Global Business Power Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report

Building a better working world

A member firm of Ernst & Young Global Limited

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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

The Board of Directors and Stockholders
Global Business Power Corporation

Opinion

We have audited the consolidated financial statements of Global Business Power Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

SYCIP GORRES VELAYO & CO.

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March 4, 2019

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 24)	**₱9,069,477,067**	₱13,414,097,030
Restricted cash and cash equivalents (Notes 4 and 24)	**2,559,334,649**	1,366,837,798
Short-term investments (Note 4)	**71,579,824**	445,751,332
Receivables (Notes 5 and 24)	**5,120,158,682**	4,510,413,500
Inventories (Note 6)	**2,692,177,838**	2,513,697,896
Advances to suppliers and contractors	**145,386,239**	254,590,883
Prepayments and other current assets (Note 7)	**1,406,790,114**	1,422,739,563
Noncurrent assets held for sale (Note 12)	**1,250,434,685**	250,061,233
Total Current Assets	**22,315,339,098**	24,178,189,235
Noncurrent Assets		
Long-term receivables - net of current portion (Notes 5 and 8)	**43,765,962**	82,887,298
Financial asset at fair value through other comprehensive income (FA at FVOCI) (Note 11)	**1,871,885,393**	–
Available-for-sale (AFS) investment (Note 11)	–	2,686,610,107
Investment in and advances to associate (Note 10)	**4,559,167,725**	4,297,592,681
Property, plant and equipment (Note 12)	**46,273,611,313**	48,936,957,487
Deferred tax assets - net (Note 22)	**560,038,457**	460,561,081
Goodwill (Note 13)	**596,408,479**	641,264,200
Other noncurrent assets (Note 13)	**281,433,449**	305,989,565
Total Noncurrent Assets	**54,186,310,778**	57,411,862,419
TOTAL ASSETS	**₱76,501,649,876**	₱81,590,051,654
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 14 and 24)	**₱3,728,617,067**	₱5,005,307,481
Current portion of long-term debt (Note 15)	**3,477,964,532**	2,589,519,938
Income tax payable	**214,384,763**	338,067,990
Dividends payable (Note 25lii)	**3,361,369,500**	3,427,474,900
Total Current Liabilities	**10,782,335,862**	11,360,370,309
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 15)	**31,644,079,762**	35,553,099,482
Deferred tax liabilities - net (Note 22)	**133,672,328**	147,634,839
Retirement benefit obligation (Note 19)	**647,917,781**	886,913,884
Advances from stockholder (Note 21)	**74,010,046**	149,334,019
Provisions (Note 16)	**2,033,886,893**	1,860,890,801
Total Noncurrent Liabilities	**34,533,566,810**	38,597,873,025
Total Liabilities	**45, 315,902,672**	49,958,243,334

(Forward)

	December 31	
	2018	2017
Equity Attributable to Equity Holders of the Parent (Note 25l)		
Capital stock - ₱1 par value		
Authorized - 3,000,000,000 shares		
Issued - 1,924,020,965 shares	**₱1,924,020,965**	₱1,924,020,965
Additional paid-in capital	**19,550,064,658**	19,550,064,658
Other comprehensive income (loss):		
Unrealized valuation gain on AFS investment (Note 11)	**–**	2,536,607,717
Unrealized valuation gain on FA at FVOCI (Note 11)	**1,721,883,003**	–
Remeasurement gain (loss) on retirement benefit obligation (Note 19)	**49,512,512**	(53,321,374)
Retained earnings	**2,755,909,762**	2,772,336,544
	26,001,390,900	26,729,708,510
Non-controlling Interests	**5,184,356,304**	4,902,099,810
Total Equity	**31,185,747,204**	31,631,808,320
TOTAL LIABILITIES AND EQUITY	**₱76, 501,649,876**	₱81,590,051,654

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
REVENUES (Note 1)		
Net fees	**₱26,536,132,023**	₱23,589,327,133
Coal sales	**287,149,068**	204,656,459
	26,823,281,091	23,793,983,592
COSTS AND EXPENSES		
Power plant operations and maintenance costs (Note 18)	**14,317,633,611**	11,190,049,930
Depreciation and amortization (Notes 12 and 13)	**2,559,372,588**	2,302,637,839
Personnel costs (Note 19)	**1,224,381,483**	1,430,502,899
Regulatory taxes and licenses	**927,165,124**	885,423,973
Outside services	**488,826,391**	624,491,450
Impairment losses (Notes 5 and 6)	**304,493,073**	111,318,895
Insurance	**197,094,375**	206,939,532
Provisions for expenses (Note 16)	**107,119,244**	79,952,901
Travel and representation	**94,003,319**	101,713,263
Professional fees	**77,507,449**	61,900,918
Rent and utilities (Note 23)	**57,937,684**	45,846,964
Telecommunications and postage	**13,863,515**	14,937,016
Supplies	**11,442,088**	10,122,208
Others	**224,635,836**	212,940,842
	20,605,475,780	17,278,778,630
FINANCE COSTS - net (Note 20)	**2,238,609,539**	1,805,630,044
OTHER INCOME - net (Note 20)	**658,795,345**	271,168,269
INCOME BEFORE INCOME TAX	**4,637,991,117**	4,980,743,187
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22)		
Current	**1,281,825,304**	1,182,093,992
Deferred	**(160,840,021)**	26,185,590
	1,120,985,283	1,208,279,582
NET INCOME	**3,517,005,834**	3,772,463,605
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Changes in fair value of AFS investment (Note 11)	–	(984,896,113)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Remeasurement income (loss) on retirement benefits, net of deferred tax (Note 18)	**113,036,514**	(57,691,127)
Changes in fair value of FA at FVOCI (Note 11)	**(814,724,714)**	–
	(701,688,200)	(1,042,587,240)
TOTAL COMPREHENSIVE INCOME	**2,815,317,634**	₱2,729,876,365

(Forward)

	Years Ended December 31	
	2018	2017
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the parent	**₱2,483,573,218**	₱2,808,369,621
Non-controlling interests	**1,033,432,616**	964,093,984
	₱3,517,005,834	₱3,772,463,605
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Equity holders of the parent	**₱1,771,682,390**	₱1,769,261,960
Non-controlling interests	**1,043,635,244**	960,614,405
	₱2,815,317,634	₱2,729,876,365

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Equity Attributable to Equity Holders of the Parent						
	Capital Stock (Note 25m)	Additional Paid-in Capital	Other Comprehensive Income (Notes 11 and 19)	Retained Earnings	Total	Non-Controlling Interests	Total
Balances at January 1, 2017	₱1,924,020,965	₱19,550,064,658	₱3,522,394,004	₱2,463,966,923	₱27,460,446,550	₱4,950,416,182	₱32,410,862,732
Reclassification of deposit for future stock subscription to advances from stockholder	–	–	–	–	–	(68,136,777)	(68,136,777)
Dividends declared (Note 25l)	–	–	–	(2,500,000,000)	(2,500,000,000)	(940,794,000)	(3,440,794,000)
Total comprehensive income (loss)	–	–	(1,039,107,661)	2,808,369,621	1,769,261,960	960,614,405	2,729,876,365
Balances at December 31, 2017	1,924,020,965	19,550,064,658	2,483,286,343	2,772,336,544	26,729,708,510	4,902,099,810	31,631,808,320
Conversion of advances from stockholder to capital stock subscription	–	–	–	–	–	114,491,250	114,491,250
Dividends declared (Note 25l)	–	–	–	(2,500,000,000)	(2,500,000,000)	(875,870,000)	(3,375,870,000)
Total comprehensive income (loss)	–	–	(711,890,828)	2,483,573,218	1,771,682,390	1,043,635,244	2,815,317,634
Balances at December 31, 2018	**₱1,924,020,965**	**₱19,550,064,658**	**₱1,771,395,515**	**₱2,755,909,762**	**₱26,001,390,900**	**₱5,184,356,304**	**₱31,185,747,204**

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱4,637,991,117**	₱4,980,743,187
Adjustments for:		
Depreciation and amortization (Notes 12 and 13)	**2,559,372,588**	2,302,637,839
Interest expense (Note 20)	**2,484,420,978**	1,930,785,433
Interest income (Note 20)	**(314,564,150)**	(165,158,576)
Equity on income from associate (Note 20)	**(300,726,761)**	(14,466,929)
Provision for expected credit loss (Note 5)	**254,523,146**	–
Retirement benefit expense (Note 19)	**149,150,577**	128,641,961
Amortization of deferred financing cost (Notes 15 and 25o)	**53,876,324**	42,094,469
Net unrealized foreign exchange loss (gain)	**(49,852,939)**	2,438,244
Impairment of goodwill (Note 13)	**44,855,721**	87,021,335
Dividend income (Notes 11 and 20)	**(32,542,310)**	(32,542,310)
Accretion on decommissioning liability (Notes 16 and 20)	**15,382,507**	8,993,700
Provision for inventory obsolescence (Note 6)	**2,426,510**	1,125,695
Direct write off of receivables	**1,535,748**	–
Provision (Reversal of provision) for impairment loss on input VAT (Note 13)	**1,151,948**	(10,609,969)
Loss (gain) on disposal and retirement of property and equipment (Note 20)	**514,274**	(935,544)
Provision for impairment loss (Note 5)	–	33,781,834
Amortization of discount on long-term receivables (Note 20)	**(506,120)**	(11,084,983)
Operating income before working capital changes	**9,507,009,158**	9,283,465,386
Decrease (increase) in:		
Restricted cash	**(1,192,496,851)**	257,014,175
Short-term investments	**357,789,188**	(66,641,476)
Receivables	**(761,651,421)**	(750,464,456)
Advances to suppliers and contractors	**109,204,644**	(21,534,116)
Inventories	**(180,906,452)**	(733,109,612)
Prepayments and other current assets	**75,058,505**	232,022,274
Increase in:		
Accounts payable and accrued expenses	**(535,665,010)**	509,122,006
Provisions	**118,329,551**	480,020,274
Cash generated from operations	**7, 496,671,312**	9,189,894,455
Interest received	**305,344,401**	155,358,967
Interest paid	**(2,330,866,088)**	(1,938,530,969)
Income taxes paid	**(1,464,617,586)**	(862,050,327)
Benefits paid (Note 19)	**(10,914,702)**	(3,946,159)
Contribution to the retirement fund (Note 19)	**(216,795,327)**	(19,000,000)
Net cash flows from operating activities	**3,778,822,010**	6,521,725,967

(Forward)

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(₱1,692,078,882)**	(₱1,821,813,317)
Dividends received (Notes 10, 11 and 20)	**220,042,304**	32,542,310
Investment in an associate (Note 10)	**(148,348,275)**	(2,403,662,029)
Increase in noncurrent assets	**(38,209,687)**	(4,503,684)
Proceeds from disposal of property and equipment	**1,996,990**	1,428,924
Collections of financial assistance to Panay Electric Company	–	16,333,333
Advances to associate for future investment conversion (Note 10)	–	(1,879,463,723)
Net cash flows used in investing activities	**(1,656,597,550)**	(6,059,138,186)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Dividends paid (Note 21)	**(3,427,474,900)**	(3,147,040,000)
Long-term debt (Note 15)	**(3,082,732,652)**	(2,629,791,474)
Debt transaction costs (Note 15)	–	(22,500,000)
Proceeds from:		
Availment of long-term debt (Note 15)	–	4,500,000,000
Infusion from shareholder	**39,167,277**	81,197,242
Net cash flows used in financing activities	**(6,471,040,275)**	(1,218,134,232)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**4,195,852**	(36,849,473)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(4,344,619,963)**	(792,395,924)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**13,414,097,030**	14,206,492,954
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱9,069,477,067**	₱13,414,097,030

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Global Business Power Corporation (GBPC; the Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on March 13, 2002 primarily to invest in, hold, purchase, import, acquire (except land), lease, contract or otherwise, with the limits allowed for by law, any and all real and personal properties of every kind and description, whatsoever, and to do acts of being a holding company except to act as brokers dealers in securities.

As of December 31, 2018 and 2017, the Parent Company is 56% owned by Beacon Power, 30% by JG Summit and 14% owned by MGen. Beacon Power is a wholly owned subsidiary of Beacon Electric Asset Holdings, Inc. (BEAHI), originally incorporated as a joint venture between Metro Pacific Investments Corporation (MPIC) and PLDT Communications and Energy Ventures, Inc. (PCEV). On June 27, 2017, MPIC entered into a Dead of Absolute Sale of Shares with PCEV to acquire the latter's remaining 25% interest in BEAHI's common and preferred shares. Consequently, BEAHI is wholly owned by MPIC.

ARB Power Ventures, Inc. (APVI)
As of December 31, 2018 and 2017, the Parent Company owns 100.00% interest in APVI. In general partnership with the Parent Company, APVI has 86.10% interest in Toledo Power Company (TPC; the Partnership).

TPC
TPC owns and operates a 60-megawatt (MW) coal power plant and an 82-MW Circulating Fluidized Bed (CFB) clean coal-fired power plant both located in Daanlungsod, Toledo City, Cebu and a 40-MW diesel-fired power station located in Barangay Cambangog, Toledo City, Cebu, which supply electricity to Cebu III Electric Cooperative, Inc. (CEBECO III), and to its industrial customer, Carmen Copper Corporation (CCC).

The TPC 1-A project is registered with Board of Investment (BOI). Under its BOI registration, the Partnership is entitled to several incentives including an Income Tax Holiday (ITH) as an expansion entity for 3 years, from December 1, 2014 or on the actual start date of commercial operations, whichever is earlier, but in no case earlier than the date of registration. TPC1-A began commercial operations on December 26, 2014. As stated in the Certificate of Entitlement issued by the BOI, the ITH granted to the Partnership started from December 1, 2014 until November 30, 2017.

TPC's agreements with CEBECO III, CCC and other customers cover the generation and supply of electricity at agreed minimum levels and fees.

Under the cooperation period of 25 years commencing on February 26, 2015, the Partnership has an Electric Power Purchase Agreement (EPPA) with CEBECO III that specifies agreed minimum supply levels and fees denominated in Philippine peso. The EPPA provides for, among others, the supply by the Partnership of electrical power and payment of fees and related penalties in the event of termination of agreement under certain circumstances, or default or breach of agreement by any of the parties and the recovery of any costs incurred as a result of change in circumstances including change in any laws or regulations of the Philippines, among others. This EPPA covers the monthly supply of 17 MW of the capacity of TPC1-A to CEBECO III.

On June 5, 2012, an Energy Conversion Agreement (ECA) was entered into by the Partnership and CCC wherein the latter will be supplying the coal necessary to generate the electricity it will purchase from the Partnership and will continue until the completion and start of the commercial operations of TPC 1-A. On the same date, the Partnership entered into an EPPA with CCC for the supply and purchase of electricity generated by TPC 1-A, for a cooperation period of 12 years. This EPPA was later converted to an ECA on December 15, 2014.

The Partnership is a member of the Wholesale Electric Spot Market (WESM) and participates as a direct member.

Toledo Holdings Corporation (THC) and Global Trade Energy Resources Corp. (GTERC)
THC owns parcels of land where the power stations of Panay Power Corporation (PPC) are located. THC leases land to PPC for a period of one year, renewable every year and under such terms and conditions as may be agreed upon by both parties. PPC continues to lease land from THC as of December 31, 2018.

THC is a wholly owned subsidiary of the Parent Company.

GTERC, formerly Toledo Cebu International Trading Resources Corp., engaged in the business of trading coal which acts as an intermediary between suppliers and ultimate consumers of coal, is 90.00% owned by the Parent Company and 10.00% owned by THC. On December 27, 2017, THC assigned the remaining 10% shareholdings in GTERC to GBPC, thereby making the latter 100% owner of GTERC.

Panay Power Holdings Corporation (PPHC)
As of December 31, 2018 and 2017, PPHC is 89.30% owned by the Parent Company, 8% owned by La Filipina Uy Gongco Corporation (LFUGC) and 2.7% owned by Delta Pi Limited (DPL). PPHC has 100.00% interest in PPC and Panay Energy Development Corporation (PEDC).

PPC
As of December 31, 2018 and 2017, PPC owns and operates a total of 104.50 MW of bunker fuel power plants located in La Paz, Iloilo City and Aklan.

PPC has several power supply agreements with distribution companies and electric cooperatives covering the supply of electricity at minimum contracted levels for a fixed fee. PPC entered into an Amended and Restated Electric Power Purchase Agreement (AREPPA) with Panay Electric Company (PECO) under which PECO contracted a capacity of 15 MW of PPC's Iloilo Plant 1 for its intermediate and peak power supply requirements for a period of 15 years until 2026.

In 2005, Avon River Power Holdings, Corporation (ARPHC) entered into an EPPA with Iloilo I Electric Cooperative, Inc. (ILECO-1) for a contracted capacity of 8 MW from PPC's Iloilo Plant 2, a 20 MW diesel fired power plant, for a period of 20 years from the start of commercial operations of the PPC's Iloilo Plant 2 or until 2025. This EPPA was assumed by PPC upon the merger of PPC and ARPHC with PPC as the surviving entity.

For its Aklan Plants, PPC likewise assumed the EPPAs between ARPHC and Aklan Electric Cooperative, Inc. (AKELCO) for the supply of electricity for a period of 20 years from the start of commercial operations of the Aklan Plants.

In January 2016, PPC has entered into an Interim Power Supply Agreement (IPSA) with Manila Electric Company (MERALCO) for one year from March 26, 2016 to February 25, 2017 with a provision for automatic extension of one year or until February 26, 2018. In January 2017, both parties agreed to extend the IPSA until February 18, 2018. The contract was not extended further upon expiration.

PEDC

PEDC owns and operates 2x82 MW (Phase I) and 1X150 MW (Phase II) clean coal-fired Power Plants in Brgy. Ingore, Iloilo City.

Phase I was completed and operated in March 2011.

In 2014, PEDC Phase II began construction of a new 1x150 MW power generating unit within the same industrial area where the Phase I is located. The project was completed and accepted in May 2018.

PEDC has two Board of Investments (BOI) registrations for its Phase I and Phase II projects. As BOI registered entity, PEDC is entitled to several incentives including an Income Tax Holiday (ITH) as a pioneer entity (for Phase I) for four years from March 26, 2011, the actual start date of commercial operations. PEDC has availed of a two-year ITH extension for the Phase I project until March 25, 2017. On the other hand, the Phase II project of PEDC is also entitled to ITH incentive as an expansion entity for 3 years from August 1, 2016 or on the actual start date of commercial operations, whichever is earlier, but in no case earlier than the date of registration. On January 26, 2017, supply contracts with the customers for Phase II project became effective.

PEDC entered into various EPPAs with ILECO-1, Iloilo II Electric Cooperative, Inc. (ILECO-2), Iloilo III Electric Cooperative, Inc. (ILECO-3), PECO, AKELCO, Capiz Electric Cooperative, Inc. (CAPELCO), Antique Electric Cooperative, Inc. (ANTECO), among others. These agreements provide for, among others, the agreed minimum supply levels and electricity fees, denominated in Philippine peso, and payment of fees/penalty or liquidated damages in the event of termination of agreement under certain circumstances, and the recovery of any costs incurred as a result of change in circumstances including change in any laws or regulations of the Philippines, among others, from PEDC's customers.

Under the EPPAs, PEDC is committed to supply electricity during the 25-year cooperation period from commencement date, except for ILECO I whose cooperation date commenced on April 26, 2011.

In April 2016, PEDC through its expansion plant, entered into an EPPA with MERALCO for a period of 25 years commencing on January 26, 2017.

GBH Power Resources, Inc. (GPRI)

The Parent Company owns 100.00% interest in GPRI. GPRI is engaged in the business of generating electric power in areas not connected to the present Luzon Grid, Mindanao Grid and major Visayas Grid(s) of National Power Corporation (NPC). GPRI owns and operates a 7.5-megawatt (MW) bunker-C fired diesel generator power station located in Pinamalayan, Oriental Mindoro.

GPRI has an EPPA with Oriental Mindoro Electric Cooperative, Inc. (ORMECO) wherein GPRI commits to provide, and ORMECO commits to purchase, in each contract year, a minimum number of kilowatt-hours (kWh) of net electrical output for a cooperation period of 20 years. GPRI began the supply of electricity to ORMECO in 2000.

Global Formosa Power Holdings, Inc. (GFPHI)
GFPHI was incorporated on May 5, 2008, primarily to acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real and personal property and to do acts of being a holding company in power generation projects in the Philippines except to act as brokers/dealers in securities. As of December 31, 2018 and 2017, the Parent Company has 93.20% interest in GFPHI and 6.8% owned by Flat World Limited (Flatworld).

CEDC
CEDC is 56% owned by GFPHI and 44% owned by Abovant Holdings, Inc. (Abovant), primarily incorporated for the purpose of constructing and operating three (3) units of 82 MW Circulating Fluidized Bed (CFB) coal-fired power plants situated within the Toledo Power Complex at Daanlungsod, Toledo City, Cebu.

CEDC signed EPPAs with the Visayan Electric Company (VECO); Philippine Economic Zone Authority-Mactan Ecozone I (PEZA - MEZ); Mactan Electric Company, Inc. (MECO); Balamban Enerzone Corporation (BEZ); Cebu I Electric Cooperative, Inc. (CEBECO I); Cebu II Electric Cooperative, Inc. (CEBECO II) and Bohol Electric I Cooperative, Inc. (BOHECO I). CEDC also has an EPPA with Global Energy Supply Corporation (GESC) since June 14, 2013. All of its EPPAs provided contracted minimum energy off-take with fuel cost as pass-through cost to its customers.

GESC
The Parent Company owns 100.00% interest in GESC. GESC was issued a Retail Electricity Supplier (RES) license by the Energy Regulatory Commission (ERC) on September 12, 2011.

On March 11, 2013, GESC entered into a Market Participation Agreement (MPA) with the Philippine Electricity Market Corporation (PEMC) to participate in the retail market of the WESM as RES.

Beginning 2013, GESC entered into Retail Supply Contracts (RSC) with contestable customers for a period ranging from one to ten years. These agreements provide for the supply of electricity at an agreed price on a per kilowatt-hour basis to contestable customers.

In 2017 and 2016, GESC also entered into Distribution Wheeling Service agreements with various distribution utilities. These agreements provide distribution services on the conveyance of power through its distribution systems to the Company’s contestable customers.

The GESC also entered into EPPAs with CEDC, TPC and PEDC which provide for the supply of electricity to the Company’s contestable customers.

Mindanao Energy Development Corporation (MEDC) and Global Hydro Power Corporation (GHPC)
On December 28, 2012 and March 17, 2014, MEDC and GHPC, respectively, were incorporated primarily to carry on the general business of generating electric power. As of December 31, 2018 and 2017, MEDC and GHPC are still in pre-operating stage. MEDC and GHPC are 100% owned by the Parent Company.

Global Luzon Energy Development Corporation (GLEDC)
On January 31, 2013, GLEDC was incorporated to carry on the general business of generating electric power.

In 2016, the Parent Company moved forward with the Luna Coal Plant Project. This project is for the construction of a 2x335-MW coal power plant in Luna, La Union through GLEDC and partners. The project is in the pre-development stage as of December 31, 2018 and 2017.

LPCI

LPCI was incorporated on June 10, 2016 with the purpose of engaging in the business of power generation. The Parent Company owns 57.5% of the voting shares of LPCI while Vivant Integrated Generation Corporation (VIGC) owns 42.5% of the voting shares.

On November 22, 2016, the Board of Directors (BOD) approved to amend the primary purpose from power generation to a holding company. In May 2018, SEC accepted and approved the LPCI's application of change of primary purpose and increase in authorized capital which accordingly subscribed and issued in the same month.

Global Renewables Power Holdings Corporation (formerly Global Renewables Power Corporation)

Global Renewables Power Holdings Corporation (GRPHC, the Company), formerly Global Renewables Power Corporation, was registered with the Philippine Securities and Exchange Commission (SEC) on April 8, 2014.

On June 26, 2018, the SEC approved the amendment of the primary purpose of the Company from a power generation company to a holding company that will primarily invest in, hold, purchase, import, acquire (except land), lease, contract or otherwise, with the limits allowed for by law, any and all real and personal properties of every kind and description, whatsoever, and to do acts of being a holding company except to act as brokers dealers in securities. On the same date, the SEC approved the amendment of the Company's name from Global Renewables Power Corporation to Global Renewables Power Holdings Corporation.

GRPHC owns 100.00% of CACI Power Corporation (CPC).

CPC

CPC was incorporated on June 8, 2016 with the purpose of generating power through renewable energy sources.

A summary of project agreements of TPC, PPC, GPRI, PEDC and CEDC (collectively referred to as "Operating Subsidiaries") with customers covering the construction and operation of power stations follows:

Name of Company	Power Station	Location	Customer	Cooperation Period
TPC	100 MW coal and industrial fuel oil	Toledo City, Cebu	BEZ	May 4, 2009 until terminated by TPC
			MERALCO	January 22, 2016 until February 25, 2017 actually terminated on February 25, 2018
			Therma Visayas Incorporated	March 26, 2017 to March 25, 2018 (contract terminated on March 25, 2018)
	82 MW coal-fired CFB technology	Toledo City, Cebu	CEBECO III	February 26, 2015 to February 26, 2040
			CCC	12 years commencing on December 26, 2015
			PMSC - Bohol	2 years commencing on December 26, 2018

(Forward)

Name of Company	Power Station	Location	Customer	Cooperation Period
PPC	72 MW bunker fuel oil	La Paz, Iloilo City	PECO	March 26, 2011 to March 25, 2026
			MERALCO	January 22, 2016 to February 18, 2018 (contract was not renewed)
	20 MW industrial fuel oil	La Paz, Iloilo City	ILECO-I	2005 to 2025
	5 MW industrial fuel oil	New Washington Aklan	AKELCO	2005 to 2025
GPRI	7.5 MW bunker fuel oil	Pinamalayan Oriental Mindoro	ORMECO	20 years from start of cooperation period
PEDC	164 MW coal-fired CFB technology	Iloilo City	CAPELCO	25 commencing on September 19, 2011
			ILECO-2 ILECO-3 PECO ANTECO AKELCO	25 years commencing on March 26, 2011
			ILECO-1	25 years commencing on April 27, 2011
			Iloilo Provincial Capitol	5 years commencing on the commercial operation date (contract was renewed for 1 year & renewable on an annual basis)
			Philippine Phosphate Fertilizer Corporation	5 years commencing on the commercial operation date (contract has ended in May 2018)
			NGCP - ASPA	5 years commencing on April 26, 2018
PEDC	150 MW coal-fired CFB technology	Iloilo City	ILECO-1 ILECO-2 ILECO-3 ANTECO Guimaras Electric Cooperative, Inc.	25 years commencing on January 26, 2017
			MERALCO	20 years commencing on January 26, 2017
CEDC	246 MW coal-fired CFB technology	Toledo City, Cebu	VECO	25 years commencing on February 26, 2011
			MECO	15 years commencing on February 26, 2011
			MEZ	10 years commencing on April 26, 2011
			BOHECO	15 years commencing on February 26, 2011
			BEZ	15 years commencing on February 26, 2011
			CEBECO I CEBECO II	15 years commencing on February 26, 2011

The registered office address of the Parent Company is 22F, GT Tower International, 6813 Ayala Avenue corner H.V. Dela Costa Street, Makati City.

Authorization for the Issuance of the Consolidated Financial Statements
The consolidated financial statements of the Group as of and for the years ended December 31, 2018 and 2017 were authorized for issue by the BOD on March 4, 2019.

2. **Basis of Preparation, Statement of Compliance, Basis of Consolidation, Changes in Accounting Policies and Disclosure and Summary of Significant Accounting Policies**

Basis of Preparation
The consolidated financial statements have been prepared under the historical cost basis, except for FA at FVOCI investment which has been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's functional currency. All values are rounded to the nearest Philippine peso, except when otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and the following wholly and majority-owned domestic subsidiaries:

		Percent of Effective Ownership	
	Country of Domicile	**2017**	2016
ARB Power Ventures, Inc.	Philippines	**100.00**	100.00
CACI Power Corporation [1,]	Philippines	**100.00**	100.00
GBH Power Resources, Inc.	Philippines	**100.00**	100.00
Global Energy Supply Corporation	Philippines	**100.00**	100.00
Global Hydro Power Corporation	Philippines	**100.00**	100.00
Global Renewables Power Corporation	Philippines	**100.00**	100.00
Mindanao Energy Development Corporation	Philippines	**100.00**	100.00
Global Trade Energy Resources Corporation (formerly: Toledo Cebu International Trading Resources Corp.) [1]	Philippines	**100.00**	100.00
Toledo Holdings Corporation	Philippines	**100.00**	100.00
Toledo Power Company [1]	Philippines	**100.00**	100.00
Global Formosa Power Holdings, Inc.	Philippines	**93.20**	93.20
Panay Power Holdings Corporation	Philippines	**89.30**	89.30
Panay Power Company [1]	Philippines	**89.30**	89.30
Panay Energy Development Corporation [1]	Philippines	**89.30**	89.30
Lunar Power Core, Inc.	Philippines	**57.50**	57.50
Global Luzon Energy Development Corporation [1]	Philippines	**57.50**	57.50
Cebu Energy Development Corporation [1]	Philippines	**52.19**	52.19

[1] *Indirect ownership.*

The Group controls an investee if and only if the Group has all the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and

- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Group and to the non-controlling interests (NCIs), even if this results in the NCIs having deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses, cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the NCIs are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company:

- Derecognizes the related assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any NCIs;
- Derecognizes the cumulative translation differences, recognized in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

<u>NCIs</u>
NCIs represent the portion of profit or loss and net assets of subsidiaries not attributed, directly or indirectly, to the Parent Company.

NCIs are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the equity holders of the Parent Company.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2018:

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment,* Classification and Measurement of Share-based Payment Transactions

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

  These amendments do not have any impact to the Group's consolidated financial statements as it has no share-based payment transactions.

- PFRS 9, *Financial Instruments*

  PFRS 9 replaces the provisions of PAS 39, Financial Instruments: Recognition and Measurement, that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

  The adoption of PFRS 9 from January 1, 2018 resulted in changes in accounting policies, particularly on the accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach, but did not have a material impact on the financial statements. The Group's financial assets previously classified as loans and receivables under PAS 39 are classified as financial assets at amortized cost under PFRS 9. The adoption of PFRS 9 did not result to changes in the classification and measurement of financial liabilities. The Group has provided other required information in Note 23 to the Group's financial statements.

  The table below illustrates the classification and measurement of financial instruments under PFRS 9 and PAS 39 at the date of initial application.

Financial assets	Original Measurement Category under PAS 39	Original Carrying Amount Under PAS 39	New Measurement Category under PFRS 9	New Carrying Amount Under PFRS 9
Cash and cash equivalents[1]				
Unrestricted	Loans and receivables	₱13,413,070,134	Financial assets at amortized cost	₱13,413,070,134
Restricted	Loans and receivables	1,366,837,798	Financial assets at amortized cost	1,366,837,798
Short term investments	Loans and receivables	445,751,332	Financial assets at amortized cost	445,751,332
Receivables[2]				
Trade	Loans and receivables		Financial assets at amortized cost	
Short-term	Loans and receivables	3,561,732,416	Financial assets at amortized cost	3,561,732,416
Long-term	Loans and receivables	89,627,456	Financial assets at amortized cost	89,627,456
Long-term notes receivable	Loans and receivables	3,710,000	Financial assets at amortized cost	3,710,000
Others	Loans and receivables	226,224,511	Financial assets at amortized cost	226,224,511
Security and special deposits	Loans and receivables	5,098,394	Financial assets at amortized cost	5,098,394
AFS investment	AFS investment	2,686,610,107	Financial assets at fair value through OCI	2,686,610,107

[1]*Excluding cash on hand*
[2]*Excluding business related advances*

- Amendments to PFRS 4, Applying PFRS 9, Financial Instruments, with PFRS 4

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  These amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance and does not issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group adopted PFRS 15 using the modified retrospective method of adoption.

The Group undertook a comprehensive analysis of the impact of the new revenue standard based on a review of the contractual terms of its principal revenue stream with the primary focus being to understand whether the timing and amount of revenue recognized could differ under PFRS 15. For all of the Group's revenue streams, the nature and timing of satisfaction of the performance obligations, and, hence, the amount and timing of revenue recognized under

PFRS 15, is the same as that under PAS 18.

Adoption of the standard did not have a significant impact on the Group's consolidated financial statements.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures*, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

  These amendments will have no impact on the consolidated financial statements.

- Amendments to PAS 40, *Investment Property,* Transfers of Investment Property

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

  Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation IFRIC 22, Foreign Currency Transactions and Advance Consideration

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Standards Issued but not yet Effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, Prepayment Features with Negative Compensation

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

  These amendments have no impact on the consolidated financial statements of the Group.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption.

  The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

  In 2018, the Group performed a preliminary impact assessment of PFRS 16. Based on the initial assessment, the standard may have an impact on the Group's statement of financial position, statement of comprehensive income and statement of cash flows.

- Amendments to PAS 19, *Employee Benefits,* Plan Amendment, Curtailment or Settlement

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, Investments in Associates and Joint Ventures.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

  The Group is currently assessing the impact of adopting this interpretation.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

  The Group is currently assessing the impact of adopting this interpretation.

Annual Improvements to PFRSs 2015-2017 Cycle

- Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, Previously Held Interest in a Joint Operation

  The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

  A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

  An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs,* Borrowing Costs Eligible for Capitalization
  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  The Group's is currently assessing the impact of the adoption of these amendments.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, Definition of a Business

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Material

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Summary of Significant Accounting Policies

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash in banks earn interest at floating rates based on daily bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of placement and that are subject to an insignificant risk of change in value.

Restricted Cash and Cash Equivalents
Restricted cash and cash equivalents represents cash in banks and cash equivalents earmarked for long-term debt principal and interest repayment maintained in compliance with loan agreements.

Short-Term Investment
Short-term investment includes placement deposits in banks and other financial institutions whose maturity exceeds 90 days from the date of placement. It earns interest at floating rates based on bank deposit rates.

Fair Value Measurement

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

"Day 1" Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the consolidated statements of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

Financial Instruments

Prior to Adoption of PFRS 9

Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group's financial assets are of the nature of loans and receivables and AFS investment while the Group's financial liabilities are of the nature of other financial liabilities.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS investment or designated as of FVPL. This accounting policy relates to the Group's "Cash and cash equivalents", "Restricted cash and cash equivalents", "Short-term investments", "Receivables", "Long-term receivables" and security and special deposits under "Prepayments and other current assets" and special deposits under "Goodwill and other noncurrent assets" accounts.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in interest income under the "Finance costs - net" account in the consolidated statement of comprehensive income. The losses arising from impairment of loans and receivables are recognized in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on *Impairment of Financial Assets Carried at Amortized Cost*).

Loans and receivables are classified as current when they are expected to be realized within twelve months from the reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent.

AFS Investment. AFS investment is a non-derivative financial assets that are designated as AFS or are not classified as financial assets at FVPL, held-to-maturity (HTM) investments and loans and receivables.

After initial recognition, AFS investment is measured at fair value with gains or losses recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously included in equity are included in the consolidated statement of comprehensive income. Dividends on an AFS equity instrument are recognized in the consolidated statement of comprehensive income when the entity's right to receive payment is established.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis; and option pricing models.

The change in the fair value of the AFS investment is recorded as "Unrealized valuation gain on AFS investment" in the equity section of the consolidated statements of financial position.

Other Financial Liabilities. Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. Deferred financing cost, including debt issue costs, represent the fees incurred to obtain project financing and are accounted for as deduction from the related debt. Deferred financing costs are amortized using the effective interest rate method over the terms of the related long-term loans. After initial measurement, other financial liabilities are measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

Other financial liabilities are presented as current when these are expected to be settled within twelve months from the reporting date or the Group does not have any unconditional right to defer settlement within twelve months from reporting date. Otherwise, these are classified as noncurrent.

This accounting policy applies primarily to the Group's "Accounts payable and accrued expenses", "Long-term debt", "Dividends payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Impairment of Financial Assets Carried at Amortized Cost. The Group assesses at each reporting date whether there is objective evidence that a financial or group of financial assets is impaired. Objective evidence includes observable data that comes to the attention of the Group about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that borrower will enter bankruptcy or other financial reorganization.

The Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statement of comprehensive income. Interest income included under "Other income" continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an even occurring after the impairment was recognized, the previously recognized impairment loss is increase or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the parent company profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Investment. For AFS investment, the Group assesses at each reporting date whether there is objective evidence that an AFS investment is impaired.

In the case of an AFS equity investment, this would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is to be evaluated against cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. If an AFS investment is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in net income, is transferred from other comprehensive income to income in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

Upon Adoption of PFRS 9

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets: Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15. Refer to the *"Revenue recognition"* accounting policies in section.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Financial Assets: Subsequent Measurement. For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial Assets at Amortized Cost (Debt Instruments). The Group measures financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes "Cash and cash equivalents", "Restricted cash and cash equivalents", "Short-term investments", "Receivables", "Long-term receivables" and security and special deposits under "Prepayments and other current assets" and special deposits under "Goodwill and other noncurrent assets" accounts.

Financial Assets Designated at Fair Value Through OCI (Equity Instruments). Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of comprehensive income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its investments in quoted equity securities under this category.

Impairment of Financial Assets. The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash and cash equivalents, short-term investments and long-term receivables, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. To estimate the ECL, the Group uses the ratings published by a reputable rating agency.

For receivables and security and special deposits, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities: Initial Recognition and Measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss (FVTPL), loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include "Accounts payable and accrued expenses", "Long-term debt", "Dividends payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Subsequent Measurement: Loans and Borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs under the "Interest expense" in the statement of comprehensive income.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

1. the rights to receive cash flows from the asset have expired;
2. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
3. the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting of Financial Instruments. Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Inventories

Inventories, which consist of coal, industrial fuel, lubricating oil and spare parts and supplies are stated at the lower of cost and net realizable value (NRV). Cost is determined using the weighted average method. NRV is the current replacement cost. In determining the NRV, the Group considers any adjustment necessary for obsolescence.

Advances to Suppliers and Contractors

Advances to suppliers and contractors represent payments to suppliers for various woks and orders for subsequent completion and delivery. These payments are applied to future billing. These are carried at cost.

Investment in an Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Group's investment in an associate is accounted for under the equity method at the consolidated level.

Under the equity method, the investment in associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

The Group's share of the results of operations of the associate is reflected in profit or loss in the consolidated statement of comprehensive income.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in an associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognize the loss in profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The Group has equity interest in the following associate as of December 31, 2018 and 2017:

	Country of Domicile	Percentage of Ownership
Alsons Thermal Energy Corp. (ATEC)	Philippines	50% less one share

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any NCIs in the acquiree. For each business combination, the Group elects whether to measure the NCIs in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of Philippine Accounting Standards (PAS) 39, *Financial Instruments*: *Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to OCI. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for NCIs) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of the net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

<u>Other Assets</u>

Value-Added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of services (output VAT) exceeds VAT passed on from purchase of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

Creditable Withholding Taxes (CWTs)

CWTs, included in "Prepayments and other current assets" account in the consolidated statements of financial position, represent amounts withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source to the rules on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve months are classified as current assets.

Computer Software and Licenses

Computer software and licenses pertain to software that were purchased, and are initially recognized at cost. Following initial recognition, computer software and licenses are carried at cost less accumulated amortization and any accumulated impairment in value.

The software cost is amortized on a straight-line basis over its estimated useful life of five years, and assessed for impairment whenever there is an indication that the asset may be impaired. The amortization commences when the computer software and licenses are available for use. The amortization period and method for the computer software and licenses are reviewed at each financial year-end. Changes in the estimated useful life is accounted for by changing the amortization period, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized as part of "Depreciation and amortization" in the consolidated statements of comprehensive income.

Noncurrent Assets Held for Sale
The Group classifies noncurrent assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Noncurrent assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Property, Plant and Equipment
Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and accumulated impairment losses, if any. Such cost includes the present value expected for the decommissioning of the power plant at the end of its useful life and capitalized borrowing costs incurred in connection with the construction of the power plant. Capitalization of borrowing costs as part of the cost of property, plant and equipment ceases upon completion of the construction of the power plant.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, non-refundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the recognition criteria are met.

Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged to income in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property, plant and equipment.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets or the term of the lease, whichever is shorter, as in the case of leasehold improvements. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The power plant complex components and other property and equipment and their related estimated useful lives are as follows:

Category	Number of Years
Boilers and Powerhouse	3 to 25
Buildings and Land Improvements	5 to 25
Turbine Generators and Desox System	3 to 25
Electrical Distribution System	3 to 25
Other Property and Equipment	3 to 25

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. When assets are retired or otherwise disposed of, both the cost and the related accumulated depreciation and amortization any allowance for impairment losses are removed from the accounts. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognized. Impairment or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately.

Construction in progress is stated at cost. This includes the purchase price of the components, cost of testing and other directly attributable cost of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Land is measured at cost less accumulated impairment losses.

The initial cost of the land consists of its purchase price, including taxes and any directly attributable costs of acquiring the land. Expenditures incurred after the land has been used in operations are normally charged to income in the period the costs are incurred.

Land is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of comprehensive income and any revaluation reserve is transferred to equity.

Fully depreciated property, plant and equipment are retained in the accounts until these are no longer in use.

Advances to contractors are recognized as property, plant and equipment when the construction contract specifically provides for advance payments or purchase commitments related to the acquisition or construction of property, plant and equipment. Advances to contractors are stated at cost.

Borrowing Costs

Borrowing costs generally are expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized. These borrowing costs are included in the cost of the asset; all other borrowing costs are recognized as expense in the period these are incurred. In determining which borrowing costs satisfy the “directly attributable” criterion, the Group starts from the premise that directly attributable borrowing costs are those which would have been avoided if the expenditure on the qualifying asset had not been made.

Capitalization of borrowing costs commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. Investment income on the temporary investment of the Group’s borrowings is deducted from borrowing costs, and only the net amount is capitalized.

Capitalized borrowing costs also include amortized deferred financing cost. This refers to transaction costs incurred in connection with the availment of loans specifically used to finance the on-going construction of power plants. The Group ceases capitalization of borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Impairment of Nonfinancial Assets

Property, plant and equipment and other nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its estimated recoverable amount, the asset or cash-generating unit (CGU) is written down to its recoverable amount. The estimated recoverable amount is the higher of fair value less costs to sell and value in use. The fair value less costs to sell is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, less incremental costs for disposing of the asset, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the non-financial asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized for that asset in prior years. This accounting policy applies primarily to the Group's property, plant and equipment, CWTs and input VAT.

Additional considerations for other nonfinancial assets are discussed below:

Computer Software and Licenses

Where an indication of impairment exists, the carrying amount of computer software and licenses with a finite useful life is assessed and written down immediately to its recoverable amount.

Goodwill

Goodwill is tested for impairment annually as of the end of each year and when circumstances indicate that the carrying value may be impaired.
Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Retirement Benefit Obligation

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statements of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. These are retained in other comprehensive income until full settlement of the obligation.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Payments to the plan are recognized as expenses when employees have rendered service entitling them to the contributions.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an accretion expense.

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of comprehensive income, net of any reimbursement.

Decommissioning Liability
The decommissioning liability arising from PPC, TPC, GPRI, PEDC and CEDC's obligations, under their Environmental Compliance Certificate, to decommission or dismantle their power plant complex at the end of its useful life. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of comprehensive income as an accretion of decommissioning liability under the "Finance costs - net" account. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the power plant complex, the excess shall be recognized immediately in the consolidated statements of comprehensive income.

Provision for Other Liabilities
The Group recognizes provision for other liabilities with uncertain amount or timing of actual disbursement. These include regulatory fees and other charges which payment is probable and the amount can be estimated reliably as of the reporting date. The management reassesses its estimates on an annual basis to determine the reasonableness of provision.

<u>Advances from Stockholder</u>
Advances from stockholder pertains to deposits for future stock subscription which is the amount of money or property received with the purpose of applying the same as payment for future issuance of shares of stocks. This is shown as part of the equity section in the statements of financial position if and only if all of the following are present as of reporting date: (1) that the unissued authorized capital stock of the Group is insufficient to cover the amount of shares indicated in the contract; (2) that there is BOD's and stockholders' approval on the proposed increase in authorized capital stock (for which a deposit was received by the Group); and, (3) that the application for the approval of the proposed increase has been filed with the SEC. Otherwise, such deposit is presented as a liability in the consolidated statement of financial position.

<u>Capital Stock</u>
The Parent Company has issued common stock that is classified as equity.

<u>Additional Paid-in Capital</u>
Amount of contribution in excess of par value is accounted for as an additional paid-in capital. Additional paid-in capital also arises from additional capital contribution from shareholders.

<u>Retained Earnings</u>
The amount included in retained earnings includes profit or loss attributable to the equity holders of the Parent and reduced by dividend on common stock. Dividends on common stock are recognized as a liability and deducted from equity when they are declared. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

Retained earnings may also include the effect of changes in accounting policy as may be required by relevant transitional provisions.

Foreign Currency-Denominated Transactions
Transactions in foreign currencies are initially recorded in Philippine peso using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency using the rate of exchange prevailing at the reporting date. Foreign exchange differences between rate at transaction date and settlement date or reporting date are credited to or charged against current operations. Nonmonetary assets that are measured in terms of historical costs in foreign currency are translated using the exchange rate at the date of initial transactions.

Related Party Transactions
Transactions with related parties are accounted for based on the nature and substance of the agreement, and financial effects are included in the appropriate asset, liabilities, income and expense accounts.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
(d) there is a substantial change to the asset.

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

Operating Leases - Group as a Lessee
Leases in which the lessor does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of comprehensive income on a straight-line basis over the lease term. Prepaid rent is recognized as an asset until such time that the lease is incurred and the related expense is recognized.

Operating Lease - Group as a Lessor
Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Lease payments received are recognized in the consolidated statement of comprehensive income as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Revenue Recognition

Revenue from Contracts with Customers - Recognized Over Time. The Group has contracts with customers in the form of Electric Power Purchase Agreements (EPPAs), Ancillary Services Procurement Agreement (ASPA), and sale of electricity to Wholesale Electricity Spot Market (WESM).

The Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Prior to 2018, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue from contracts with customers is consummated whenever the electricity generated by the Group is transmitted through the transmission line designated by the buyer, for a consideration.

Revenue from sale of electricity is recognized monthly based on the actual energy delivered made available to customers or minimum energy off take or contracted capacity adjusted by the actual days of downtime, whichever is higher.

Revenue from sale of electricity through ancillary services to the National Grid Corporation of the Philippines (NGCP) is recognized monthly based on the capacity scheduled and/or dispatched and provided.

Energy fees derived from trading operations are recognized based on actual delivery of energy supplied and made available to the customers multiplied by the applicable tariff rate, net of adjustments, as agreed between the Company and its customers.

Revenue from Contracts with Customers - Recognized at a Point in Time
Revenues from the following are recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods:

Coal Sales
Coal sales are recognized at point in time when the coal is delivered, the legal title has passed to the customer.

Other Income
The Company applies guidance in the revenue standard related to the transfer of control and measurement of the transaction price, including the constraint on variable consideration, to evaluate the timing and amount of the gain or loss recognized.

Interest Income
Interest income from bank deposits, short-term investments and company granted loans is recognized as it accrues using the effective interest rate method. Interest income is included in "Finance costs - net" in the consolidated statement of comprehensive income.

Service Fees
Service fee pertains to fees charged to customers and clients for coal transaction related services. The service fee is recognized at point in time.

Dividend Income
Dividend income is recognized when the Group's right to receive the payment is established.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

Revenue from Sale of Electricity Under Contracts Outside the Scope of PFRS 15
Revenue from sale of electricity under contracts outside the scope of PFRS 15 is based on the EPPA of GPRI with ORMECO. This contract qualifies as a lease on the basis that GPRI sell all of its output to ORMECO (see Note 3).

<u>Costs and Expenses</u>
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are generally recognized when the services are used or the expenses arise.

Power Plant Operations and Maintenance Costs
Cost of power plant operations and maintenance costs consist mainly of coal and fuel costs, purchased power and repairs and maintenance. These are generally expensed when the goods and services are used or the expenses are incurred.

General and Administrative Expenses
General and administrative expenses consist mainly of depreciation and amortization, personnel costs, outside services, regulatory fees, taxes and licenses and other administrative expenses. These are incurred in the normal course of business and are generally recognized when the services are used or as the expenses arise.

Interest Expense
Interest expense is accrued in the appropriate period.

Others
Others consist mainly of training and seminar costs and other employee related expenses, subscriptions and advertising, and other miscellaneous general expenses related to the Group's primary operations.

<u>Income Taxes</u>
Current Income Tax
Current tax liabilities for the current and prior year periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as of reporting date.

Deferred Tax
Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, unused net operating loss carryover (NOLCO) and carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused NOLCO and carryforward of unused tax credits from excess MCIT can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax relating to items recognized directly in equity is recognized in equity and as other comprehensive income in the consolidated statements of comprehensive income and not as part of net income.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

3. Significant Accounting Judgments and Estimates

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. The judgments and estimates used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. Actual results could differ from such estimates.

Judgments and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

<u>Judgments</u>
In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Revenue from Contracts with Customers (Applicable upon adoption of PFRS 15). Beginning January 1, 2018, the Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

1) *Identifying Performance Obligations.* The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

   The Group assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if:
   a. each distinct good or services in the series are transferred over time; and

b. the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation

For revenue contracts under EPPAs, ASPA, and spot market sales to WESM, these are combined and considered as one (1) performance obligation since these are not distinct within the context of PFRS 15 as the buyer cannot benefit from the contracted capacity without the corresponding energy and the buyer cannot obtain energy without contracting a capacity.

2) *Determining Method to Estimate Variable Consideration and Assessing the Constraint.* The Group includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the Group will be subjected to constraint.

   Factors such as the following are considered:
   a. high susceptibility to factors outside the Group's influence;
   b. timing of the resolution of the uncertainty; and
   c. having a large number and broad range of possible outcomes.

   Some contracts with customers provide for volume and prompt payment discounts that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. The expected value method of estimation takes into account a range of possible outcomes while the most likely amount is used when the outcome is binary.

   The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration given the number of contracts with customers that have similar characteristics and the range of possible outcomes.

3) *Allocation of Variable Consideration.* Variable consideration may be attributable to the entire contract or to a specific part of the contract. For revenue contracts under EPPAs, ASPA and spot market sales to WESM, revenue streams which are considered as series of distinct services that are substantially the same and have the same pattern of transfer, the Company allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month or actual electricity delivery) which forms part of the single performance obligation and the monthly billing of the Group.

4) *Revenue Recognition.* The Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

   The Group concluded that revenue from sale of electricity from contracts with customers are to be recognized over time, since customers simultaneously receive and consume the benefits as the Group supplies power.

5) *Identifying Methods for Measuring Progress of Revenue Recognized Over Time*. The Group determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

   For power generation and ancillary services, the Group determined that the output method is the best method in measuring progress as actual electricity is supplied to customers.

   For retail supply, the Group uses the actual kilowatt hours which are also billed on a monthly basis.

Contractual Cash Flows Assessment (Applicable upon adoption of PFRS 9). Beginning January 1, 2018, for each financial asset, the Group assesses the contractual terms to identify whether the instrument is consistent with the concept of SPPI.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Evaluation of Business Model in Managing Financial Instruments (Applicable upon adoption of PFRS 9). Beginning January 1, 2018, the Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Operating Lease Commitments - Group as a Lessor and Lessee
The Group has entered into various lease agreement as a lessor and lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of the leased premises since these properties will revert to the lessor upon termination of the lease.

Determining Whether an Arrangement Contains a Lease and Proper Classification of the Lease
GPRI's EPPA with ORMECO qualifies as a lease on the basis that GPRI sells all its output to ORMECO. This agreement calls for a take-or-pay arrangement or capacity fee payments where payment is made on the basis of the availability of electricity and not on actual deliveries. The lease arrangement is determined to be an operating lease where a significant portion of the risks and rewards of ownership are retained by the Group. Accordingly, the power plant asset is recorded as part of the cost of property, plant and equipment and the capacity payments billed to ORMECO are recognized as net fees in the consolidated statements of comprehensive income over the life of the power plant.

Determination of Significant Influence Over an Investee Company
Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Management has determined that by virtue of its ownership in ATEC as of December 31, 2018 and 2017, the Group has the ability to exercise significant influence over the associate (see Note 10).

Determining NCI that is Material to the Group
The Group determines whether a subsidiary has a material non-controlling interest based on the profit or loss or other comprehensive income of the subsidiary attributable to the non-controlling interest to the Group's profit or loss or other comprehensive income for the reporting period, respectively, and the carrying amount of the non-controlling interest attributable to the subsidiary relative to the net equity of the Group, among others. Based on management's assessment, it has determined that the NCI in CEDC and PPHC are material to the Group. Information about these subsidiaries with material NCI are disclosed in Note 9.

Recognizing Provisions for Other Liabilities
The Group determines whether it is necessary to recognize a provision arising from any probable legal or contractual obligations. Management exercises judgment in determining that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the provisions are based on the probable costs for the resolution or settlement of probable claims of regulators. On the basis of the evaluation, management determines that provisions are recognized in accordance with the criteria of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

<u>Estimates</u>
Estimating Fair Value of Financial Instruments
The Group carries certain financial assets and liabilities at fair value, which requires the use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of change in fair value would differ if the Group utilized a different valuation methodology. Any changes in the fair value of these financial assets and liabilities would affect the consolidated statements of comprehensive income and consolidated statements of changes in equity.

Where the fair value of certain financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives, if applicable.

The fair values of the Group's financial instruments are presented in Note 24 to the consolidated financial statements.

Estimating Impairment of Receivables, Long-Term Receivables, and Security and Special Deposits (Prior to Adoption of PFRS 9). The Group reviews its receivables, long-term receivables and security and special deposits at each reporting date to assess whether an allowance for impairment losses using a combination of specific and collective assessments should be recorded in the consolidated statements of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Estimating Provision for Expected Credit Losses (Upon Adoption of PFRS 9). The Group uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for each customer.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's receivables is disclosed in Note 24.

The aggregate amount of receivables, net of unamortized discounts and security and special deposits amounted to ₱5,809.54 million and ₱4,994.54 million as of December 31, 2018 and 2017, respectively (see Notes 5, 7, 8, 13 and 20). As of December 31, 2018 and 2017, provision for expected credit losses on receivables, long-term receivables, notes receivable and security and special deposits amounted to an aggregate of ₱584.64 million and ₱330.12 million, respectively (see Notes 5, 7, and 8).

Estimating NRV of Inventories
The Group provides an allowance for inventory losses whenever utility of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes (i.e., pre-termination of contracts). The allowance account is reviewed regularly to reflect the accurate valuation in the financial records.

The Group recognized provision for inventory losses amounting to ₱10.86 million and ₱10.94 million as of December 31, 2018 and 2017, respectively. Inventories, at lower of cost and NRV and net of allowance for inventory losses, amounted to ₱2,692.18 million and ₱2,513.70 million as of December 31, 2018 and 2017, respectively (see Note 6).

Estimating Useful Lives of Property, Plant and Equipment
The Group estimates the useful life of significant parts of property, plant and equipment is based on the period over which the assets are expected to be available for use. The estimated useful life of property, plant and equipment is reviewed periodically and is updated if expectations differ from

previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, the Group's estimation of the useful life of property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As of December 31, 2018 and 2017, the net book value of property, plant and equipment amounted to ₱46,273.61 million and ₱48,936.96 million, respectively (see Note 12).

Estimating Impairment of Property, Plant and Equipment, Input VAT, CWTs and Computer Software and Licenses

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

For input VAT, the Group considers the status of the claims for refund or conversion to tax credit certificate with the CTA and the extent of estimated output VAT against which the input VAT may be applied in assessing impairment of input VAT.

Impairment loss related to input VAT amounting to ₱82.59 million and ₱81.44 million were recognized as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the aggregate net book values of nonfinancial assets, which include property, plant and equipment, input VAT (net of allowance for impairment losses), CWTs and creditable withholding VAT amounted to ₱47,768.36 million and ₱50,450.26 million, respectively (see Notes 7, 12 and 13).

Estimating Impairment of Goodwill

The Group performs impairment review on goodwill, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the CGU to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and to make use of a suitable discount rate to calculate the present value of those future cash flows. Impairment loss on goodwill amounting to ₱44.86 million and ₱87.02 million was recognized in 2018 and 2017, respectively. The carrying value of goodwill amounted to ₱596.41 million and ₱641.26 million as of December 31, 2018 and 2017, respectively (see Note 13).

Estimating Decommissioning Liability
The Group has a legal obligation to decommission or dismantle its power plant assets at the end of their useful lives. The Group recognizes the present value of the obligation to dismantle the power plant assets and capitalizes the present value of this cost as part of the balance of the related property, plant and equipment, which are being depreciated and amortized on a straight-line basis over the useful life of the related assets.

Cost estimates expressed at current price levels at the date of the estimate are discounted using a rate of interest ranging from 3.95% to 5.62% in 2018 and 1.99% to 3.71% in 2017 to take into account the timing of payments. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with charges being recognized as accretion expense, included under "Finance costs - net" in the consolidated statements of comprehensive income. Changes in the decommissioning liability that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in the consolidated statement of comprehensive income as it occurs.

While the Group has made its best estimate in establishing the decommissioning provision, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning activities, the ultimate provision requirements could either increase or decrease significantly from the Group's current estimates. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Decommissioning liability amounted to ₱590.82 million and ₱536.15 million as of December 31, 2018 and 2017, respectively (see Note 16).

Determining Retirement Benefit Obligation
The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. These assumptions are described in Note 18 to the consolidated financial statements.

Retirement benefit expense amounted to ₱149.15 million and ₱128.64 million in 2018 and 2017, respectively. Net retirement benefit obligation amounted to ₱647.92 million and ₱886.91 million as of December 31, 2018 and 2017, respectively (see Note 19).

Estimating Provision for Other Liabilities
The provision for other liabilities is established based on the Group's best estimate of the amount necessary to settle future or existing obligations arising from different interpretation of laws, management incentives and other charges. As the status of the issues may change and depending on the Group's performance, changes in these estimates could result to a change in the amount of provision. Provision for other liabilities amounted to ₱1,443.07 million and ₱1,324.74 million as of December 31, 2018 and 2017, respectively (see Note 16).

Estimating Realizability of Deferred Tax Assets
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available in the future to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on forecasted taxable income. This forecast is based on the Group's past results and future expectations on revenues and expenses.

The Group has deferred tax assets amounting to ₱901.15 million and ₱785.12 million as of December 31, 2018 and 2017, respectively (see Note 22). Temporary differences for which deferred tax assets are not recognized are disclosed in Note 22 to the consolidated financial statements.

4. Cash and Cash Equivalents, Restricted Cash and Cash Equivalents and Short-term Investments

Cash and Cash Equivalents

	2018	2017
Cash on hand and in banks	**₱1,191,061,043**	₱1,017,442,519
Cash equivalents	**7,878,416,024**	12,396,654,511
	₱9,069,477,067	₱13,414,097,030

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits earn interest at the short-term deposit rates and are made for varying periods of up to three months depending on the immediate cash requirements of the Group.

Restricted Cash and Cash Equivalents. Restricted cash and cash equivalents amounting to ₱2,559.33 million and ₱1,366.84 million as at December 31, 2018 and 2017, respectively, which are deposited in banks and invested in money market placements, pertain to debt service accounts (DSAs) representing amounts set aside for quarterly principal and interest payments of certain long-term debt. These DSAs are maintained and replenished in accordance with the provisions of loan agreements (see Note 15).

Short-term Investments. Short-term investments or time deposits in banks and financial institutions maturing after three months are classified as "Short-term investments" in the consolidated statements of financial position.

Total interest income earned on cash and cash equivalents, restricted cash and cash equivalents and short-term investments amounted to ₱313.43 million and ₱164.28 million for the years ended December 31, 2018 and 2017, respectively (see Note 19).

5. **Receivables**

	2018	2017
Trade - net of unamortized discount of nil and ₱6.74 million in 2018 and 2017, respectively	**₱5,301,486,273**	₱4,691,781,347
Others - net of unamortized discount of ₱6.23 million and nil in 2018 and 2017, respectively	**447,082,292**	231,640,226
	5,748,568,565	4,923,421,573
Less noncurrent portion of receivables	**43,765,962**	82,887,298
	5,704,802,603	4,840,534,275
Less:		
Allowance for expected credit losses	**584,643,921**	–
Allowance for impairment losses	–	330,120,775
	₱5,120,158,682	₱4,510,413,500

Trade receivables represent outstanding billings for energy fees and pass-through fuel costs arising from the delivery of electricity to customers and energy sales to the WESM. The Group's normal credit term is 15 to 30 days from the date of receipt of billing.

The uncollected output VAT portion of trade receivables as of December 31, 2018 and 2017 amounted to ₱1,500.90 million and ₱1,391.44 million, respectively (see Note 14).

The Group provided allowance on its receivable from bilateral customers amounting to ₱254.52 million and ₱33.78 million in 2018 and 2017, respectively.

The roll forward analysis of allowance for expected credit losses as of December 31, 2018 and allowance for impairment losses under PAS 39 as of December 31, 2017, which pertains to trade receivables, is presented below:

	2018	2017
Balances at beginning of year	**₱330,120,775**	₱296,338,941
Provision for :		
Expected credit losses	**254,523,146**	–
Impairment losses	–	33,781,834
Balances at end of year	**₱584,643,921**	₱330,120,775

6. **Inventories**

	2018	2017
Spare parts, consumables and supplies	**₱1,559,994,137**	₱1,375,133,159
Coal (see Note 24i)	**954,383,058**	1,038,490,005
Industrial fuel and lubricating oil	**188,662,376**	111,019,568
	2,703,039,571	2,524,642,732
Less allowance for inventory obsolescence	**10,861,733**	10,944,836
	₱2,692,177,838	₱2,513,697,896

Allowance for inventory obsolescence recognized as of December 31, 2018 and 2017 pertains to spare parts and supplies that the Group believes to be obsolete and non-moving.

Movements in allowance for impairment losses on inventories in 2017 and 2016 are as follows:

	2018	2017
Balances at beginning of year	**₱10,944,836**	₱9,819,141
Provision	**2,434,320**	1,125,695
Reversal of allowance and write off	**(2,517,423)**	–
Balances at end of year	**₱10,861,733**	₱10,944,836

Inventories charged to current operations amounted to ₱11,217.57 million and ₱9,155.25 million in 2018 and 2017, respectively.

In July 2012, CCC started to supply the coal inventories of TPC in accordance with the Energy Conversion Option as stated in the ECA between TPC and CCC (see Note 1). The Group recognized efficiency gains or losses from the ECA pertaining to the difference between the actual and agreed efficiency rate. The Group recognized gain amounting to ₱24.37 million and ₱66.54 million in 2018 and 2017, respectively (see Note 20).

7. Prepayments and Other Current Assets

	2018	2017
Input VAT (see Note 13)	**₱1,098,097,478**	₱1,174,271,044
CWTs and creditable withholding VAT	**155,538,880**	94,408,851
Prepaid insurance	**50,699,695**	51,580,253
Security deposits	**55,868,295**	66,022,048
Others	**46,585,766**	36,457,367
	₱1,406,790,114	₱1,422,739,563

Unutilized input VAT pertains mainly to VAT imposed on the Group's purchases of goods and services during the construction phase and commercial operations of the power plants. These are expected to be offset against output VAT arising from the Group's net fees subject to VAT in the future. As of December 31, 2018 and 2017, input VAT amounting to ₱241.11 million and ₱244.62 million, respectively, is classified under noncurrent assets (see Note 13).

Prepaid insurance pertains to unamortized premiums for property insurance.

Security deposit mainly includes bill deposits for retail energy sales, rental deposits for the office unit and revolving deposits for medical expenses incurred by employees and paid by health maintenance organizations, among others.

Others consist mainly of prepaid rent and other prepaid expenses.

8. Long-Term Receivables

2018

	Noncurrent	**Current**	**Total**
Trade Receivables			
PECO (see Note 25)	**₱–**	**₱113,388,620**	**₱113,388,620**
Notes Receivable			
ORIX METRO Leasing and Finance Corporation (ORIX METRO) – net of discount of ₱6.23 million	**43,765,962**	**–**	**43,765,962**
	₱43,765,962	**₱113,388,620**	**₱157,154,582**

2017

	Noncurrent	Current	Total
PECO - noncurrent portion net of unamortized discount of ₱6.74 million (see Note 25)	₱82,887,298	₱120,657,073	₱203,544,371

PECO
On August 22, 2011, ERC approved, with modification, the EPPA between PEDC and PECO. Pursuant to the requirements of the ERC, PEDC submitted on October 28, 2011 the amount of under-recoveries and the collection scheme for PECO. The amount of under-recoveries from March 26, 2011 to August 10, 2011 computed by PEDC and PECO amounted to ₱617.27 million. The whole amount was recognized as revenue in 2011.

As of December 31, 2017, the long-term portion of the related receivable amounting to ₱82.89 million, was recorded at amortized cost, net of discount of ₱6.74 million. PECO is expected to settle the full amount in 2019 (see Note 5).

In October 2018, the Group has granted a fixed term financing note (the Note) to Orix Metro of ₱50.00 million, at the interest rate of 7.0156% per annum. The note will mature on April 29, 2020.

9. Material Partly-Owned Subsidiaries

The financial information of subsidiaries that have material NCIs is provided below:

Carrying value of material NCIs as of December 31:

	2018	2017
CEDC	**₱3,192,609,001**	₱3,019,191,652
PPHC	**1,619,851,154**	1,629,366,417

Net income for the period allocated to material NCIs is as follows:

	2018	2017
CEDC	**₱827,575,524**	₱742,253,840
PPHC	**146,059,519**	166,237,826

Dividends declared allocated to material NCIs are as follows:

	2018	2017
CEDC	**₱660,000,000**	₱792,000,000
PPHC	**159,430,000**	80,250,000

The summarized financial information (before intercompany eliminations) of the subsidiaries which are not wholly-owned as of and for the years ended December 31, 2018 and 2017 are as follows:

2018	**CEDC** *(in millions)*	**PPHC** *(in millions)*
Statement of Financial Position		
Current assets	**₱5,072**	**₱1,511**
Non-current assets	**13,250**	**14,357**
Current liabilities	**3,534**	**1,490**
Non-current liabilities	**7,532**	**–**
Statement of Comprehensive Income		
Revenues	**9,743**	**1,501**
Expenses	**7,862**	**1**
Net income	**1,881**	**1,499**
Total comprehensive income	**1,894**	**1,499**
Statement of Cash Flows		
Net cash flows from (used in) operating activities	**2,191**	**(1)**
Net cash flows from (used in) investing activities	**(81)**	**750**
Net cash flows from (used in) financing activities	**(3,007)**	**(750)**

2017	CEDC (in millions)	PPHC (in millions)
Statement of Financial Position		
Current assets	₱5,708	₱761
Non-current assets	13,968	14,357
Current liabilities	4,094	750
Non-current liabilities	8,720	–
Statement of Comprehensive Income		
Revenues	8,752	750
Expenses	6,356	1
Net income	1,687	749
Total comprehensive income	1,684	749
Statement of Cash Flows		
Net cash flows from (used in) operating activities	₱2,815	(₱1)
Net cash flows from (used in) investing activities	(162)	1,400
Net cash flows from (used in) financing activities	(2,907)	(1,400)

10. **Investment in and Advances to Associate**

On November 27, 2017, the Group completed the acquisition of a 50%-less-one share stake in ATEC, the holding company for Alsons Consolidated Resources, Inc's (ACR) baseload coal-fired power plant assets for a total consideration of ₱4.30 billion allocated as follows:

(i) ₱2.40 billion for the common shares and
(ii) ₱1.90 billion for the assignment of certain advances of ACR to ATEC.

ATEC has stake in the following companies: (i) 75% in Sarangani Energy Corporation which owns a 105 MW baseload coal-fired plant already in operation and another 105 MW under construction, in Maasim, Sarangani Province; (ii) 100% in San Ramon Power, Inc. which is developing a 105 MW baseload coal-fired plant in Zamboanga City; and (iii) 100% in ACES Technical Services Corporation.

ATEC is a private entity that is not listed on any public exchange. The carrying amount of the Group's investment in ATEC as of December 31, 2018 and 2017 are as follows:

	2018	2017
Acquisition cost:		
Balances at the beginning of the year	**₱2,403,662,029**	₱2,403,662,029
Additional incidental cost related to acquisition	**148,348,275**	
Balance at the end of the year	**2,552,010,304**	2,403,662,029
Accumulated share in equity income (see Note 19):		
Balance at beginning of the year	**14,466,929**	–
Equity in net earnings of an associate	**300,726,763**	14,466,929
Balance at the end of the year	**315,193,692**	2,403,662,029
Dividends received (see Note 19)	**(187,499,994)**	–
Carrying value of investment	**2,679,704,002**	2,418,128,958
Advances to ATEC	**1,879,463,723**	1,879,463,723
	₱4,559,167,725	₱4,297,592,681

The table below shows the summarized financial information of the Group's investment in ATEC:

	2018 (in millions)	2017 (in millions)
Current assets	**₱3,940.24**	₱2,191.52
Non-current assets	**25,854.88**	20,446.93
Current liabilities	**6,685.46**	5,953.55
Non-current liabilities	**15,840.65**	10,420.48
Non-controlling interests	**2,538.37**	2,434.50
Equity attributable to equity holders of the Company	**4,730.63**	3,829.92
Ownership of the Company	**50%-1**	50%-1
	2,365.32	1,914.96
Other adjustments	**314.38**	503.17
Carrying amount of the investment	**₱2,679.70**	₱2,418.13

	2018 (in millions)	2017 (in millions)
Gross revenue	**₱4,728.17**	₱4,168.08
Operating profit	**862.06**	389.35
Net income	**598.14**	256.92
Ownership of the Company	**50%-1**	50%-1
	299.07	128.46
Other adjustments	**1.66**	(113.99)
Equity in net earnings	**₱300.73**	₱14.47

Other adjustments to reconcile net assets to carrying amount of investment mainly include excess of carrying value of investment of share in net assets. Other adjustments also include amortization of excess cost over fair value.

11. Financial Asset at Fair Value Through OCI / AFS Investment

FA at FVOCI/AFS Investment represents investment in listed shares measured at fair value. The historical cost of the said investment amounted to ₱150.00 million at the average cost of ₱1.287 per share.

Under PFRS 9, the Group's asset previously classified as AFS investment is now classified as FA at FVOCI. The fair value changes of the investments are recorded under "Unrealized valuation gain on FA at FVOCI/AFS investment", a separate component of "Equity" in the consolidated statements of financial position.

Movements in the carrying value of FA at FVOCI/AFS investment are as follows:

	2018	2017
Balances at beginning of year	**₱2,686,610,107**	₱3,671,506,220
Changes in fair value	**(814,724,714)**	(984,896,113)
Balances at end of year	**₱1,871,885,393**	₱2,686,610,107

Movements in the unrealized valuation gains on FA at FVOCI/AFS investment are as follows:

	2018	2017
Balances at beginning of year	**₱2,536,607,717**	₱3,521,503,830
Fair value changes on FA at FVOCI/AFS investment shown in other comprehensive income	**(814,724,714)**	(984,896,113)
Balances at end of year	**₱1,721,883,003**	₱2,536,607,717

The Group recognized dividend income from FA at FVOCI/AFS investment amounting to ₱32.54 million for the years ended December 31, 2018 and 2017 (see Note 19).

12. Property, Plant and Equipment

2018

	Land	Boilers and Powerhouse	Buildings and Land Improvements	Electrical Distribution System	Turbine Generators and Desox System	Other Property and Equipment	Construction-in-Progress	Advances to Contractors and Suppliers	Total
Cost:									
Balances at beginning of year	**₱790,864,615**	**₱36,182,336,124**	**₱4,162,462,434**	**₱5,836,854,309**	**₱2,052,533,140**	**₱3,943,978,245**	**₱12,702,013,212**	**₱310,321,500**	**₱65,981,363,579**
Additions	–	**91,516,789**	**1,667,329**	**723,514**	**1,423,031**	**81,355,355**	**737,607,006**	**49,992,877**	**964,285,901**
Disposals and retirement (see Note 16)	–	–	–	–	–	**(6,710,232)**	–	–	**(6,710,232)**
Adjustment and reclassifications	–	**(83,170,245)**	**(4,940,439)**	**(1,281,350,911)**	–	**(22,998,424)**	**38,133,259**	–	**(1,354,326,760)**
Transfers	–	**9,656,920,445**	**1,326,893,150**	**1,963,639,916**	**1,512,473**	**50,869,025**	**(12,983,883,511)**	**(15,951,498)**	–
Balances at end of year	**790,864,615**	**45,847,603,113**	**5,486,082,474**	**6,519,866,828**	**2,055,468,644**	**4,046,493,969**	**493,869,966**	**344,362,879**	**65,584,612,488**
Accumulated depreciation, amortization and impairment loss:									
Balances at beginning of year	**19,904,390**	**12,618,171,502**	**1,228,656,547**	**1,440,666,592**	**530,894,676**	**1,206,112,385**	**–**	**–**	**17,044,406,092**
Depreciation and amortization	–	**1,760,040,992**	**197,638,894**	**244,316,199**	**89,507,325**	**256,255,323**	–	–	**2,547,758,733**
Adjustment and reclassifications (see Notes 13 and 16)	–	**61,822**	**(2,558,110)**	**(276,964,682)**	–	**2,496,288**	–	–	**(276,964,682)**
Disposals and retirement	–	–	–	–	–	**(4,198,968)**	–	–	**(4,198,968)**
Balances at end of year	**19,904,390**	**14,378,274,316**	**1,423,737,331**	**1,408,018,109**	**620,402,001**	**1,460,665,028**	–	–	**19,311,001,175**
Net book values	**₱770,960,225**	**₱31,469,328,797**	**₱4,062,345,143**	**₱5,111,848,719**	**₱1,435,066,643**	**₱2,585,828,941**	**₱493,869,966**	**₱344,362,879**	**₱46,273,611,313**

2017

	Land	Boilers and Powerhouse	Buildings and Land Improvements	Electrical Distribution System	Turbine Generators and Desox System	Other Property and Equipment	Construction-in-Progress	Advances to Contractors and Suppliers	Total
Cost:									
Balances at beginning of year	₱790,864,615	₱36,042,522,296	₱3,935,373,692	₱3,014,602,972	₱2,052,533,140	₱6,777,501,860	₱11,828,352,567	₱118,504,690	₱64,560,255,832
Additions	–	124,304,890	74,995	17,890,357	–	150,343,099	1,104,588,789	255,015,286	1,652,217,416
Disposals and retirement (see Note 13)	–	–	–	–	–	(13,270,526)	–	–	(13,270,526)
Adjustment and reclassifications	–	13,775,307	37,759,332	2,767,947,560	–	(3,036,227,619)	(1,093,723)	–	(217,839,143)
Transfers	–	1,733,631	189,254,415	36,413,420	–	65,631,431	(229,834,421)	(63,198,476)	–
Balances at end of year	790,864,615	36,182,336,124	4,162,462,434	5,836,854,309	2,052,533,140	3,943,978,245	12,702,013,212	310,321,500	65,981,363,579
Accumulated depreciation, amortization and impairment loss:									
Balances at beginning of year	19,904,390	11,202,732,882	1,060,639,558	730,287,695	442,029,446	1,463,367,383	–	–	14,918,961,354
Depreciation and amortization	–	1,507,730,724	168,702,429	241,167,104	88,864,973	278,276,490	–	–	2,284,741,720
Adjustment and reclassifications (see Note 13)	–	(92,292,104)	(685,440)	469,211,793	257	(522,840,459)	–	–	(146,605,953)
Disposals and retirement	–	–	–	–	–	(12,691,029)	–	–	(12,691,029)
Balances at end of year	19,904,390	12,618,171,502	1,228,656,547	1,440,666,592	530,894,676	1,206,112,385	–	–	17,044,406,092
Net book values	₱770,960,225	₱23,564,164,622	₱2,933,805,887	₱4,396,187,717	₱1,521,638,464	₱2,737,865,860	₱12,702,013,212	₱310,321,500	₱48,936,957,487

The power plant complex TPC, and the whole property, plant and equipment of CEDC and PEDC, with aggregate carrying value of ₱43,266.15 million and ₱45,688.97 million as of December 31, 2018 and 2017, respectively, have been mortgaged/pledged as security for their long-term debt totaling to ₱35,365.23 million and ₱38,447.97 million as of December 31, 2018 and 2017, respectively (see Note 15).

As of December 31, 2017, construction-in-progress mainly represents the on-going capitalized projects and construction of PEDC Unit 3 amounting to ₱12,385.52 million (see Note 1). The PEDC3 expansion plant was completed and accepted in May 2018, and accordingly, the accumulated project cost amounting to ₱12,623.57 million was reclassified to the different property, plant and equipment components.

Borrowing costs, including deferred financing cost capitalized as part of construction cost amounted to ₱271.23 million and ₱686.73 million, net of interest income amounting to ₱34.56 million and ₱51.18 million, in 2018 and 2017, respectively (see Note 15).

Advances to contractors and suppliers, which form part of the contract price, were capitalized as part of property, plant and equipment since these advances already constitute purchase commitments for the acquisition of property and equipment. The Group had total contractual commitments advanced to contractors relating to the completion of the expansion projects amounting to nil and ₱310.32 million as of December 31, 2018 and 2017, respectively. The advances were offset against the final contract balance upon completion of the project.

The advances include the amount paid for the purchase of the land for GLEDC's proposed project site in Luna, La Union. On May 26, 2016, VIGC executed a Contract to Sell over the five (5) parcels of land with an aggregate area of 414,095 square meters with the seller. On November 22, 2016, GLEDC entered into a Deed of Assignment of Contract with VIGC for the purchase of five (5) parcels of land intended for use as site for its proposed power plant project.

Fully depreciated boilers and powerhouse, buildings and land improvements and other property and equipment with cost of ₱2,813.58 million and ₱2,652.37 million, as of December 31, 2018 and 2017, respectively, are still being used in the Group's operations.

Noncurrent Assets Held for Sale

In 2017, certain companies in the Group entered into an agreement with the National Grid Corporation of the Philippines (NGCP) for the transfer of the Group's equipment considered as transmission facilities which ownership is expected to be transferred to NGCP in 2018. As of December 31, 2017, NGCP, CEDC, PEDC and TPC have initially identified some of these subject equipment. Accordingly, these assets were reclassified to "Noncurrent assets held for sale" as of December 31, 2017. PEDC's equipment considered as transmission facilities for transfer to NGCP were only identified in 2018.

The Group and NGCP continue to have a series of Fixed Asset Boundary Meetings to agree on certain conditions and resolve issues that would allow NGCP to have control over these assets as part of the transmission system. Thus, the sale has not been consummated as at December 31, 2018 and 2017 and the carrying value of the assets to be transferred to NGCP was presented as "Noncurrent assets held for sale" in the December 31, 2018 and 2017 statements of financial position.

13. **Goodwill and Other Noncurrent Assets**

a. Goodwill

Goodwill pertains to the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of certain companies acquired by the Group.

Goodwill in relation to acquisitions has been attributed to the following CGUs:

2018	**PPC**	**GPRI**	**GTERC**	**Total**
Cost				
Balances at beginning and end of year	**₱1,205,891,506**	**₱17,110,792**	**₱24,201,029**	**₱1,247,203,327**
Accumulated impairment loss:				
Balances at beginning of year	**588,828,335**	**17,110,792**	**–**	**605,939,127**
Impairment loss	**44,855,721**	**–**	**–**	**44,855,721**
Balance at end of year	**633,684,056**	**17,110,792**	**–**	**650,794,848**
	₱572,207,450	**₱–**	**₱24,201,029**	**₱596,408,479**

2017	PPC	GPRI	GTERC	Total
Cost				
Balances at beginning and end of year	₱1,205,891,506	₱17,110,792	₱24,201,029	₱1,247,203,327
Accumulated impairment loss:				
Balances at beginning of year	501,807,000	17,110,792	–	518,917,792
Impairment loss	87,021,335	–	–	87,021,335
Balance at end of year	588,828,335	17,110,792	–	605,939,127
	₱617,063,171	₱–	₱24,201,029	₱641,264,200

PPC

The recoverable amount of PPC considered as CGU was based on value-in-use calculations using cash flow projections from financial budgets covering the remaining cooperation period. The financial budgets based on past experience as well as future expected market trends, are approved by management and valid when the impairment test is performed. The revenues for the CGU are significantly based on the rates and contracted capacities as provided for under the EPPAs. The revenues of the power plants are also limited to installed capacity adjusted by a certain availability or load factor as may be applicable. As such, no growth rate is further assumed in the cash flow projections.

The following describes each key assumption on which the calculation of the value-in-use for PPC is based which is used to undertake the impairment testing of goodwill:

- The interest rate used to discount the net cash flows from operations is PPC's computed WACC of 9.66%, using the capital asset pricing model.
- Revenues are significantly based on the rates and contracted capacity under PPAs. Revenues are based on the energy sold at the assumed energy fee rates and pass-through fuel cost rates throughout the remaining cooperation period.
- Operating expenses are projected to increase depending on the nature of the expenses. Fuel and oil costs are based on the assumed market prices throughout the remaining cooperation period.

Based on the impairment testing, impairment loss amounting to ₱44.86 million in 2018 and ₱87.02 million in 2017 was recognized on the goodwill arising from the acquisition of PPC.

b. Other Noncurrent Assets

	2018	2017
Input VAT - net of current portion of ₱1,098.10 million and ₱1,174.27 million in 2018 and 2017, respectively (see Note 7)	**₱323,703,385**	₱326,065,504
Software and licenses - net	**23,538,444**	32,527,143
Prepaid rent	**11,520,834**	13,270,834
Special deposits to NGCP	**5,098,394**	5,098,394
Others	**165,000**	10,468,350
	364,026,057	387,430,225
Less allowance for impairment losses on input VAT	**82,592,608**	81,440,660
	₱281,433,449	₱305,989,565

Input VAT
Noncurrent portion of input VAT pertains to input VAT that can be offset against output VAT beyond one year and those that will be claimed as tax credits. In 2017, allowance for impairment losses on input VAT claims amounting to ₱10.61 million was reversed due to the claims partially granted by the BIR while ₱6.86 million was written off. In 2018, additional provision for impairment loss on input VAT was recognized amounting to ₱1.15 million.

Software and Licenses
Computer software and licenses pertain to the cost of software licenses acquired net of accumulated amortization.

	2018	2017
Cost:		
Balance at beginning of year	**₱106,438,377**	₱98,865,188
Additions	**2,625,156**	5,386,984
Reclassifications (see Note 12)	–	2,186,205
Balance at end of year	**109,063,533**	106,438,377
Accumulated Amortization:		
Balance at beginning of year	**73,911,234**	53,290,347
Amortization	**11,613,855**	17,896,119
Reclassifications (see Note 12)	–	2,724,768
Balance at end of year	**85,525,089**	73,911,234
Net book value	**₱23,538,444**	₱32,527,143

Prepaid Rent
Prepaid rent represents advance payment for the rental of land where the power plant in Nabas, Aklan is located.

Special Deposits
Special deposits mainly pertain to amounts deposited by the Group with NGCP for its transactions related to transmissions of electricity and ancillary services.

14. **Accounts Payable and Accrued Expenses**

	2018	2017
Trade payables	**₱763,071,417**	₱1,360,225,502
Output VAT	**1,794,245,284**	1,682,594,040
Deposit from National Grid Corporation of the Philippines (NGCP; Note 12)	**162,613,404**	162,613,404
Payable to VIGC	**–**	70,000,000
Refundable deposits	**64,916,402**	59,283,475
Accrued expenses:		
Interest	**384,220,408**	328,389,935
Outside services	**147,860,986**	172,449,898
Payables to contractors	**107,923,195**	913,066,709
Employee-related expenses	**94,335,014**	94,406,266
Remittances payable	**88,308,365**	87,008,003
Regulatory fees and other charges	**80,523,724**	47,241,106
Management and professional fees	**9,128,987**	8,960,687
Payables to customers	**–**	1,234,833
Others	**31,469,881**	17,833,623
	₱3,728,617,067	₱5,005,307,481

Trade payables primarily consist of payables to local suppliers for purchases of spare parts, materials and services with payment terms ranging between 30 to 360 days. These are noninterest-bearing.

Output VAT includes operating companies' deferred output VAT on trade receivables amounting to ₱1,464.18 million and ₱1,391.44 million as of December 31, 2018 and 2017, respectively (see Note 5). Deferred output VAT pertains to output VAT on amounts billed to bilateral customers and net settlement with the PEMC, who in turn have not yet collected from their ultimate customers.

Payable to VIGC pertains to the unremitted portion of the deposit for the proposed project site advanced by VIGC (see Note 20g). In December 2018, the amount is used to settle the cash call with LPCI.

Refundable deposits pertain to bill deposits from contestable customers for the estimated maximum distribution and wheeling service billings related to the resale of electricity to contestable customers.

Payables to contractors pertain to the unbilled contract price related to the construction of PEDC 3 payable to Formosa Heavy Industries Corporation and True North Manufacturing Services Corporation.

Accrued regulatory fees and other charges mainly pertain to expenses related to the benefit of host communities as required under the Electric Power Industry Reform Act (EPIRA; see Note 24b).

Payables to customers represent adjustment on WESM prices for the November and December 2013 billings. The settlement of the overpayments on the billings will be remitted by the Group to the customers as these are collected from WESM. The amount payable is extinguished upon termination of the contract with customer in November 2018.

Remittances payable represent statutory payables, contributions and taxes withheld from compensation and income payments to be remitted to the respective government agencies.

Other payables include accruals for rent and utilities, communication charges and travel expenses, among others, incurred related to the current year operations.

15. Long-term Debts

	2018	2017
CEDC		
Tranche A-1 Lenders		
Loans payable to local banks with interest equal to the five-year Philippine Dealing and Exchange Corporation (PDEX) treasury securities benchmark yield plus 200 basis points	**₱1,942,941,176**	₱2,239,411,765
Tranche A-2 Lenders		
Loans payable to local banks with interest equal to the seven-year PDEX treasury securities benchmark yield plus 200 basis points	**1,295,294,118**	1,492,941,176
Tranche B Lenders		
Loans payable to local banks with interest equal to the ten-year PDEX treasury securities benchmark yield plus 200 basis points	**431,764,706**	497,647,059
Tranche C Lenders		
Loans payable to local banks with interest equal to the twelve-year PDEX treasury securities benchmark yield plus 200 basis points	**3,238,235,294**	3,732,352,941
	6,908,235,294	7,962,352,941
General Financing and Corporate Purpose Loan		
Loans payable to local banks with interest equal to the twelve-year PDEX treasury securities benchmark yield plus 200 basis points	**1,073,578,947**	1,226,947,368
	7,981,814,241	9,189,300,309
PEDC (Units 1 and 2)		
Tranche A-1 Lenders		
Loans payable to local banks with interest equal to the seven-year PDEX treasury securities benchmark yield plus 200 basis points	**2,879,867,074**	3,249,822,765
Tranche B Lenders		
Loans payable to local banks with interest equal to the ten-year PDEX treasury securities benchmark yield plus 200 basis points	**1,415,527,884**	1,597,370,513
Tranche C Lenders		
Loans payable to local banks with interest equal to the twelve-year PDEX treasury securities benchmark yield plus 200 basis points	**2,538,187,930**	2,864,250,573
	6,833,582,888	7,711,443,851

(Forward)

	2018	2017
PEDC (Unit 3)		
Tranche A Lenders		
Loans payable to local banks with interest equal to the seven-year Philippine Dealing System Treasury Reference Rates (PDST-R2) treasury securities benchmark yield plus 225 basis points and 200 basis points during construction and post-construction, respectively	**₱9,396,470,588**	₱9,800,000,000
Tranche B Lenders		
Loans payable to local banks with interest equal to the twelve-year PDST-R2 treasury securities benchmark yield plus 225 basis points and 200 basis points during construction and post-construction, respectively	**1,150,588,235**	1,200,000,000
	10,547,058,823	11,000,000,000
TPC		
Loans payable to local banks with interest of Philippine Dealing System Treasury Fixing Rates (PDST-F), plus 200 basis points and 175 basis points during construction and post-construction, respectively	**5,502,777,778**	6,047,222,222
GBPC		
Loans payable to local banks with interest of Philippine Dealing System Treasury Fixing Rates (PDST-R2), plus 100 basis points	**4,500,000,000**	4,500,000,000
	35,365,233,730	38,447,966,382
Less unamortized deferred financing cost	**243,189,436**	305,346,962
	35,122,044,294	38,142,619,420
Less current portion - net of deferred financing cost	**3,477,964,532**	2,589,519,938
	₱31,644,079,762	₱35,553,099,482

CEDC, PEDC and TPC

On June 18, 2009, CEDC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱16,000.00 million to partially finance the construction of the Power Plant. The Agreement includes Project Loan Facility Agreement, Project Accounts Agreement, Mortgage Agreement, Pledge Agreement and Assignment Agreement. Loan balance as of December 31, 2018 and 2017 amounted to ₱6,908.24 million and ₱7,962.35 million, respectively.

In March 2016, CEDC entered into term loan agreements with various lenders for a total credit facility of ₱1,500.00 million to finance CEDC's general financing and corporate requirements. Loan balance as of December 31, 2018 and 2017 amounted to ₱1,073.58 million and ₱1,226.95 million, respectively.

On February 26, 2010, PEDC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱14,000.00 million (the Phase I Facility) to partially finance the on-going construction of the power plant. The Agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. The loan facility shall be paid within 12 years from initial advance and PEDC shall pay interest semi-annually. Loan balance as of December 31, 2018 and 2017 amounted to ₱6,833.58million and ₱7,711.44 million, respectively.

On March 26, 2015, PEDC entered into an Amended and Restated Omnibus Agreement (AROA) with various lenders for an additional aggregate principal amount of up to ₱11,000.00 million (the Phase II Facility) to partially finance the 1x150-MW expansion project. The AROA includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. The loan facility shall be available to PEDC for up to thirty (30) months from loan signing date and will be paid within 12 years from initial advance and PEDC shall pay interest semi-annually. Principal loan balance as of December 31, 2018 and 2017 amounted to ₱10,547.06 million and ₱11,000.00 million, respectively. The project was completed in May 2018 and the first principal payment was done in September 2018 amounting to ₱452.94.

On March 7, 2013, TPC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱7,000.00 million to partially finance the construction of the expansion project. The Agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, and an Assignment Agreement. Loan balance as of December 31, 2018 and 2017 amounted to ₱5,502.78 million and ₱6.047.22 million, respectively.

According to the Agreements, CEDC, PEDC and TPC are required to meet certain financial ratios. CEDC, PEDC and TPC shall maintain a debt-to-equity ratio not exceeding 70:30 at all times until full payment of the obligation. Also, CEDC, PEDC and TPC shall ensure that the core equity must be at least 30% of the total project cost at project completion date and shall at all times be equivalent to at least 30% of the sum of total outstanding loan under the facility and the core equity. Debt-to-equity ratio is the ratio of the total aggregate indebtedness for borrowed money of the borrower and the sum of its equity as of any date of determination. For CEDC and PEDC, core equity includes the equity, paid in equity of third parties provided that if the same is in the form of preferred redeemable shares, redemption must be at the option of the borrower and at terms no more favorable than subordinated loans, outstanding subordinated loans and outstanding shareholder advances of the sponsor to the borrower.

For purposes of computing debt-to-equity ratio, debt represents the aggregate indebtedness for borrowed money.

As of December 31, 2018 and 2017, CEDC, PEDC and TPC and are in compliance with the provisions of the Agreements.

The loans of CEDC, PEDC and TPC shall be paid within 12 years from initial advance. The schedule of repayment follows:

	Percentage
Principal amortization	70
Balloon payment	30
Total	100

Principal repayments amounted to ₱1,207.49 million in 2018 and 2017, for CEDC, ₱1,330.80 million and ₱877.86 million in 2018 and 2017, respectively, for PEDC, and ₱544.45 million in 2018 and 2017 for TPC.

Interest expense, including amortization of deferred financing costs, amounted to ₱733.74 million and ₱853.50 million in 2018 and 2017, respectively, for CEDC.

Interest expense, including amortization of deferred financing cost, in connection with PEDC's Phase I Facility amounted to ₱674.21 million and ₱775.82 million in 2018 and 2017, respectively. Interest expense related to PEDC's Phase II Facility amounted to ₱718.67 million and ₱737.91 million, in 2018 and 2017, respectively. In 2018 and 2017, interest expense and amortization of deferred financing cost amounted to ₱271.23 million and ₱686.73 million, respectively, net of interest income of ₱34.56 million and ₱51.18 million from temporary investments, respectively, were capitalized as part of the project cost. The project for the Phase II facility was completed and accepted in May 2018.

Interest on the long-term debt of TPC amounted to ₱391.34 million and 307.61 million in 2018 and 2017, respectively.

CEDC, PEDC and TPC's loans are secured by (i) a real estate mortgage on all present and future assets, including the parcels of land where their power plants are located (with a total land area of 152,677 square meters and 43,620 square meters for CEDC and TPC, respectively, and 277,681 square meters and 17.37 hectares for PEDC's Phase I and II Facilities, respectively), (ii) chattel mortgage on all present and future movable properties, (iii) pledge agreement on the shares of GFPHI and Abovant in CEDC and shares of PPHC in PEDC, and shareholder advances and subordinated loans, if any, (iv) assignment agreement on CEDC's and PEDC's future revenues and (v) grantee rights of TPC for Special Use Agreement in Protected Areas No. 2008-003 issued by the Department of Environment and Natural Resources (DENR) - Regional Office No. VII on March 18, 2009. Future revenues include, among others, revenues to be received by way of operation, all proceeds of and monies payable to CEDC and PEDC, including those paid as damages for breach, default cancellation, nullification or invalidity (under the Construction Contract, Supervisory Contract, Contract for Supply of Equipment, Coordination Agreement, Land Lease Agreement, Material Lease Contracts, and Insurance cos, collectively, the "Assigned Documents"), and, to the extent not covered by the foregoing, all value (whether in the form of money, securities, assets or otherwise) paid or payable by any Governmental Authority to CEDC and PEDC in whole or partial settlement of claims, whether or not resulting from judicial or administrative proceedings and whether paid or payable within or outside the Philippines, as compensation for or in respect of any compulsory transfer or taking of all or any part of the project, or any assets of CEDC and PEDC, by any Governmental agency or in respect of any invalidity of any Assigned Documents.

The chattel mortgage above shall stand as security for the obligations to the extent of the principal amount of ₱100.00 million, for each of CEDC, PEDC and TPC. All monies received by the Trustee shall be applied in accordance with the Project Accounts Agreement.

As of December 31, 2018 and 2017, the unamortized deferred financing cost incurred in connection with the loans amounting to ₱38.01 million and ₱57.50 million, respectively, for CEDC, ₱166.10 million and ₱202.57 million, respectively, for PEDC Phase, and ₱18.79 million and ₱22.98 million, respectively, for TPC, were presented as deduction from the outstanding balance of the related debt.

Among others, the agreements prohibit CEDC, PEDC and TPC to amend or modify their charter documents if any such amendment or modification would have a material adverse effect; assign or otherwise transfer, terminate, amend, or grant any waiver or forbearance or exercise any election under any material provision of the agreements or project document; make any prepayment, whether voluntary or involuntary, or repurchase of any long-term debt or make any repayment of any such long-term debt other than those allowed in the agreements unless, in any such case, it shall at the option of any lender contemporaneously make a proportionate prepayment or repayment of the principal amount then outstanding of the Lender's outstanding participation in the loan. The agreements also prohibit CEDC, PEDC and TPC to acquire by lease any property or equipment, or to acquire rights-of-way to any property, which may have a material adverse effect; enter into contract of indebtedness except those permitted under the agreement such as indebtedness incurred in the ordinary course of business; and form or have any subsidiaries, advances or investments and issue preferred shares, unless certain conditions are complied with.

Moreover, CEDC, PEDC and TPC are prohibited from entering into contract of merger or consolidation unless CEDC, PEDC and TPC are the surviving entities and after giving effect to such event, no event of default will result), selling, leasing or disposing all or any of its property (unless in the ordinary course of the business) where such conveyance, sale or lease would have a material adverse effect to CEDC, PEDC and TPC.

CEDC, PEDC and TPC are in compliance with the loan covenants as of December 31, 2018 and 2017.

GBPC
On October 5, 2017, the Parent Company entered into a bilateral term loan with various banks in the aggregate principal amount of ₱4,500.00 million to finance its acquisition of a 50% less one share in ATEC. The loan is a fixed rate facility with a 12-year term and quarterly principal repayment commencing three (3) years from the drawdown date. The interest rate is the interpolated 12-year PDST-R2 plus a spread of 100 basis points, with payments on a quarterly basis.

The Parent Company is required to maintain a debt-to-equity ratio not greater than 75:25 until full payment of the obligation. Also, the Parent Company is prohibited from entering into merger or consolidation, unless the Parent Company is the surviving entity.

Events of default include, among others, failure to pay when due the principal and interest due and any other amount payable on account of any funds borrowed in order to cover the amount of the unpaid loan and failure to perform any other material term, obligation or covenant.

If any of the events of default occurs and is continuing, the local banks may:

i. declare the commitment to be terminated, whereupon the obligation of the local banks to make or maintain the loan shall also terminate; and/or

ii. declare the entire unpaid principal amount of the loan then outstanding, all interest accrued and unpaid thereon and all other amounts payable to be due and payable, subject to interest and penalties without presentment, demand, protest or further notice of any kind.

As of December 31, 2018 and 2017, the Parent Company is compliant with the provisions of the loan agreement.

The movements of the deferred financing cost as follows:

	2018	2017
Balances at beginning of year	**₱305,346,962**	₱343,712,962
Additions	–	22,500,000
Amortization	**(62,157,526)**	(60,866,000)
Balances at end of year	**₱243,189,436**	₱305,346,962

Amortization of deferred financing costs related to Phase II Facility amounted to ₱19.87 million and ₱18.77 million, respectively, for the years ended December 31, 2018 and 2017, respectively, for which, capitalized as part of the cost of the power plant asset amounted to ₱8.28 million and ₱18.77 million in 2018 and 2017, respectively.

16. **Provisions**

Provisions for expenses represent provisions for decommissioning costs and for other liabilities with uncertain amount or timing.

Breakdown of provisions for expenses is as follows:

	2018	2017
Decommissioning liability	**₱590,816,646**	₱536,150,105
Provisions for other liabilities	**1,443,070,247**	1,324,740,696
	₱2,033,886,893	₱1,860,890,801

a. Decommissioning liability

The Group recognized its legal obligation to decommission or dismantle its power plants at the end of their useful lives. In this regard, the Group established a provision to recognize its estimated liability for decommissioning.

Movements in the decommissioning liability are as follows:

	2018	2017
Balances at beginning of year	**₱536,150,105**	₱347,592,844
Provision during the year	**39,284,034**	179,563,561
Accretion of decommissioning liability (see Note 19)	**15,382,507**	8,993,700
Balances at end of year	**₱590,816,646**	₱536,150,105

PPC, PEDC, CEDC, TPC and GPRI reassessed the amount of decommissioning liability using a risk-adjusted rate. Accordingly, additional provision of ₱39.28 million and ₱179.56 million were recognized in 2018 and 2017, respectively.

b. Provision for Other Liabilities

The Group recognized provision for liabilities with uncertain amount or timing of actual disbursement. These include regulatory fees and other charges which payment is probable and the amount can be estimated reliably as at reporting date. The management reassesses their estimates on an annual basis to determine the reasonableness of provision. Disclosure of information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* are not provided because of reasons permitted under paragraph 92 of PAS 37. Accordingly, general descriptions are provided.

17. **Revenue from Contracts with Customers**

	2018	2017
Sale of electricity from bilateral contracts (see Note 1)	**₱20,999,318,683**	₱–
RES (see Note 1)	**2,731,195,235**	–
Sale of electricity to spot market (see Notes 1 and 17)	**2,503,229,040**	–
Sale of coal (see Note 1)	**287,149,068**	–
Sale of electricity under PAS 18 (see Note 1)	**–**	23,487,222,509
	₱26,520,892,026	₱23,487,222,509

18. **Power Plant Operations and Maintenance Costs**

	2018	2017
Power plant operations	**₱10,815,945,224**	₱8,751,859,124
Purchased power, distribution and wheeling charges	**2,774,343,387**	1,714,651,566
Repairs and maintenance and others	**727,345,000**	723,539,240
	₱14,317,633,611	₱11,190,049,930

Power plant operations mainly represent costs directly related to consumption of fuel and coal. It also includes cost of coal sold to third parties by GTERC.

Purchased power and distribution and wheeling charges represents cost of replacement power from WESM and distribution and wheeling charges related to retail electricity supply.

Repairs and maintenance and others mainly represent cost of materials and supplies consumed and the cost of restoration and maintenance of the power plants.

19. **Personnel Costs**

	2018	2017
Salaries, wages and others	**₱669,501,752**	₱643,062,401
Employee benefits	**405,729,154**	658,798,537
Retirement benefit expense	**149,150,577**	128,641,961
	₱1,224,381,483	₱1,430,502,899

The Group has a funded retirement plan covering all its employees. The retirement benefits are dependent on the years of service and the respective employees' compensation.

Funded Status

The Group has a trust agreement with MBTC, a trustee bank, to administer the Group's retirement fund under the supervision of the Retirement Committee of the plan. All participating companies have started contributing to the fund in 2015.

The Retirement Plan meets the minimum retirement benefit specified under Republic Act 7641. The Bureau of Internal Revenue (BIR) has approved the Group's Retirement Plan in April 2018.

The components of retirement benefit expense recognized in the consolidated statements of comprehensive income are as follows:

	2018	2017
Service cost	**₱104,751,773**	₱92,617,363
Net interest cost	**44,398,804**	36,024,598
	₱149,150,577	₱128,641,961

Remeasurement effects to be recognized in consolidated other comprehensive income:

	2018	2017
Actuarial gains (losses) on defined benefit obligation	**₱161,358,954**	(₱83,836,612)
Return on assets excluding amount included in net interest cost	**(922,307)**	1,424,932
	₱160,436,647	(₱82,411,680)

The funded status of the Group's retirement benefit obligation is as follows:

	2018	2017
Present value of defined benefit obligation	**₱846,527,727**	₱925,206,455
Fair value of plan assets	**(198,609,946)**	(38,292,571)
Retirement benefit obligation	**₱647,917,781**	₱886,913,884

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

	2018	2017
Balances at beginning of year	**₱925,206,455**	₱771,030,316
Current service cost	**104,751,773**	92,617,363
Interest cost	**50,761,635**	39,570,422
Benefits paid:		
Paid out of Group's plan assets	**(61,918,476)**	(57,902,099)
Paid out of Group's operating funds	**(10,914,706)**	(3,946,159)
Remeasurement (gain) losses resulting from:		
Changes in financial assumptions	**(137,811,464)**	(25,197,590)
Changes in demographic assumptions	**–**	402,167
Experience adjustments	**(23,547,490)**	108,632,035
Balances at end of year	**₱846,527,727**	₱925,206,455

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

	2018	2017
Balances at beginning of year	**₱38,292,571**	₱67,245,875
Interest income included in net interest cost	**6,362,831**	3,545,824
Remeasurement gain (loss) on return on plan assets	**(922,307)**	1,424,932
Contribution to the plan assets	**216,795,327**	23,000,000
Benefits paid - current year retirement	**(61,918,476)**	(57,902,099)
Adjustment on plan asset	**–**	978,039
Balances at end of year	**₱198,609,946**	₱38,292,571
Actual return on plan assets	**₱5,440,524**	₱4,970,756

The fair value of plan assets are comprised of 8.22% cash and cash equivalents, 69.65% investment in government securities, 20.39% investment in quoted securities, 1.44% investment in debt and other securities and 0.30 % miscellaneous receivables in 2018.

The fair value of plan assets are comprised of 11.83% cash and cash equivalents, 68.84% investment in government securities, 11.95% investment in quoted securities, 6.69% investment in debt and other securities and 0.70 % miscellaneous receivables in 2017.

The Plan's assets and investments consist of the following:

- Cash and cash equivalents, which includes regular savings and time deposits;
- Investment in debt and other securities, classified as FA at FVOCI/AFS investment, consisting of long-term corporate loans that bears interest ranging from 4.20% and has maturity of July, 26, 2026;
- Investments in quoted equity instruments, classified as AFS investment, consisting of listed shares of stock which have market prices ranging from ₱1.16 to ₱2,520.21 per share;
- Investments in government securities, classified as AFS investment, consisting of retail treasury bonds that bear interest ranging from 3.24% to 7.52% and have maturities from 4/11/2020 to October 24, 2017; and
- Other financial assets held by the Plan are primarily accrued interest income on cash deposits and debt securities held by the Plan.

Principal actuarial assumptions used to determine retirement benefit obligations were as follows:

	2018	2017
Salary increase rate	**7.00%**	7.00%
Discount rates	**7.31% - 7.59%**	5.62% - 5.78%
Mortality rate	**2017 Philippine Intercompany Mortality Table**	2017 Philippine Intercompany Mortality Table
Disability rate	**1952 Disability Study, Period 2, Benefit 5**	1952 Disability Study, Period 2, Benefit 5
Turnover rate	**A scale ranging from 8% at age 18 to 0% at age 60**	A scale ranging from 8% at age 18 to 0% at age 60

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as of December 31, 2018 and 2017, assuming all other assumptions were held constant:

	Increase (Decrease)	**2018**	2017
Discount rates	+1%	**(₱62,910,990)**	(₱75,538,386)
	-1%	**72,731,377**	88,179,990
Future salary increase rate	+1%	**77,425,459**	91,672,049
	-1%	**(68,096,268)**	(80,018,252)

The Group plans to fund the retirement liability for the total of the amortization of the past service cost and the normal cost. The amortization of the past service cost is determined based on the average expected future service years. The Group expects to contribute ₱210.51 million to the retirement plan in 2019.

The average duration of the defined benefit obligation as of December 31, 2018 and 2017 is 10 to 17 years and 10 to 15 years, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2018:

1 year or less	₱85,092,937
More than 1 year to 5 years	406,955,983
More than 5 years to 10 years	555,849,108
More than 10 years to 15 years	608,784,341
More than 15 years to 20 years	1,030,596,828
More than 20 years	2,777,819,002

20. **Finance Costs and Other Income** - net

	2018	2017
Finance costs - net:		
Interest expense (see Note 15)	**₱2,538,297,302**	₱1,972,879,903
Interest income (see Note 4)	**(314,564,150)**	(165,158,576)
Amortization of discount on long-term receivables (see Note 8)	**(506,120)**	(11,084,983)
Accretion of decommissioning liability (see Note 16)	**15,382,507**	8,993,700
	₱2,238,609,539	₱1,805,630,044

	2018	2017
Other income - net:		
Equity income from associate (see Note 10)	**₱300,726,761**	₱14,466,929
Service fees	**126,240,910**	127,063,446
Claims from contractors	**109,042,614**	–
Dividends (see Note 11)	**32,542,310**	32,542,310
Foreign exchange gain (loss) - net	**26,232,915**	4,582,734
Efficiency gain (loss) on coal consumption (see Note 6)	**24,373,632**	66,539,622
Sales of scrap, sludge and other materials	**11,325,948**	10,362,909
Reimbursement of maintenance costs	**9,000,000**	–
Recovery from insurance	**38,606**	1,639,647
Gain (loss) on disposal of property and equipment	**(514,274)**	935,544
Others - net	**19,785,923**	13,035,128
	₱658,795,345	₱271,168,269

Service fees pertains to fees charged to customers and clients for coal transaction related service.

Claims from contractors were collected on December 5, 2018.

“Others - net” in 2018 and 2017 mainly pertains to revenue from various charges to contractors and freight costs billings to CCC for coal purchases related to ECA, among others.

21. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities, which are under the common control with the reporting enterprises and its key management personnel, directors, or its shareholders. In considering each related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Group has significant transactions with related parties on terms agreed between the parties as follows:

Category	Year	Revenues	Costs	Receivables	Accounts Payable and Accrued Expenses	Dividends Payable	Advances from Stockholders	Terms	Conditions
Stockholders:									
Beacon Power (see Note 21a)	**2018**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,400,000,000**	**₱–**	Noninterest-bearing	Unsecured
	2017	₱–	₱–	₱–	₱–	₱1,400,000,000	₱–		
JG Summit (see Note 21a)	**2018**	**–**	**–**	**–**	**–**	**750,000,000**	**–**	Noninterest-bearing	Unsecured
	2017	–	–	–	–	750,000,000	–		
MGen (see Note 21a)	**2018**	**–**	**–**	**–**	**–**	**350,000,000**	**–**	Noninterest- bearing	Unsecured
	2017	–	–	–	–	350,000,000	–		
Non-controlling shareholders:									
Abovant	**2018**	**–**	**–**	**–**	**–**	**660,000,000**	**–**	Noninterest- bearing	Unsecured
	2017	–	–	–	–	792,000,000	–		
Flatworld	**2018**	**–**	**–**	**–**	**–**	**47,974,000**	**–**	Noninterest- bearing	Unsecured
	2017	–	–	–	–	58,262,400	–		
La Filipina	**2018**	**–**	**–**	**–**	**–**	**119,200,000**	**–**	Noninterest- bearing	Unsecured
	2017	–	–	–	–	60,000,000	–		
Delta Pi	**2018**	**–**	**–**	**–**	**–**	**34,195,500**	**–**	Noninterest- bearing	Unsecured
	2017	–	–	–	–	17,212,500	–		
VIGC (see Note 21b and f)	**2018**	**–**	**–**	**–**	**–**	**–**	**74,010,046**	Noninterest- bearing	Unsecured
	2017	–	–	–	70,000,000	–	149,334,019		
Associates of the ultimate parent:									
MERALCO (see Note 21d)	**2018**	**2,322,615,531**	**5,006,078**	**444,772,656**	**–**	**–**	**–**	Noninterest- bearing	No Impairment
	2017	2,335,997,996	19,787,675	536,004,005	–	–	–		
Smart Communications, Inc (SMART; see Note 21e)	**2018**	**–**	**3,949,193**	**–**	**371,472**	**–**	**–**	Noninterest- bearing	No Impairment
	2017	–	3,981,985	–	255,371	–	–		
Philippine Long Distance Telephone Company (PLDT; see Note 21d)	**2018**	**–**	**3,955,139**	**–**	**310,648**	**–**	**–**	Noninterest- bearing	Unsecured
	2017	–	3,434,700	–	268,843	–	–		
	2018	**₱2,322,615,531**	**₱12,910,410**	**₱444,772,656**	**₱686,120**	**₱3,361,369,500**	**₱74,010,046**		
	2017	₱2,335,997,996	₱27,204,360	₱536,004,005	₱70,524,214	₱3,427,474,900	₱149,334,019		

a. Transactions with Beacon Power, Mgen and JG Summit pertain to dividends declared in 2018 and 2017. (see Notes 1 and 25m).

b. Advances from stockholders pertain to cash received from VIGC for additional advances for future stock subscription to LPCI. In 2018, upon filing and approval of LPCI's increase in authorized capital stock, advances from the shareholder amounting to ₱114.49 million was converted to equity. In December 2018 and 2017, VIGC infused additional advances amounted to ₱39.17 million and ₱34.84 million, respectively. As of December 31, 2018 and 2017, the additional advances for future stock subscription was not yet classified to equity pending filing of the LPCI's application for the increase of authorized capital stock with SEC.

c. The Group's transaction with MERALCO, the parent company of Mgen and an associate of MPIC, pertains to the supply of power in accordance to the EPPA with TPC, PPC and PEDC (see Note 1). Also, it pertains to the purchase of electricity for office requirements of the Group.

d. The Group's transaction with PLDT, a subsidiary of MPIC pertains to the Group's leased lines used to facilitate the easy communication between the plant site and the corporate office.

e. The Group's transaction with SMART, a subsidiary of MPIC, pertains to the mobile phone subscriptions being utilized by the Group's employees.

f. On November 22, 2016, GLEDC entered into a Deed of Assignment of Contract with VIGC for the purchase of five (5) parcels of land in Luna, La Union. On May 26, 2016, VIGC executed a Contract to Sell over the five (5) parcels of land with an aggregate area of 414,095 square meters with the seller. Transaction with VIGC represents downpayment for the purchase of land (see Note 12).

g. The compensation of key management personnel are as follows:

	2018	2017
Salaries and wages	**₱177,198,787**	₱177,198,787
Allowances and benefits	**116,627,788**	116,627,788
	₱293,826,575	₱293,826,575

22. Income Taxes

The provision for current income tax pertains to the RCIT for the Parent Company, GPRI, TPC, CEDC, PEDC, GTERC and GESC and MCIT for PPC and THC for the year ended December 31, 2018. For the year ended December 31, 2017, the provision for current income tax pertains to RCIT for PPC, TPC, GTERC, THC and GESC and MCIT for the Parent Company and GPRI.

In 2018, APVI, GFPHI, GRPC, GHPC, MEDC, CACI, LPCI and PPHC did not have provisions for current income tax due to their gross loss and net taxable loss positions. In 2017, APVI, CEDC, GFPHI, GPRI, GRPC, GHPC, MEDC, PEDC, CACI, LPCI and PPHC did not have provisions for current income tax due to their gross loss and net taxable loss positions.

The reconciliation between provision for income tax computed at the statutory income tax rate with the provision for income tax as shown in the statements of comprehensive income follows:

	2018	2017
Statutory income tax	**₱1,391,397,335**	₱1,494,222,956
Additions to (reductions in) income tax resulting from:		
Income tax subject to tax holiday	**(164,658,812)**	(326,084,085)
Benefit from application of Optional Standard Deduction (OSD)	**(93,408,859)**	–
Equity income from associate	**(90,218,028)**	(4,340,079)
Effect of non-recognition of deferred income tax assets	**85,393,090**	14,774,949
Impairment loss on goodwill	**13,456,716**	26,106,400
Income exempt from income tax or subject to final tax at a lower rate and nondeductible expenses	**(20,976,159)**	3,599,441
Effective income tax	**₱1,120,985,283**	₱1,208,279,582

Deferred income taxes of the companies in the Group that are in deferred income tax assets position consist of the following at December 31:

	2018	2017
Deferred income taxes recognized in profit or loss:		
Deferred income tax assets:		
Retirement benefit obligation and unamortized past service cost	**₱203,932,223**	₱236,993,809
Provisions and accrued expenses	**172,079,594**	199,817,964
Decommissioning liability	**114,666,319**	158,485,884
Net capitalized commissioning income	**103,044,340**	93,722,180
Allowance for impairment losses	**71,429,312**	8,263,402
NOLCO	**65,948,262**	22,813,090
Allowance for probable losses on input VAT	**24,777,783**	24,432,199
MCIT	**8,452,326**	4,110,534
Unamortized discount on receivables	**1,870,211**	2,022,047
Unrealized foreign exchange losses	**504,350**	13,639,539
	766,704,720	764,300,648
Deferred income tax liabilities:		
Capitalized dismantling costs	**67,857,874**	114,248,133
Capitalized borrowing cost	**52,762,478**	55,207,072
Net costs capitalized during construction	**32,620,929**	37,639,534
Unamortized deferred financing cost	**23,125,643**	91,604,089
Capitalized deferred financing cost	**6,280,401**	22,969,834
Unrealized foreign exchange gains	**2,625,692**	2,887,271
	185,273,017	324,555,933
Deferred income tax asset (liability) recognized as other comprehensive income:		
Retirement benefit obligation	**(21,393,246)**	20,816,366
Net deferred income tax assets	**₱560,038,457**	₱460,561,081

Deferred income taxes of the companies in the Group that are in deferred income tax liabilities position consist of the following at December 31:

	2018	2017
Deferred income taxes recognized in profit or loss:		
Deferred income tax assets:		
Retirement benefit obligation and unamortized past service cost	**₱38,493,784**	₱–
Provisions and accrued expenses	**32,598,255**	–
Decommissioning liability	**58,828,515**	–
Allowance for impairment losses	**4,532,282**	–
	134,452,836	–
Deferred income tax liabilities:		
Fair value adjustment on acquisition	**127,950,193**	147,634,839
Capitalized dismantling costs	**49,804,720**	–
Net capitalized commissioning costs	**14,568,879**	–
Unamortized deferred financing cost	**49,831,188**	–
Capitalized deferred financing cost	**18,328,740**	–
Unrealized foreign exchange gains	**2,450,923**	–
	262,934,643	147,634,839
Deferred income tax asset (liability) recognized as other comprehensive income:		
Retirement benefit obligation	**(5,190,521)**	–
Net deferred income tax liability	**₱133,672,328**	₱147,634,839

As of December 31, 2018 and 2017, the Group has unrecognized deferred income tax assets from certain subsidiaries. These deferred income tax assets were not recognized as management believes that it is not likely that the tax benefits of such differences would be realized in the foreseeable future. The details of the Group's unrecognized deferred tax asset on deductible temporary differences are as follows:

	2018	2017
Allowance for impairment losses:		
Receivables	**₱41,011,259**	₱32,377,439
Property, plant and equipment	**1,304,917**	1,709,064
NOLCO	**81,500,059**	10,239,096
Retirement benefit obligation	**6,724,568**	8,376,113
Unamortized past service cost	**1,178,904**	–
Decommissioning liability	**3,750,160**	2,359,148
Accrued expenses	**966,111**	2,238,759
MCIT	–	170,927
Unrealized foreign exchange loss	**282,756**	172
	₱136,718,734	₱57,470,718

Tax Reform for Acceleration and Inclusion (TRAIN) Act

Republic Act No. 10963 or the TRAIN Act was signed into law on December 19, 2017 and took effect on January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

23. Operating Lease Agreements

The Parent Company entered into lease contracts with Federal Land, Inc. (FLI), a subsidiary of GT Capital for the lease of its corporate office located at the 22nd and 19th floor of GT Tower International building. The old lease contract for 22nd floor has expired on July 31, 2018 and renewed for another two years from August 1, 2018 to July 31, 2020. The old contract for the 19th floor (Ayala Wing) has expired in December 2017 and renewed for another three years from January 1, 2018 to December 31, 2020. In 2017, the Parent Company has entered into another lease contract with FLI for an additional area of 343 square meters from April 1, 2017 to March 31, 2020.

Monthly rental aggregated to ₱2.6 million, broken down into ₱1.6 million and ₱1.0 million for the lease of the 22nd floor and 19th floor, respectively. Rent increases by 5% annually starting at the year of commencement of the lease for 22nd and 19th floor. The lease contract is renewable at the option of the Parent Company, on such terms and conditions mutually acceptable to both parties.

GESC and CEDC renewed the lease contracts with MBTC for the lease of its corporate office located at the 15th floor of MBTC Plaza in Fuente, Cebu, commencing on May 1, 2015 and June 1, 2015, respectively, and expiring on April 30, 2017 and May 31, 2018, respectively. Monthly rental amounts to ₱0.03 million and ₱0.15 million, respectively. Rent increases by 10.00% annually starting at the year of commencement of the lease. The lease contracts are renewable at the option of GESC and CEDC, on such terms and conditions mutually acceptable to both parties.

In May 2017, GESC renewed the lease contract with MBTC for a period three years term from May 1, 2017 to April 30, 2020. Monthly rental started from ₱0.07 million and with annual escalation rate of 5%.

In June 2018, CEDC renewed the lease contract with MBTC for three years term from June 1, 2018 to May 31, 2021. Monthly rental started from ₱0.19 million and with annual escalation rate of 5%.

The future minimum lease payments under the non-cancellable operating lease are as follows:

	2018	2017
Within one (1) year	**₱37,644,541**	₱27,199,471
After one (1) year but not more than five (5) years	**26,805,778**	27,830,643
	₱64,450,319	₱55,030,114

Rent expense for the years ended December 31, 2018 and 2017 amounted to ₱37.0 million and ₱32.99 million, respectively.

24. Financial Instruments

Financial Risk Management Objectives and Policies

The main purpose of the Group's financial instruments is to finance its operations. The Group has various financial assets and liabilities such as cash and cash equivalents, short-term investments, receivables, security and special deposits, long-term and notes receivables, AFS investment, accounts payable and accrued expenses, short and long-term debt and dividends payable which arise directly from its operations and investing and financing activities.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group has exposure to equity price risk, credit risk, liquidity risk, and interest rate risk from the use of its financial instruments. The BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Equity Price Risk
Equity price risk is such risk where the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group is exposed to equity securities price risk because of AFS investment held by the Parent Company.

The table below shows the sensitivity to a reasonably possible change in the Philippine Stock Exchange index (PSEi), with all other variables held constant, of the Group's equity (through OCI) due to changes in the carrying value of the Group's AFS investment. The analysis links PSEi changes, which proxies for general market movements, to individual stock prices through their betas. Betas are coefficients depicting the sensitivity of individual prices to market movements.

The sensitivity range is based on the historical volatility of the PSEi for the past year. The analysis is based on the assumption that last year's PSEi volatility will be more or less the same in the following year.

	Percentage change in PSEi	Sensitivity to equity
2018	**Increase by 12.24%**	**₱108,145,957**
	Decrease by 12.24%	**(108,145,957)**
2017	Increase by 12.24%	₱108,145,957
	Decrease by 12.24%	(108,145,957)

Credit Risk
Credit risk represents the loss that the Group would incur if counterparties fail to perform their contractual obligations. The Group established controls and procedures on its credit policy to determine and monitor the credit worthiness of customers and counterparties. Moreover, the EPPAs, RSCs and PSAs with customers include inherent protection clauses, i.e., provisions for interests on unpaid billings, and change in laws/circumstances, among others. The Group's maximum credit risk is equal to the carrying value of the Group's financial assets which consist of cash and cash equivalents, short-term investments, receivables, due from a related party, security and special deposits, long-term and notes receivables and AFS investment. The significant concentration of credit risk relates to receivables from the customers of the Operating Subsidiaries (see Note 1).

The credit quality of financial assets is being managed by the Group using internal credit ratings.

The table below shows the credit quality by class of financial assets based on the Group's rating system as of December 31, 2018 and 2017:

2018

	Neither Past Due Nor Impaired				
	High Grade	**Standard Grade**	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalents[1]					
Unrestricted	**₱9,068,450,172**	**₱–**	**₱–**	**₱–**	**₱9,068,450,172**
Restricted	**2,559,334,649**	**–**	**–**	**–**	**2,559,334,649**
Short term investments	**71,579,824**	**–**	**–**	**–**	**71,579,824**
Receivables[2]					
Trade					
Short-term	**2,617,736,791**	**247,255,385**	**719,725,720**	**582,328,720**	**4,167,046,616**
Long-term					
Long-term notes receivable	**50,000,000**	**–**	**–**	**–**	**50,000,000**
Others	**185,323,388**	**21,270,921**	**195,778,329**	**2,315,201**	**404,687,839**
Security and special deposits		**47,183,673**	**–**	**–**	**47,183,673**
AFS investment	**1,871,885,393**	**–**	**–**	**–**	**1,871,885,393**
	₱16,424,310,217	**₱315,709,979**	**₱915,504,049**	**₱584,643,921**	**₱18,240,168,166**

[1]***Excluding cash on hand***
[2]***Excluding business related advances***

2017

	Neither Past Due Nor Impaired				
	High Grade	Standard Grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents[1]					
Unrestricted	₱13,413,070,134	₱–	₱–	₱–	₱13,413,070,134
Restricted	1,366,837,798	–	–	–	1,366,837,798
Short term investments	445,751,332	–	–	–	445,751,332
Receivables[2]					
Trade					
Short-term	2,751,430,307	276,927,357	205,569,177	327,805,575	3,561,732,416
Long-term	89,627,456	–	–	–	89,627,456
Long-term notes receivable	3,710,000	–	–	–	3,710,000
Others	150,152,815	18,467,233	55,289,262	2,315,201	226,224,511
Security and special deposits	–	48,802,485	–	–	48,802,485
AFS investment	2,686,610,107	–	–	–	2,686,610,107
	₱20,907,188,949	₱344,197,075	₱260,858,439	₱330,120,776	₱21,842,366,239

[1]*Excluding cash on hand*
[2]*Excluding business related advances*

High grade financial assets are those in which the creditor has a high financial capacity to pay its accounts and the account is supported by a collateral or guarantee, such as government guarantee. Standard grade financial assets pertain to accounts of counterparties who have a good history of paying their accounts on time and who have the financial capacity to pay.

The table below shows the aging analysis of past due but not impaired financial assets per class that the Group held as of December 31, 2018 and 2017. A financial asset is past due when a counterparty has failed to make a payment when contractually due.

2018

	Neither past due nor impaired	Past due but not impaired Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Impaired	Total
Cash and cash equivalents[1]							
Unrestricted	**₱9,068,450,172**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱9,068,450,172**
Restricted	**2,559,334,649**	**–**	**–**	**–**	**–**	**–**	**2,559,334,649**
Short term investment	**71,579,824**	**–**	**–**	**–**	**–**	**–**	**71,579,824**
Receivables[2]							
Trade							
Short-term	**2,864,992,176**	**341,922,039**	**13,216,420**	**12,261,056**	**352,326,205**	**582,328,720**	**4,167,046,616**
Long-term							
Long-term notes receivable	**50,000,000**	**–**	**–**	**–**	**–**	**–**	**50,000,000**
Others	**206,594,309**	**50,763,355**	**95,646,854**	**447,529**	**48,920,591**	**2,315,201**	**404,687,839**
Security and special deposits	**47,183,673**	**–**	**–**	**–**	**–**	**–**	**47,183,673**
AFS investment	**1,871,885,393**	**–**	**–**	**–**	**–**	**–**	**1,871,885,393**
	₱16,740,020,196	**₱392,685,394**	**₱108,863,274**	**₱12,708,585**	**₱401,246,796**	**₱584,643,921**	**₱18,240,168,166**

[1]***Excluding cash on hand***
[2]***Excluding business related advances***

2017

	Neither past due nor impaired	Past due but not impaired Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Impaired	Total
Cash and cash equivalents[1]							
Unrestricted	₱13,413,070,134	₱–	₱–	₱–	₱–	₱–	₱13,413,070,134
Restricted	1,366,837,798	–	–	–	–	–	1,366,837,798
Short term investment	445,751,332	–	–	–	–	–	445,751,332
Receivables[2]							
Trade							
Short-term	3,028,357,664	43,195,805	14,524,589	7,930,088	139,918,695	327,805,575	3,561,732,416
Long-term	89,627,456	–	–	–	–	–	89,627,456
Long-term notes receivable	3,710,000	–	–	–	–	–	3,710,000
Others	168,620,048	8,099,581	11,774,704	2,282,701	33,132,276	2,315,201	226,224,511
Security and special deposits	48,802,485	–	–	–	–	–	48,802,485
AFS investment	2,686,610,107	–	–	–	–	–	2,686,610,107
	₱21,251,387,024	₱51,295,386	₱26,299,293	₱10,212,789	₱173,050,971	₱330,120,776	₱21,842,366,239

[1]*Excluding cash on hand*
[2]*Excluding business related advances*

Applicable for the Year Ended December 31, 2018

The Company has the following financial assets that are subject to the expected credit loss model:

General Approach

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

Simplified Approach

- *Receivables (i.e., Trade, Interest Receivable and Others)*. The Group applied the simplified approach under PFRS 9, using a 'provision matrix', in measuring expected credit losses which uses a lifetime expected loss allowance for receivables. The expected loss rates are based on the payment profiles of revenues/sales over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers/counterparties to settle the receivables. The Group has identified the GDP, CPI and unemployment rate in the locations in which it sells its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

No impairment losses resulted from performing collective impairment test, due to the past experience of the Group of realizing receivables within the credit period which help reduce the Group's credit risk exposure in case of default by the customers. As of December 31, 2018, the allowance for impairment losses pertain only to individually impaired accounts amounting ₱584.64 million.

The table below shows the financial assets per stage of allocation and by credit risk rating grades as at December 31, 2018:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
High grade	₱13,806,573,426	₱2,617,736,791	₱–	₱16,424,310,217
Standard grade	–	1,231,214,028	–	1,231,214,028
Default	–	–	584,643,921	584,643,921
Gross carrying amount	13,806,573,426	3,848,950,819	584,643,921	18,240,168,166
Loss allowance	–	–	(584,643,921)	(584,643,921)
Carrying amount	₱13,806,573,426	₱3,848,950,819	₱–	₱17,655,524,245

Liquidity Risk
The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The table below summarizes the maturity profile of the Group's financial liabilities as of December 31, 2018 and 2017 based on contractual undiscounted payments.

2018

	On demand	**Within 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Accounts payable and accrued expenses[1]	**₱–**	**₱1,765,039,434**	**₱–**	**₱–**	**₱1,765,039,434**
Dividends payable	**–**	**3,361,369,500**	**–**	**–**	**3,361,369,500**
Long-term debt:					
Principal	**–**	**3,535,673,828**	**19,189,620,446**	**12,639,939,457**	**35,365,233,731**
Future interest	**–**	**2,209,632,434**	**6,410,963,101**	**2,367,255,903**	**10,987,851,438**
	₱–	**₱10,871,715,196**	**₱25,600,583,547**	**₱15,007,195,360**	**₱51,479,494,103**

[1]*Excluding, payables to employees and statutory payables, and regulatory fees and other charges*

2017

	On demand	Within 1 year	1 to 5 years	More than 5 years	Total
Accounts payable and accrued expenses[1]	₱–	₱3,182,392,360	₱–	₱–	₱3,182,392,360
Dividends payable	–	3,427,474,900	–	–	3,427,474,900
Long-term debt:					
Principal	–	2,629,791,475	21,249,540,232	14,568,634,675	38,447,966,382
Future interest	–	2,389,140,114	7,615,633,753	3,148,355,121	13,153,128,988
	₱–	₱11,628,798,849	₱28,865,173,985	₱17,716,989,796	₱58,210,962,630

[1]*Excluding, payables to employees and statutory payables, and regulatory fees and other charges*

As of December 31, 2018 and 2017, the net financial assets amounting to ₱17,874.32 million and ₱21,388.63 million, respectively, may be used to meet the Group's liquidity needs. Net financial assets excludes uncollected VAT on receivables from sales of power and other services.

Interest Rate Risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposures to the risk of changes in market interest rate relates primarily to its long-term debt obligations with variable interest rates. The Group's loans bear fixed interest rates subject to repricing after a minimum of 5 years for CEDC and PEDC and 7 years for TPC. In April 2018 and March 2017, interest rates of and TPC and PEDC Phase I – Tranche A loans, respectively, were repriced.

The following tables demonstrate management's best estimates of the sensitivity to a reasonably possible change in interest rates, with all variables held constant, of the profit or loss before income tax (through the impact on variable-rate borrowings):

	Increase (decrease) in basis points	**Effect on income before income tax**
2018	**20**	**(₱414,131)**
	(20)	**414,131**

	Increase (decrease) in basis points	Effect on income before income tax
2017	250	(₱65,873,615)
	(250)	65,873,615

There is no other impact on the Group's equity other than those already affecting the consolidated statement of comprehensive income.

Foreign Currency Risk
Foreign Currency Risk Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rate.

The Group uses the Philippine peso as its functional currency and is therefore exposed to foreign exchange movements, primarily in US Dollar ($) currency. The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-Philippine peso currencies. Moreover, the majority of the power sales of the Group are through long-term Electric Power Purchase Agreements which have provisions for passing on fuel costs, including the foreign exchange component, and certain other costs.

The balances of the Group's financial assets and financial liabilities denominated in $ are as follows:

	2018		2017	
	Original Currency (in $)	**Translated (in ₱)**	Original Currency (in $)	Translated (in ₱)
Financial assets				
Cash and cash equivalents	**7,108,065**	**374,765,615**	**6,456,897**	**322,347,686**
Short term investment	–	–	**22,500,000**	**1,273,076,500**
Financial liability				
Trade payable	**1,929,109**	**101,710,327**	**20,596,519**	**1,028,240,018**
Net exposure	**5,178,956**	**273,055,288**	**8,360,378**	**567,184,168**

The following table presents the impact on the Group's income before income tax due to change in the revaluation of its monetary assets and liabilities, brought about by changes in US dollar to peso exchange rate (holding all other variables constant). There is no impact on the Group's equity other than those already affecting income.

	Change in exchange rates in peso against US dollar	Sensitivity to income before income tax
2018	**Strengthens by .51**	**₱2,620,552**
	Weakens by .51	**(2,620,552)**
2017	Strengthens by 1.74	₱9,963,052
	Weakens by 1.74	(9,963,052)

Categories of Financial Instruments

Classification of financial instruments as of December 31, 2018 and 2017:

Financial assets:

	2018		
	FA at Amortized Cost	**FA at FVOCI**	**Total**
Cash and cash equivalents[1]	**₱9,068,450,172**	**₱–**	**₱9,068,450,172**
Restricted Cash	**2,559,334,649**	**–**	**2,559,334,649**
Short-term investments	**71,579,824**	**–**	**71,579,824**
Receivables[2]	**–**	**–**	**–**
Security and special deposits	**5,098,395**	**–**	**5,098,395**
AFS investment	**–**	**1,871,885,393**	**1,871,885,393**
	₱11,704,463,040	**₱1,871,885,393**	**₱13,576,348,433**

[1]*Excluding cash on hand*
[2]*Excluding business related advances*

	2017		
	Loans and Receivables	AFS Investment	Total
Cash and cash equivalents[1]	₱13,413,070,134	₱–	₱13,413,070,134
Short-term investments	445,751,332	–	445,751,332
Restricted Cash	1,366,837,798	–	1,366,837,798
Receivables[2]	4,928,456,016	–	4,928,456,016
Security and special deposits	5,098,395	–	5,098,395
AFS investment	–	2,686,610,107	2,686,610,107
	₱20,159,213,675	₱2,686,610,107	₱22,845,823,782

[1]*Excluding cash on hand*
[2]*Excluding business related advances*

Financial Liabilities:

	2018	2017
Accounts payable and accrued expenses	**₱1,765,039,434**	₱3,182,392,360
Dividends payable	**3,361,369,500**	3,427,474,900
Long-term debt	**46,353,085,169**	51,601,095,370
	₱51,479,494,103	₱58,210,962,630

Fair Value of Financial Instruments

The following table sets forth an analysis of financial asset and financial liability whose carrying values do not approximate their fair values as of December 31, 2018 and 2017:

	Carrying Amount		Fair Value	
	2018	2017	**2018**	2017
Financial Asset:				
Long-term trade receivables	**₱50,000,000**	₱82,887,298	**₱43,765,962**	₱85,279,447
Financial Liability:				
Long-term debt	**35,121,541,517**	38,142,619,419	**33,961,279,920**	39,027,717,622

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Long-term receivables

The estimated fair value is based on the discounted value of the future cash flows using the prevailing interest rate of 6.89% and ranging from 3.13% to 3.77% in 2018 and 2017, respectively.

Long-Term Debt (Bearing Variable Interest)

The carrying amount of long-term debt approximates their fair values because of recent and quarterly re-pricing based on current market rates.

Long-Term Debt (Bearing Fixed Interest)

The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rate ranging from 5.33% to 7.11% and 2.51% to 5.70% in 2018 and 2017, respectively.

The following financial assets and financial liabilities approximate their values as of December 31, 2018 and 2017:

Cash and Cash Equivalents, Short-term Investments, Receivables and Security and Special Deposits

The carrying amounts of cash and cash equivalents, short-term investments, receivables, due from related parties and marginal deposits approximate their fair values due to the short-term maturity of these financial instruments.

AFS Investment

Fair value of AFS investment is based on the quoted market bid prices at the close of business on the reporting date.

Accounts Payable and Accrued Expenses and Dividends Payable

The carrying amounts of accounts payable and accrued expenses and dividends payable, which are all subject to normal trade terms, approximate their fair values due to their short-term nature.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments measured at fair value by valuation technique:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

As of December 31, 2018 and 2017, the Group has quoted AFS investment amounting to ₱1,871.89 million and ₱2,686.61 million, respectively, which is categorized under Level 1 in the fair value hierarchy.

In 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Capital Management

The primary objective of the Parent Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its investments and maximize shareholder value.

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

As discussed in Note 15, the Omnibus Agreements and loan agreements entered into by CEDC, PEDC and TPC require the entities to maintain certain financial ratios.

CEDC, PEDC and TPC shall maintain a debt-to-equity ratio not exceeding 70:30 at all times until full payment of the obligation. CEDC, PEDC and TPC shall likewise ensure that the core capital must be at least 30.00% of the total project cost at project completion date and shall at all times be equivalent to at least 30.00% of the sum of the total aggregate indebtedness for borrowed money and the sum of its equity as of any date of determination.

In 2018 and 2017, the Group was able to comply with the loan covenants.

The following table pertains to the account balances the Group considers as its core capital:

	2018	2017
Capital stock	**₱1,924,020,965**	₱1,924,020,965
Additional paid-in capital	**19,550,064,658**	19,550,064,658
Retained earnings	**2,755,909,762**	2,772,336,544
Long-term and short-term debt	**35,122,044,294**	38,142,619,420
	₱59,352,039,679	₱62,389,041,587

25. **Other Matters**

a. Business Risks

The risks associated with the Group are the business risks associated with the Operating Subsidiaries which include operating risks, environmental matters, permits, political and economic factors and fluctuations in currency exchange rate that affect fuel and oil prices.

Construction risks include shortages of materials and labor, work stoppages and other labor disputes, weather interference, catastrophic events (such as floods, earthquakes and fires), engineering, archaeological, environmental and geological problems, any of which could give rise to delays or cost overruns.

The risks associated with operating the Group include the breakdown or failure of equipment or processes and the performance of the Group below expected levels of output or efficiency.

Prior to open access, the electricity fees charged by the Group are subject to regulation by the ERC created under the EPIRA.

b. EPIRA

Republic Act No. 9136, the EPIRA, which became effective in 2001, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector, which include, among others:

i. The unbundling of the generation, transmission, distribution and supply and other disposable assets of Electric Power Industry Participant, including its contracts with independent power producers and electricity rates;
ii. Creation of a WESM within one year; and
iii. Open and nondiscriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of existing generation and distribution companies within five (5) years from the effectivity of the EPIRA. New generation and distribution companies that started after the effectivity of the EPIRA shall implement their respective public offerings not later than five (5) years from the issuance of their certificate of compliance. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

Based on the assessment of the Operating Subsidiaries, they have complied with the applicable provisions of the EPIRA and its IRR.

c. WESM

In 2011, the Operating Subsidiaries and the PEMC entered into an MPA setting forth the terms and conditions for the eligibility of the entities to participate in the WESM and which allows electricity to be injected into or withdrawn from the Grid.

The Group's spot sales to WESM amounted to ₱2,503.23 million and ₱1,532.86 million in 2018 and 2017, respectively. Also, purchased power from the WESM combined for replacement power and house-load amounted to ₱1,066.52 million and ₱976.80 million in 2018 and 2017, respectively (see Note 18).

d. Clean Air Act

The Clean Air Act and the related IRR contain provisions that have an impact on the industry as a whole and to the Operating Subsidiaries in particular, that needs to be complied with within 44 months from the effectivity date or by July 2004. Based on the assessment made on the Operating Subsidiaries' existing facilities, the Operating Subsidiaries believe that they comply with the provisions of the Clean Air Act and the related IRR.

e. Energy Regulation (ER) 1-94

Based on ER 1-94 and the IRR of the EPIRA, generation companies are mandated to provide benefits to its host communities, equivalent to ₱0.01 per kWh of energy generated and sold. The Operating Subsidiaries accrue the required benefits to their host community (included under "Accounts payable and accrued expenses" account in the consolidated statement of financial position) prospectively from the date of effectivity of ER 1-94. Such amount accrued is remitted to the trust account of the DOE upon their audit. Total accrued benefits amounted to ₱80.52 million and ₱47.24 million as of December 31, 2018 and 2017, respectively (see Note 14).

f. Contingencies

In the ordinary course of business, certain subsidiaries have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of the subsidiaries' protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations.

g. Supply and Equipment Loan Agreement

PPC has a Supply and Equipment Loan Agreement with Shell, whereby Shell will supply PPC's total requirements of petroleum products at prices based on the formula indicated in the agreement. The agreement also provides that Shell will install at PPC's premises the equipment and facilities for the storage and servicing of products purchased at no cost to PPC. The agreement is effective for 15 years and ended until 2013, subject to pricing review every five years. As PPC has not utilized the contracted quantity, the Group's bid committee approved the renewal of the agreement for another 5 years or until the contracted quantity is fully utilized. Under the new contract, pricing is subject to review every year.

h. Long-term Coal Supply Agreements (CSA)

In order to ensure that there is an adequate supply of coal to operate the power plants, the respective operating plants has entered into several long-term contracts with local and foreign coal suppliers. The long-term supply agreements are as follows:

PEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2010 - 2019	New C Index with Forex	300,000 MT
PT Sakti Nusantara Bakti	Indonesia	2017 - 2026	New C Index	150,000 MT
Samtan Co., Ltd.	Indonesia	2011 - 2020	New C Index	150,000 MT
Samsung C&T Corporation	Russian	2016 - 2020	Fixed Price	350,000 MT

CEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2010 - 2019	New C Index with Forex	400,000 MT
PT Adaro	Indonesia	2017 - 2019	New C Index	300,000 MT
Samsung C&T Corporation	Russian	2016 - 2020	Fixed Price	300,000 MT

TPC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2015 - 2018	New C Index with Forex	180,000 MT

Contracts with Semirara and Samsung are still under review for renewal upon agreement of the specific terms and conditions by both parties. The Group management has approved to purchase from the new sources to augment supply of coal to the plants in case contracts with Samsung and Semirara will not be renewed.

i. Transmission Line Maintenance, Substation Maintenance and Information Technology (IT)Audit

CEDC entered into a contract with Vivant Corporation (VC) effective starting January 1, 2012, subject to renewal with VC to conduct transmission line maintenance audit for CEDC's 5.1 km dedicated point to point line from Barangay Daanlungsod, Toledo City to Barangay Talavera, Toledo City and to conduct substation maintenance audit for its substation located at Barangay Daanlungsod, Toledo City and Barangay Talavera, Toledo City with monthly contract rates of ₱1.50 million and ₱1.00 million, respectively.

In addition, CEDC entered into an agreement with Southern Grove Properties and Development Corp. (formerly VC Ventures) for the review of the IT software and hardware utilized by the CEDC in its operations. The monthly contract price is ₱1.00 million.

j. Commitments for Capital Expenditures

In 2014, the Company entered into various contracts with Formosa Heavy Industries Corporation (FHIC), True North Manufacturing Services Corporation (TNMC), Poyry Contracting, Inc., Poyry Switzerland, Ltd., among others, in relation to the PEDC 3 expansion project and site development for the supply of materials, machinery and equipment, and services from local and foreign suppliers. These projects were completed accepted in May 2018. (see Note 12).

k. Advances to Contractors

PEDC has advances to contractors representing payments to Formosa Heavy Industries Corporation and True North Manufacturing Services Corporation for the construction of 1x150-MW power plant PEDC expansion. The advances were applied to the remaining contract balance upon completion of the project in May 2018.

l. Equity

i. *Capital Stock*

The Group has an outstanding capital stock of 1,924,020,965 shares at a par value of ₱1.00 per share as of December 31, 2018 and 2017.

ii. *Dividends*

In November 2018 and December 2017, the BOD of the respective companies, including the Parent Company, approved the declaration of cash dividends to the stockholders of records as of December 31, 2018 and 2017, respectively. The dividends are payable in the following year.

Below are the details of the cash dividend declaration:

	2018		2017	
	Amount	**₱/share**	Amount	₱/share
GBPC	**₱2,500,000,000**	**₱1.30**	₱2,500,000,000	₱1.30
CEDC	**1,500,000,000**	**270.56**	1,800,000,000	324.68
PPHC	**1,490,000,000**	**0.69**	750,000,000	0.34
GFPHI	**830,000,000**	**166.00**	1,008,000,000	201.60

The balance of retained earnings includes the accumulated equity in net earnings of the subsidiary and associates amounting to ₱2,354.60 million and ₱2,510.07 million as at December 31, 2018 and 2017, respectively. Such amounts are not available for distribution until such time that the Parent Company receives the dividends from the subsidiary and associates.

m. Long-Term Notes Receivable

Long-term notes receivable includes PEDC's loan to PECO as assistance to build a sub-transmission line, payable in equal monthly installments within five years commencing on the sixth month after the date of the last release of the loan balance subject to 9% interest per annum. As of December 31, 2018 and 2017, long-term notes receivable from PECO amounted to ₱3.71 million (see Note 8).

n. Notes to Statement of Cash Flows

Noncash investing activities in 2018 and 2017 pertain to additional provisions and reductions in decommissioning liability amounting to ₱39.28 million and ₱179.56 million, respectively. These formed part of adjustments to property, plant, and equipment (see Note 16).

It also includes the capitalization of the amortization of deferred financing costs as part of construction-in-progress amounting to ₱8.28 million and ₱18.77 million in 2018 and 2017, respectively (see Note 15). The Group has an unpaid balance to the contractors which was included as part of property, plant and equipment amounting to ₱107.92 million and ₱913.06 million as of December 31, 2018 and 2017, respectively (see Notes 12 and 13).

Changes in Liabilities arising from Financing Activities

2018

	January 1, 2018	Cash flows	Conversion of Advances to Common Stock	Reclassification of current portion	Amortization of deferred financing costs	Dividend declaration	December 31, 2018
Current portion of long-term loans	**₱2,589,519,941**	**(₱2,629,791,476)**	**₱–**	**₱3,477,964,532**	**₱40,271,538**	**₱–**	**₱3,477,964,532**
Long-term loans - net of current portion	**35,553,099,482**	**(452,941,176)**	**–**	**(3,477,964,532)**	**21,885,988**	**–**	**31,644,079,762**
Dividends payable	**3,427,474,900**	**(3,427,474,900)**	**–**	**–**	**–**	**3,361,369,500**	**3,361,369,500**
Infusion from shareholder	**149,334,019**	**39,167,277**	**(114,491,250)**	**–**	**–**	**–**	**74,010,046**
Total liabilities from financing activities	**₱41,719,428,342**	**(₱6,471,040,275)**	**(₱114,491,250)**	**₱-**	**₱62,157,526**	**₱3,361,369,500**	**₱38,557,423,840**

2017

	January 1, 2017	Cash flows	Reclassification of current portion	Amortization of deferred financing costs	Dividend declaration	December 31, 2017
Current portion of long-term loans	₱2,587,953,442	(₱2,629,791,474)	₱2,570,694,762	₱60,663,211	₱–	₱2,589,519,941
Long-term loans - net of current portion	33,646,091,455	4,477,500,000	(2,570,694,762)	202,789	–	35,553,099,482
Dividends payable	3,147,040,000	(3,147,040,000)	–	–	3,427,474,900	3,427,474,900
Infusion from shareholder	68,136,777	81,197,242	–	–	–	149,334,019
Total liabilities from financing activities	₱39,449,221,674	(₱1,218,134,232)	₱–	₱60,866,000	₱3,427,474,900	₱41,719,428,342

The Group classifies interest paid as cash flows from operating activities.