exposure to credit risk
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand)	P1,444,922,676	(P8,167,421)	P1,436,755,255
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
	<b>P3,049,090,962</b>	<b>(P83,875,368)</b>	<b>P2,965,215,594</b>

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 P619.4 million and P1,602.3 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 P36.3 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	P-	P-	P33,626,948	P438,146,474	P471,773,422
Loss allowance	-	-	(32,647,485)	(3,661,640)	(36,309,125)
Carrying amount	P-	P-	P979,463	P434,484,834	P435,464,297

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				Impaired
			1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	
At Amortized Cost							
Cash and cash equivalents (excluding cash on hand)	P1,928,731,599	P1,928,731,599	P-	P-	P-	P-	P-
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	18,519,396	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	-	-	-	-	-
	P3,601,256,569	P3,414,047,544	P32,786,422	P21,534,245	P19,183,505	P77,395,728	P36,309,125



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)	P1,444,922,676	P1,444,922,676	P-	P-	P-	P-	P-
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	19,375,748	2,923,933	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	473,705	33,109	1,215,145	-
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	-	-	-	-	1,143,240,000	-
	P3,072,086,247	P1,767,366,793	P33,449,007	P17,398,907	P29,547,791	P1,201,328,464	P22,995,285

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					Individually Impaired
	Neither Past Due nor Impaired			Past Due		
	High Grade	Standard	Substandard			
At Amortized Cost						
Cash and cash equivalents (excluding cash on hand)	P2,928,731,599	P2,928,731,599	P-	P-	P-	P-
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	46,445,430	1,300,568	-	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	-	1,579,149	-
Noncurrent receivable (included in "Other noncurrent assets")	182,765,769	182,765,769	-	-	-	-
	P3,601,256,569	P3,332,547,847	P77,735,538	P3,764,159	P150,899,900	P36,309,125

	2017					
	Neither Past Due nor Impaired				Past Due	Individually Impaired
	High Grade	Standard	Substandard			
Loans and Receivables						
Cash and cash equivalents (excluding cash on hand)	P1,444,922,676	P1,444,922,676	P-	P-	P-	P-
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	-	31,038,614	-
	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	-	1,739,253	-
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	-	-	-	1,143,240,000	-
	P3,072,086,247	P1,651,496,831	P112,477,093	P3,392,869	P1,281,724,169	P22,995,285



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.

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### 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).

#### PSALM's Cost Recovery Adjustments

*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.

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**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 P75.7 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 P1,143.2 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)	P-	P1,197,241,442	P41,336,000	P-	(P1,237,727,455)	P849,987
	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)	P576,228,515	P-	P-	P1,549,263	(P577,777,778)	P-
Dividends payable (see Note 19)	22,028,175	1,197,241,440	31,965,900	-	(1,251,235,515)	-
Total liabilities from financing activities	P598,256,690	(P1,197,241,440)	P31,965,900	P1,549,263	(P1,829,013,293)	P-





Building a better  
working world

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

## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and the Stockholders  
SPC Power Corporation  
7<sup>th</sup> 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				
Trade and other receivables:				
National Power Corporation	-	P2,937,042,859	P2,937,042,860	P48,968,128
Receivable from customers	-	1,015,262	1,015,262	-
Others	-	357,596,696	357,596,696	-
	-	76,852,339	76,852,339	-
Due from National Power Corporation		435,464,297	435,464,297	-
Due from related parties	-	1,175,128	1,175,128	-
PSALM deferred adjustments (included in "Other noncurrent assets")	-	16,810,651	16,810,651	-
		182,765,769	182,765,769	-
Financial assets at fair value through other comprehensive income:				
Investment in proprietary club shares		3,573,258,704	181,049,143	48,968,128
Total financial assets	1	6,500,000	6,500,000	-
	-	P3,579,758,704	P3,560,056,300	P48,968,128

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
	<b>₱3,087,365</b>	<b>₱352,335,238</b>	<b>(₱1,502,603)</b>	<b>₱-</b>	<b>₱353,920,000</b>	<b>₱353,920,000</b>

**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.

**SPC POWER CORPORATION AND SUBSIDIARIES**

**SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**

**DECEMBER 31, 2018**

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
- Not applicable -		



SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS  
DECEMBER 31, 2018

Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by Person for which Statement is Filed	Nature of Guarantee
- Not applicable -				

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE H - CAPITAL STOCK

DECEMBER 31, 2018

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as Shown under Related Consolidated Statement of Financial Position Caption	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Affiliates	Directors and Officers	Others
Capital stock	2,000,000,000	1,496,551,803	-	1,281,805,946	18,430,230	196,315,627

See Note 19 of the Consolidated Financial Statements.

**SPC POWER CORPORATION****RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR  
DIVIDEND DECLARATION****FOR THE YEAR ENDED DECEMBER 31, 2018**

Items	Amount
Unappropriated Retained Earnings, Beginning	P2,647,469,896
Adjustments	
Deferred income tax assets that reduced the amount of provision for income tax	(6,791,130)
Unappropriated Retained Earnings, as Adjusted, Beginning	2,640,678,766
Net Income Based on the Face of Audited Financial Statements	1,951,016,504
Less: Non-actual/Unrealized Income Net of Tax	
Equity in net income of associate/joint venture	-
Unrealized foreign exchange loss - net (except those attributable to Cash and Cash Equivalents)	-
Unrealized actuarial gain	4,212,097
Fair value adjustment (M2M gains)	-
Fair value adjustment of Investment Property resulting to gain	-
Adjustment due to deviation from PFRS/GAAP-gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	5,200,000
Deferred income tax assets that decreased the amount of provision for income tax	264,463
Add: Non-actual Losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
Interest expense - asset retirement obligation	881,545
Net Income Actual/Realized	1,942,221,489
Add (Less)	
Dividend declarations during the period	(1,197,241,442)
Appropriations of Retained Earnings during the period	(1,500,000,000)
Reversals of appropriations	1,350,000,000
Effects of prior period adjustments	-
Treasury shares	(131,008,174)
<b>TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION</b>	<b>P3,104,650,639</b>

**SPC POWER CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE STANDARDS**  
**AND INTERPRETATIONS**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Effective as of December 31, 2018</b>				
<b>Philippine Financial Reporting Standards</b>				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
<b>Philippine Accounting Standards</b>				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Effective as of December 31, 2018</b>				
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
<b>Philippine Interpretations</b>				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment	✓		
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration	✓		
Philippine Interpretation SIC-7	Introduction of the Euro			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

# SPC POWER CORPORATION AND SUBSIDIARIES

## MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP

DECEMBER 31, 2018

### SPC POWER CORPORATION

(Parent Company-Power Generation)

*Incorporated on March 1994*

### SUBSIDIARIES

100.00%

#### Cebu Naga Power Corp

(Power Generation)

*Incorporated on August 2015*

100.00%

#### SPC Island Power Corp

(Power Generation)

*Incorporated on June 2001*

78.40%

#### SPC Malaya Power Corp

(Power Generation)

*Incorporated on September 2011*

64.00%

#### SPC Light Company, Inc.

(Holding Company)

*Incorporated on January 2003*

53.66%

#### Bohol Light Company Inc.

(Power Distribution)

*Incorporated on July 2000*

40.00%

#### SPC Electric Company, Inc.

(Holding Company)

*Incorporated on October 2002*

### ASSOCIATES

40.00%

#### Kepeco-Spc Power Corp.

(Power generation)

40.00%

#### Mactan Electric Co.

(Power distribution)

40.00%

#### SIPC Water Resources, Inc.

(Water processing)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of SPC Power Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Alvin M. Pinpin.

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

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April 4, 2019

