Aboitiz Power Corporation
₱30,000,000,000.00
Debt Securities Program

Fourth Tranche:
Up to ₱6,000,000,000.00
with an Oversubscription Option
of up to ₱3,550,000,000.00
Series E: 3.125% p.a. Fixed Rate Bonds Due 2022
Series F: 3.935% p.a. Fixed Rate Bonds Due 2025

Offer Price: 100% of Face Value

Intended to be
listed and traded on the
Philippine Dealing & Exchange Corp.

Joint Issue Managers and Joint Lead Underwriters for the Fourth Tranche:

Selling Agents
BPI Capital Corporation
SB Capital Investment Corporation
UnionBank of the Philippines

The date of this Final Prospectus is 17 June 2020

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

(A corporation duly organized and existing under Philippine laws)

ABOITIZ POWER CORPORATION
32nd STREET, BONIFACIO GLOBAL CITY
1634 TAGUIG CITY, METRO MANILA, PHILIPPINES
TELEPHONE NUMBER: (632) 8886-2800

This Final Prospectus (the "Prospectus") relates to the takedown of the fourth tranche of the Philippine Peso-denominated fixed-rate bonds (the "Fourth Tranche Bonds") and the public offer for sale, distribution, and issuance by Aboitiz Power Corporation ("AboitizPower", the "Issuer", or the "Company") of the Fourth Tranche Bonds (the "Offer") under the Company's ₱30,000,000,000.00 Debt Securities Program (the "Debt Securities Program"). The Debt Securities Program was authorized by a resolution of the Board of Directors of the Company dated 23 March 2017. A registration statement was filed by the Company covering bonds with an aggregate principal amount of ₱30,000,000,000.00 applied for shelf registration (the "Bonds") and was rendered effective by the Securities and Exchange Commission ("SEC") by its order dated 19 June 2017 (the "Shelf Registration"). The Shelf Registration's expiry was extended by the SEC to 30 September 2020 in a letter dated 28 May 2020 granting the Issuer's request for exemptive relief. A permit to offer the first tranche of the Bonds with an aggregate principal amount of ₱3,000,000,000.00 (the "Series A Bonds") was issued on 19 June 2017 by the SEC (the "Initial Offer"). The Series A Bonds issued on 03 July 2017 and the Initial Offer were covered by a Prospectus and Offer Supplement dated 16 June 2017. The Series A Bonds have an interest rate of 5.3367%, maturing in 2027. A permit to sell the second tranche of the Bonds with an aggregate principal amount of ₱10,200,000,000.00 (the "Series B and C Bonds") was issued on 11 October 2018 by the SEC. The Series B Bonds has an interest rate of 7.5095% per annum, maturing in 2024, while Series C Bonds has an interest rate of 8.5091% per annum, maturing in 2028. The Series B and Series C Bonds issued on 25 October 2018 were covered by a Prospectus dated 28 August 2018. A permit to sell the third tranche of the Bonds with an aggregate principal amount of ₱7,000,000,000.00 and an oversubscription option of up to ₱5,000,000,000.00, of which ₱250,000,000.00 (the "Series D Bonds") was exercised, was issued by the SEC. The Series "D" Bonds, maturing in 2026, was issued on 14 October 2019 with an interest rate of 5.2757% per annum.

The Offer will consist of the primary offer of an aggregate principal amount of up to ₱6,000,000,000.00 with an oversubscription option of up to ₱3,550,000,000.00 (the "Oversubscription Option"). In case the Oversubscription Option is partly exercised or not exercised at all during the Offer Period (as defined below), the Fourth Tranche Bonds under Oversubscription Option that will not be taken up or exercised during the Offer Period will remain under shelf registration and may be issued in tranches within three years from the date of the effectivity of the registration statement, subject to any extension as may be granted by the SEC (the "Shelf Period").

The Fourth Tranche Bonds will be issued on 06 July 2020 (the "Issue Date") and will be comprised of up to two (2) series, at the discretion of AboitizPower. Series E Bonds shall have a term ending two (2) years from the Issue Date, or on 06 July 2022, with a fixed interest rate of 3.125% per annum (the "Series E Bonds"). Series F Bonds, if any, shall have a term ending five (5) years from the Issue Date, or on 06 July 2025, with a fixed interest rate of 3.935% per annum (the "Series F Bonds"). Series F Bonds shall have optional redemption dates on the third (3rd) year from the Issue Date and on the fourth (4th) year from the Issue Date and if such date is not a Banking Day, on the immediate succeeding Banking Day.[1] Interest on the Fourth Tranche Bonds shall be payable quarterly in arrears on 06 January, 06 April, 06 July, and 06 October of each year while the relevant series of the Fourth Tranche Bonds are outstanding, or the

[1] At the discretion of the Issuer, the Series E Bonds and/or Series F Bonds may each have a term ending two (2) and/or five (5) from the Issue Date.

subsequent Banking Day without adjustment if such Interest Payment Date is not a Banking Day. The last Interest Payment Date shall fall on the relevant Maturity Date while the relevant series of the Fourth Tranche Bonds are outstanding (see "Description of the Offer" – *"Interest"* on page 51 of this Prospectus).

The Fourth Tranche Bonds shall be redeemed at par (or 100% of the face value) on the Maturity Date, unless the Company exercises its early redemption option (see "Description of the Offer" – *"Redemption and Purchase"* on page 52 of this Prospectus).

Upon issuance, the Fourth Tranche Bonds shall constitute direct, unconditional, unsecured and unsubordinated Philippine Peso denominated obligations of the Issuer and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by the Issuer pursuant to Section 5.2 (a) of the Trust Agreement or as may be allowed by the Trust Agreement, and (iii) other Indebtedness (as defined herein) or obligations disclosed by the Issuer to the Trustee as of Issue Date. The Fourth Tranche Bonds shall effectively be subordinated in right of payment to, among others, all of AboitizPower's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines, unless the Issuer procures a waiver of the preference created by such notarization or equally and ratably extend such preference to the Fourth Tranche Bonds. (see "Description of the Offer" – *"Ranking"* on page 51 of this Prospectus).

The Fourth Tranche Bonds have been rated PRS Aaa, with a Stable outlook by PhilRatings on 08 April 2020. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

The Fourth Tranche Bonds are offered to the public at face value through the Joint Issue Managers and Joint Lead Underwriters named in this Prospectus with the Philippine Depository & Trust Corp. (PDTC) as the Registrar of the Fourth Tranche Bonds. The Fourth Tranche Bonds shall be issued in scripless form in minimum denominations of ₱50,000.00 each, and in integral multiples of ₱10,000.00 thereafter. The Fourth Tranche Bonds shall be traded in denominations of ₱10,000.00 in the secondary market.

AboitizPower intends to cause the listing of the Fourth Tranche Bonds on a securities exchange licensed with the SEC and has initiated discussions with the Philippine Dealing & Exchange Corporation (PDEx) for this purpose. However, there can be no assurance that such a listing will actually be achieved either before or after the Issue Date or whether such a listing will materially affect the liquidity of the Fourth Tranche Bonds on the secondary market. Such listing would be subject to the Company's execution of a listing agreement with PDEx that may require the Company to make certain disclosures, undertakings and payments on an ongoing basis.

AboitizPower expects to raise gross proceeds of up to ₱6,000,000,000.00 from the primary offer, and up to ₱9,550,000,000.00 if the Oversubscription Option is fully exercised. The net proceeds from the Offer is estimated to be ₱5,923,969,437.50 from the primary offer of ₱6,000,000,000.00 or ₱9,434,511,187.50 for an issue size of ₱9,550,000,000.00, after fees, commissions, and expenses. Proceeds of the Offer shall be used for AboitizPower's equity contributions to GNPower Dinginin Ltd. Co. in relation to the construction of its 2x668 MW supercritical coal-fired power plant located in Mariveles, Bataan; and for general corporate purposes, which are discussed further in the section entitled *"Use of Proceeds"* on page 39 of this Prospectus. The Joint Issue Managers and Joint Lead Underwriters shall receive an aggregate fee of up to 0.3375% inclusive of GRT on the final aggregate nominal principal amount of the Fourth Tranche Bonds issued, which is inclusive of underwriting fees and selling commissions to be paid.

However, there can be no assurance in respect of: (i) whether AboitizPower would issue the remaining amount of the Bonds, if any, at all; (ii) the size or timing of any individual issuance or the total issuance of such Bonds; or (iii) the specific terms and conditions of any such issuance. Any decision by

AboitizPower to offer such Bonds will depend on a number of factors at the relevant time, many of which are not within AboitizPower's control, including but not limited to: prevailing interest rates, the financing requirements of AboitizPower's business and prospects, market liquidity and the state of the domestic capital market, and the Philippine, regional and global economies in general.

AboitizPower confirms that this Prospectus contains all material information relating to the Company, its affiliates and subsidiaries, as well as all material information on the issue and offering of and the Fourth Tranche Bonds as may be required by the applicable laws of the Republic of the Philippines. No facts have been omitted that would make any statement in this Prospectus misleading in any material respect. AboitizPower confirms that it has made all reasonable inquiries with respect to any information, data and analysis provided to it by its advisors and consultants or which is otherwise publicly available for inclusion into this Prospectus. AboitizPower, however, has not independently verified any or all such publicly available information, data or analysis.

The prices of securities can and do fluctuate. Any individual security may experience upward or downward movements, and may lose all or part of its value over time. The future performance of a security may defy the trends of its past performance, and there may be a significant difference between the buying price and the selling price of any security. As such, there is an inherent risk that losses may be incurred, rather than profit made, as a result of buying and selling securities. Thus, an investment in the Fourth Tranche Bonds described in this Prospectus involves a certain degree of risk.

No representation or warranty, express or implied, is made or given by the Joint Issue Managers and Joint Lead Underwriters, the Trustee or the Registry and Paying Agent or their respective affiliates or legal advisers as to the accuracy, completeness or sufficiency of the information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise, representation or warranty by the Joint Issue Managers and Joint Lead Underwriters, the Trustee or the Registry and Paying Agent or their respective affiliates or legal advisers. This Prospectus is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either the Issuer, the Joint Issue Managers and Joint Lead Underwriters, the Trustee or the Registry and Paying Agent or their respective affiliates or legal advisers that any recipient of this Prospectus should purchase the Fourth Tranche Bonds.

In deciding whether to invest in the Fourth Tranche Bonds, a prospective purchaser of the Fourth Tranche Bonds ("Prospective Bondholder") should, therefore, carefully consider all the information contained in this Prospectus, including but not limited to, several factors inherent to the Company, which includes significant competition, exposure to risks relating to the performance of the economies of other countries, and other risks relating to customer default (detailed in *"Risk Factors and Other Considerations"* section on page 30 of this Prospectus); disclosures made available to the general public in accordance with the relevant rules of the SEC and Philippine Stock Exchange; and those risks relevant to the Philippines vis-à-vis risks inherent to the Fourth Tranche Bonds.

Neither the delivery of this Prospectus nor any sale made pursuant to the Offering shall, under any circumstances, constitute a representation or create any implication that the information contained or referred to in this Prospectus is accurate, complete or correct as of any time subsequent to the date hereof or that there has been no change in the affairs of AboitizPower since the date of this Prospectus.

The contents of this Prospectus are not to be considered as definitive legal, business or tax advice. Each Prospective Bondholder receiving a copy of this Prospectus acknowledges that he has not relied on the Joint Issue Managers and Joint Lead Underwriters, or any person affiliated with the Joint Issue Managers and Joint Lead Underwriters, in his investigation of the accuracy of any information found in this Prospectus or in his investment decision. Prospective Bondholders should consult their own counsel, accountants, or other advisors as to legal, tax, business, financial, and related aspects of the purchase of the Fourth Tranche Bonds, among others. It bears emphasis that investing in the Fourth Tranche Bonds involves certain risks. It is best to refer again to the section on *"Risk Factors and Other Considerations"* on page 37 of this Prospectus for a discussion of certain considerations with respect to an investment in the Fourth Tranche Bonds.

No person nor group of persons has been authorized by AboitizPower, the Joint Issue Managers and Joint Lead Underwriters, to give any information or to make any representation concerning AboitizPower or the Fourth Tranche Bonds other than as contained in this Prospectus and, if given or made, any such other information or representation should not be relied upon as having been authorized by AboitizPower or the Joint Issue Managers and Joint Lead Underwriters.

Each investor in the Fourth Tranche Bonds must comply with all laws applicable to it and must obtain the necessary consent, approvals or permission for its purchase, offer or sale under the laws and regulations in force in any jurisdiction to which it is subject, and neither the Company nor any of the Joint Issue Managers and Joint Lead Underwriters shall have any responsibility therefore. The Fourth Tranche Bonds will be registered and offered exclusively in the Philippines. The distribution of this Prospectus and the offer and sale of the Fourth Tranche Bonds may, in certain jurisdictions, be restricted by law. The Company and the Joint Issue Managers and Joint Lead Underwriters require persons into whose possession this Prospectus comes, to inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any of the securities of the Company in any jurisdiction, to or from any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

AboitizPower is organized under the laws of the Philippines. Its principal office is at 32nd Street, Bonifacio Global City, 1634 Taguig City, Metro Manila, Philippines with telephone number (632) 8886-2800.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED IS TRUE AND CURRENT AS INDICATED THEREIN.

(Space below intentionally left blank. Signature page follows.)

ABOITIZ POWER CORPORATION
By:

EMMANUEL V. RUBIO
President & Chief Executive Officer

SUBSCRIBED AND SWORN to before me this _____ affiant exhibiting to me his Philippine Passport No. P3162364B issued in DFA Manila on 13 September 2019.

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

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FORWARD LOOKING STATEMENTS

This Prospectus contains certain "forward-looking statements". These forward-looking statements can generally be identified by use of statements that include words or phrases such as AboitizPower or its management "believes", "expects", "anticipates", "intends", "plans", "foresees", or other words or phrases of similar import. Similarly, statements that describe AboitizPower's objectives, plans or goals are also forward-looking statements. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from the expectations of AboitizPower include, among others:

- General economic and business conditions in the Philippines;
- The Company's management's expectations and estimates concerning its future financial performance;
- The Company's capital expenditure program and other liquidity and capital resources requirements;
- The Company's level of indebtedness;
- Increasing competition in the industry in which the Company, its Subsidiaries and its Affiliates operate;
- Industry risk, including price and regulatory risk in the areas in which the Company, its Subsidiaries, and its affiliates operate;
- Changes in laws and regulations that apply to the segments or industry in which the Company, its Subsidiaries, and its Affiliates operate;
- Changes in political conditions in the Philippines;
- Inflation in the Philippines and any devaluation of the Philippine Peso;
- The risk factors discussed in this Prospectus as well as other factors beyond the Company's control.

For further discussion of such risks, uncertainties and assumptions, see "*Risk Factors and Other Considerations*" on page 30 of this Prospectus. Prospective purchasers of the Fourth Tranche Bonds are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included herein are made only as of the date of this Prospectus or as otherwise indicated in the relevant portion therein, and AboitizPower undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

None of the Joint Issue Managers and Joint Lead Underwriters take any responsibility for, or gives any representation, warranty or undertaking in relation to, any such forward-looking statement.

DEFINITION OF TERMS

AA Thermal	AA Thermal, Inc.
Aboitiz Group	ACO and the companies or entities in which ACO has a beneficial interest and, directly or indirectly, exercises management control, including, without limitation, AEV, AboitizPower, and their respective Subsidiaries and Affiliates
AboitizLand	Aboitiz Land, Inc.
AboitizPower	Aboitiz Power Corporation also referred to as "AP", the "Company", the "Parent Company" or the "Issuer"
AboitizPower Group or the Group	AboitizPower and its Subsidiaries
Abovant	Abovant Holdings, Inc.
AC Energy	AC Energy, Inc.
ACI	Aboitiz Construction, Inc. (Formerly: Aboitiz Construction Group, Inc.)
ACO	Aboitiz & Company, Inc.
AESI	Aboitiz Energy Solutions, Inc.
AdventEnergy	Adventenergy, Inc.
AEV	Aboitiz Equity Ventures Inc.
AEV Group	AEV and its Subsidiaries
Affiliate	With respect to any Person, any other Person directly or indirectly Controlled, or is under common Control by such Person
Aggregator	Refers to a person or entity, engaged in consolidating electric power demand of end-users in the contestable market, for the purpose of purchasing and reselling electricity on a group basis
AFS	Available-for-Sale
Ambuklao-Binga Hydroelectric Power Plant Complex or the Ambuklao Plant	Refers to SNAP-Benguet's 105- MW Ambuklao Hydroelectric Power Plant located in Bokod, Benguet and 140-MW Binga Hydroelectric Power Plant in Itogon, Benguet
APX1	Aboitiz Power Distributed Energy, Inc.
APX2	Aboitiz Power Distributed Renewables Inc.
APRI	AP Renewables, Inc.
ARI	Aboitiz Renewables, Inc.

Articles of Incorporation and By-Laws	Document filed with the SEC by all corporations organized under the laws of the Philippines which contains the name of the Corporation, it specific purpose, its principal place of business, its corporate term, details of incorporators and directors and the amounts of its authorized capital stock, amount of subscribed capital and paid-up capital stock
AS	Ancillary Services
Aseagas	Aseagas, Inc.
ASEAN	Association of Southeast Asian Nations
ASPA	Ancillary Services Purchase Agreement
Associate	Refers to 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 does not have control or joint control over those policies
Bakun Plant	The 70-MW Bakun run-of-river Hydroelectric Plant of LHC located in Ilocos Sur
Banking Day	Any day other than Saturday, Sunday and public holidays, on which commercial banks and the Philippine Clearing House Corporation are generally open for the transaction of business in Taguig City, Makati City, and the City of Manila; provided, that all other days otherwise specified herein shall mean calendar days which shall be construed as successive periods of twenty-four (24) hours each
BCQ	Bilateral Contract Quantity
BDO	BDO Unibank, Inc.
BDO Capital	BDO Capital & Investment Corporation
BEZ	Balamban Enerzone Corporation
Binga Plant	The 140-MW Binga Hydroelectric Power Plant of SNAP-Benguet located in Itogon, Benguet
BIR	Bureau of Internal Revenue
Bn	Billion
Board	The Board of Directors of AboitizPower, unless context clearly provides otherwise
Bondholder	A Person whose name appears, at any time, as a holder of the Fourth Tranche Bonds in the Register of Bondholders
Bonds	The unsecured fixed-rate peso retail bonds in the aggregate principal amount of up to Thirty Billion Pesos (₱30,000,000,000.00) in several tranches
BPI	Bank of the Philippine Islands
Brownfield	Power generation projects undertaken to expand, rehabilitate, and/or maintain existing assets
BSP	Bangko Sentral ng Pilipinas

Bunker C	A term used to designate the thickest of the residual fuels that is produced by blending oil remaining at the end of the oil-refining process with lighter oil
Business Continuity Plans	Refers to plans formulated in order to address newly identified scenarios triggered by changing risks and issues that the Company faces
Business Unit	A Subsidiary or an Affiliate of AboitizPower
CA	Court of Appeals
CBA	Collective Bargaining Agreement
CBAA	Central Board of Assessment Appeals
CEDC or Cebu Energy	Cebu Energy Development Corporation
CFB	Circulating-Fluidized-Bed
China Bank Capital	China Bank Capital Corporation
CIPDI	Cebu Industrial Park Developers, Inc.
COC	Certificate of Compliance
Consolidated Equity	The total stockholders' equity of the Issuer as recognized and measured in its fiscal year-end audited consolidated financial statements and quarter-end unaudited consolidated financial statements, as may be applicable and available in accordance with Applicable Law, both in conformity with PFRS
Contestable Customer	An electricity end-user who has a choice of a supplier of electricity, as may be determined by the ERC in accordance with RA No. 9136 or the EPIRA
Control	The possession, directly, or indirectly, by a Person of the power to direct or cause the direction of the management and policies of another Person whether through the ownership of voting securities or otherwise; provided, however, that the direct or indirect ownership of over fifty percent (50.0%) of the voting capital stock, registered capital or other equity interest of a Person is deemed to constitute control of that Person, and "Controlling" and "Controlled" have corresponding meanings
Corporation	As defined in the Corporation Code, an artificial being created by operation of law, having the right of succession and the powers, attributes and properties expressly authorized by law or incident to its existence
Corporation Code	Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines, as amended by RA No. 11232, and as may be further amended from time to time, and including the rules and regulations issued thereunder
Cotabato Light	Cotabato Light and Power Company
CPCN	Certificate of Public Convenience and Necessity
CPPC	Cebu Private Power Corporation
CSEE	Contract for the Supply of Electric Energy
CSP	Competitive Selection Process

CSR	Corporate Social Responsibility
Current Ratio	The ratio of total current assets over total current liabilities of the Issuer
Davao Light	Davao Light and Power Company, Inc.
DENR	Department of Environment and Natural Resources
Distribution Companies or Distribution Utilities	BEZ, Cotabato Light, Davao Light, MEZ, SEZ, SFELAPCO, and Visayan Electric
DOE	Department of Energy
DSOAR	Distribution Services and Open Access Rules
DST	Documentary Stamp Tax
DTL	Deferred Income Tax Liabilities
EAUC	East Asia Utilities Corporation
EBITDA	Represents net income after adding provisions for income tax, depreciation, amortization, and net financial expense, and netting out extra-ordinary items such as foreign exchange differential and one-off gains or losses on disposal of major assets. EBITDA is not required by, and is not a measure of performance under, PFRS. Because there are various EBITDA calculation methods, the Group's presentation of these measures may not be comparable to similarly titled measures used by other companies
ECC	Environmental Compliance Certificate
El Paso Philippines	El Paso Philippines Energy Company, Inc.
EMB	Environmental Management Bureau
Enerzone Companies	A term collectively referring to BEZ, LEZ, Malvez, MEZ, and SEZ – AboitizPower's distribution utilities operating within special economic zones
EO	Executive Order
EPC	Engineering, Procurement, and Construction
EPIRA	RA No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001, as may be amended from time to time, and including the rules and regulations issued thereunder
EPPA	Energy Power Purchase Agreement
ERB	Energy Resolution Board
ERC	Energy Regulatory Commission
ERC-IU or IU	Refers to the Investigation Unit of the Energy Regulatory Commission
ESA	Energy Supply Agreement

ESG	Environment, social, and governance
Events of Default	Those events defined as such under the Trust Agreement
Evonik Steag	Evonik Steag GmbH
First Metro	First Metro Investment Corporation
FIT	Feed-in-Tariff
FIT-All	FIT-Allowance
Fourth Tranche Bonds	Consists of up to two (2) series, at the discretion of AboitizPower, with an aggregate principal amount of up to ₱6,000,000,000.00.00, with an Oversubscription Option of up to ₱3,550,000,000.00
Garcia Group	Refers to Vivant Energy Corporation (VEC) and Vivant Integrated Generation Corporation (VIGC)
GCGI	Green Core Geothermal Incorporated
GDP	Gross Domestic Product
Generation Companies or Generation Group	APRI, CEDC, CPPC, EAUC, Hedcor, Hedcor Sibulan, Hedcor Sabangan, Hedcor Tudaya, Hedcor Bukidnon, LHC, RP Energy, SNAP-Benguet, SNAP-Magat, SPPC, STEAG Power, and WMPC
Global Formosa	Global Formosa Power Holdings, Inc.
Global Power	Global Business Power Corporation
GMCP	GNPower Mariveles Coal Plant Ltd. Co.
GNPD or GNPower Dinginin	GNPower Dinginin Ltd. Co.
Government	The Government of the Republic of the Philippines
Government Authority	The Republic of the Philippines, or any political subdivision or agency thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to the said government, and any national agency or body vested with jurisdiction or authority over any Person
Greenfield	Power generation projects that are developed from inception on previously undeveloped sites
Grid	As defined in the Implementing Rules and Regulations of the EPIRA, it is the high voltage backbone system of interconnected transmission lines, substations and related facilities located in each of Luzon, Visayas, and Mindanao or as may be otherwise determined by ERC in accordance with Section 45 of the EPIRA
GWh	Gigawatt-hour, or one mn kilowatt-hours
HEDC	Hydro Electric Development Corporation
Hedcor	Hedcor, Inc.

Hedcor Bukidnon or HBI	Hedcor Bukidnon, Inc.
Hedcor Group	Hedcor, Hedcor Bukidnon, Hedcor Sabangan, Hedcor Sibulan, and Hedcor Tudaya
Hedcor Sabangan	Hedcor Sabangan, Inc.
Hedcor Sibulan	Hedcor Sibulan, Inc.
Hedcor Tudaya	Hedcor Tudaya, Inc.
HEPP	Hydroelectric Power Plant
IAR	Industrial All Risks insurance
IEMOP	Independent Electricity Market Operation of the Philippines, Inc.
IMEM	Interim Mindanao Electricity Market
Indebtedness	(1) All indebtedness or other obligations of the Issuer for borrowed money or for the deferred purchase price of property or services and similar arrangements; (2) All indebtedness or other obligations of any other Person, the payment or collection of which is guaranteed by the Issuer (except by reason of endorsement for collection in the ordinary course of business) or in respect of which the Issuer is liable, contingently or otherwise, including without limitation, any agreement to purchase, to provide funds for payment, to supply funds to or otherwise invest in such Person; and (3) Capitalized lease obligations of the Issuer
IPO	Initial Public Offering
IPP	Independent Power Producer
IPPA	Independent Power Producer Administrator
IRR	Implementing Rules and Regulations
Issue Date	06 July 2020, or such later date as may be mutually determined by the Issuer and the Joint Issue Managers and Joint Lead Underwriters for the issuance of the Fourth Tranche Bonds
Issue Price	At par, which is equal to the face value of the Fourth Tranche Bonds
ITH	Income tax holiday
Joint Issue Managers and Joint Lead Underwriters	BDO Capital, China Bank Capital, and First Metro
Joint Venture	Refers to a type of joint agreement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exist only when decisions about the relevant activities require unanimous consent of the parties sharing control
kV	Kilovolt, or one thousand volts

kW	Kilowatt, or one thousand watts
kWh	Kilowatt-hour, the standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
LBAA	Local Board of Assessment Appeals
LEZ	Lima Enerzone Corporation
LISP	Light & Industry Science Park
LGC	RA No. 7160, otherwise known as the Local Government Code, as may be amended from time to time, and including the rules and regulations issued thereunder
LGU	Local Government Unit
LHC	Luzon Hydro Corporation
LTC	Lima Technology Center
Lien	With respect to any Person, any lien, pledge, mortgage, charge, hypothecation, encumbrance or other security or preferential arrangement on or with respect to any asset or revenue of such Person
Lima Land	Lima Land, Inc.
LTC	Lima Technology Center
Maaraw San Carlos	Maaraw Holdings San Carlos, Inc.
Magat Plant	The Magat Hydroelectric Power Plant of SNAP-Magat located at the border of Isabela and Ifugao provinces
Majority Bondholders	At any time, the relevant Bondholders of the Fourth Tranche Bonds, or a series thereof, who hold, represent or account for at least fifty percent (50%) plus one peso (₱1.00) of the aggregate outstanding principal amount thereof
Malvez	Malvar Enerzone Corporation
Material Adverse Effect	A material adverse effect on the ability of the Issuer to perform or comply with any of its material obligations, or to exercise any of its material rights, under the Trust Agreement, the Underwriting Agreement or the Fourth Tranche Bonds
Master Certificates of Indebtedness	Refers to the certificates representing the Fourth Tranche Bonds sold in the Offer issued to and registered in the name of the Trustee, on behalf of the Bondholders
MEPZ I	Mactan Export Processing Zone I
MEPZ II	Mactan Export Processing Zone II
MEZ	Mactan Enerzone Corporation
MCIAA	Mactan Cebu International Airport Authority

MERALCO	Manila Electric Company
MGen	Meralco PowerGen Corporation
Mn	Million
MOA	Memorandum of Agreement
MORE	Manila-Oslo Renewable Enterprise, Inc.
MSK	Matuwid na Singil sa Kuryente Consumer Alliance, Inc.
MW	Megawatt, or one mn watts
MWh or MW-h	Megawatt-hour
MWp	Megawatt-peak
MVA	Megavolt Ampere
NCR	National Capital Region of the Philippines
NEA	National Electrification Administration
Net Debt	the interest-bearing debt less cash, cash equivalents, and short-term investments of the Issuer
Net Debt to Consolidated Equity Ratio	the ratio of Net Debt to Consolidated Equity
NGCP	National Grid Corporation of the Philippines
NORMIN or Cleanergy	Northern Mini Hydro Corporation, now known as Cleanergy, Inc.
NPC	National Power Corporation
NPPC	Naga Power Plant Complex
NREB	National Renewable Energy Board
NWRB	National Water Resources Board
Offer Period	19 to 26 June 2020
Open Access or RCOA	Retail Competition and Open Access and as defined in EPIRA, refers to the provision of allowing any qualified user the use of transmission, and/or distribution system and associated facilities subject to the payment of transmission and/or distribution retail wheeling rates duly approved by the ERC
Oversubscription Option	Means the Oversubscription option exercisable by the Joint Issue Managers and Joint Lead Underwriters in consultation with the Issuer of up to PHILIPPINE PESOS: THREE BILLION FIVE HUNDRED FIFTY MILLION (₱3,550,000,000.00)
Pagbilao Plant or Pag1 and Pag2	Refers to the 700-MW (2x350 MW) coal-fired thermal power plant located in Pagbilao, Quezon

Pag 3	Refers to a third generating unit with a net capacity of 400 MW within the Pagbilao Plant facilities
PANC	Pilmico Animal Nutrition Corporation
PAO	Provisional Authority to Operate
PASUDECO	Pampanga Sugar Development Corporation
PB 117	Power Barge Mobile 2 owned and operated by Therma Marine, Inc., which have a total generating capacity of 200 MW
PB 118	Power Barge Mobile 1 owned and operated by Therma Marine, Inc., which have a total generating capacity of 200 MW
PBR	Performance-based rate-setting regulation
PCC	Philippine Competition Commission
PCRM	Pricing and Cost Recovery Mechanism
PDEx	Philippine Dealing & Exchange Corp.
PDS	Power Distribution System
PDTC	Philippine Depository & Trust Corp.
PEC	Pagbilao Energy Corporation
PEMC	Philippine Electricity Market Corporation
PEMC Board	PEMC Board of Directors
PEMC-ECO	Enforcement and Compliance Office of the Philippines Electricity Market Corporation
PERA	Personal Equity and Retirement Account
Person	An Individual, corporation, partnership, association, joint stock Company, trust, any unincorporated organization, or a government or political subdivision thereof
PEZA	Philippine Economic Zone Authority
PFRS	Philippine Financial Reporting Standards
PGC	Philippine Grid Code; promulgated by the ERC under the EPIRA, it establishes basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the high-voltage backbone Transmission System in the Philippines
PGPC	Philippine Geothermal Production Company
Philippine Pesos or ₱	The lawful currency of the Philippines
PhilRatings	Philippine Ratings Services Corporation
Pilmico	Pilmico Foods Corporation

PIPPA	Philippine Independent Power Producers Association, Inc.
PIS	Performance Incentive Scheme
Pmax	Maximum power point
Power Partners	Power Partners Ltd. Co.
PPA	Power Purchase Agreement
PPE	Property, Plant, Equipment
Prepayment Penalty	The additional amount the Issuer will pay if it prepays the Series F Bonds and computed as the following amount multiplied by the outstanding amount of the relevant series of the Fourth Tranche Bonds being redeemed: Series F Bonds:

Optional Redemption Dates	Prepayment Penalty
3 years from Issue Date	1.00%
4 years from Issue Date	0.25%

Prospectus	This Final Prospectus relating to the takedown of the Fourth Tranche Bonds and the public offer for sale, distribution, and issuance by AboitizPower
PRISM	Prism Energy, Inc.
PSA	Power Supply Agreement
PSALM	Power Sector Assets and Liabilities Management Corporation
PSC	Power Supply Contract
PSE	The Philippine Stock Exchange, Inc.
Public Offering	Refers to the random or indiscriminate offering of securities in general to anyone who will buy, whether solicited or unsolicited as per the SRC IRR
RA	Republic Act
RAFI	Ramon Aboitiz Foundation, Inc.
RDWR	Rules for Setting Distribution Wheeling Rates
Record Date	The cut-off date in determining Bondholders entitled to receive interest or principal amount due, as used with respect to any Payment Date shall mean the day which is two (2) Banking Days prior to the relevant Interest Payment Date; provided that if such day falls on a non-Banking Day, the Record Date shall be the next Banking Day immediately preceding said date
Register of Bondholders	The electronic register which shows the legal title to the Fourth Tranche Bonds, maintained by the Registrar, pursuant to and under the terms of the Registry and Paying Agency Agreement
Registrar and Paying Agent	Philippine Depository & Trust Corp.

Registration Statement	The application for the registration of securities filed with the SEC as required under the Securities Regulation Code.
Registry and Paying Agency Agreement	Agreement dated 17 June 2020 entered into between the Company and the Registrar and Paying Agent in relation to the Fourth Tranche Bonds
Registry Book	The electronic record of the issuances, sales and transfers of the Fourth Tranche Bonds to be maintained by the Registrar, pursuant to and under the terms of the Registry and Paying Agency Agreement
RE	Renewable Energy
Renewable Energy Act or RE Law	RA No. 9513, otherwise known as the Renewable Energy Act of 2008
REPA	Renewable Energy Payment Agreement
RES	Retail Electricity Supplier
RESA	Retail Electricity Supply Agreement
RORB	Rate on Return Base
RP Energy	Redondo Peninsula Energy, Inc.
RPS	Renewable Portfolio Standard
RPT	Real Property Tax
RTC	Regional Trial Court
RTT	Right-to-Top
Run-of-river hydroelectric plant	Hydroelectric power plant that generates electricity from the natural flow and elevation drop of a river
Sacasun	San Carlos Sun Power, Inc.
SBFZ	Subic Bay Freeport Zone
SBMA	Subic Bay Metropolitan Authority
SAIFI	System Average Interruption Duration Index
SAIDI	System Average Interruption Frequency Index
SC	Supreme Court
SEC	The Securities and Exchange Commission of the Philippines
Selling Agents	Institutions who are authorized under Philippine law to act as such and whose role is to help facilitate the sale and distribution of the Fourth Tranche Bonds. The Selling Agents for this offering are BPI Capital Corporation, SB Capital Investment Corporation and Union Bank of the Philippines.

Series E Bonds	The Fourth Tranche Bonds having a term ending two (2) years from the Issue Date, or on 06 July 2022 (unless otherwise mutually determined by the Issuer and the Joint Issue Managers and Joint Lead Underwriters)
Series F Bonds	The Fourth Tranche Bonds having a term ending five (5) years from the Issue Date, or on 06 July 2025 (unless otherwise mutually determined by the Issuer and the Joint Issue Managers and Joint Lead Underwriters)
SEZ	Subic Enerzone Corporation
SFELAPCO	San Fernando Electric Light and Power Co., Inc.
SHAPES	Safety and Health Association of the Philippines Energy Sector Inc.
Shelf Period	a period of three years from the date of effectivity of the registration statement, subject to any extension as may be granted by the SEC, within which securities under shelf registration may be offered.
Sibulan Project	Two run-of-river hydropower generating facilities tapping the Sibulan and Baroring rivers in Sibulan, Santa Cruz, Davao del Sur
SLA	Service Level Agreements
SN Power	Statkraft Norfund Power Invest AS of Norway
SNAP – Benguet	SN Aboitiz Power – Benguet, Inc. (formerly, SN Aboitiz Power Hydro, Inc.)
SNAP – Magat	SN Aboitiz Power – Magat, Inc.
SN Aboitiz Power Group	Refers to the group of companies formed out of the strategic partnership between AboitizPower and SN Power, and refers to MORE and its Subsidiaries, including, SNAP-Benguet, SN Aboitiz Power-Gen, Inc., SN Aboitiz Power-RES, Inc., and SNAP-Magat
SPC	SPC Power Corporation (formerly Salcon Power Corporation)
Spot Market Price	Price of electricity in the WESM, determined per hourly trading interval
SPPC	Southern Philippine Power Corporation
SPPC Plant	A 55- MW Bunker C-fired power plant owned and operated by SPPC
SRC	RA No. 8799, otherwise known as the Securities Regulation Code of the Philippines, as amended and may be amended from time to time, including the rules and regulations issued thereunder
SRC IRR	2015 Implementing Rules and Regulations of the SRC
STEAG Power	STEAG State Power, Inc.
Stranded Costs	As defined in the EPIRA, the excess of the contracted costs of electricity under eligible contracts over the actual selling price of the contracted energy output under such contracts. Eligible contracts are those approved by the ERB from 31 December 2000 onwards.

Stranded Debt	As defined in the EPIRA, refers to any unpaid financial obligations of the National Power Corporation that have not been liquidated by the proceeds from the sale and privatization of its assets.
Subsidiary	In respect of any Person, any entity (i) over fifty percent (50.0%) of whose capital is owned directly by that Person; or (ii) for which that Person may nominate or appoint a majority of the members of the board of directors or such other body performing similar functions
Tax Code	Presidential Decree No. 1158, otherwise known as the National Internal Revenue Code, as amended and may be further amended from time to time, including the rules and regulations issued thereunder
TCIC	Taiwan Cogeneration International Corporation
TeaM Energy	TeaM Energy Corporation
TeaM Philippines	TeaM Philippines Industrial Power II Corporation (formerly Mirant (Phils.) Industrial Power II Corp.)
THC	Tsuneishi Holdings (Cebu), Inc.
Tiwi-MakBan	Tiwi-MakBan Geothermal Complex, composed of twelve (12) geothermal plants and one (1) binary plant, located in the provinces of Batangas, Laguna and Albay.
TLI	Therma Luzon, Inc.
TMI	Therma Marine, Inc.
TMO	Therma Mobile, Inc.
TPI	Therma Power, Inc.
TPVI	Therma Power Visayas, Inc.
Transaction Date	with respect the incurrence of any loan obligation with a maturity of more than one (1) year, the date such loan obligation is incurred
Transco	National Transmission Corporation and, as applicable, NGCP, which is the Transco concessionaire
Treasury Transaction	any currency, commodity, or interest rate purchase, cap or collar agreement, forward rate agreement, future or option contract, swap or other similar agreement, in relation to the Issuer's treasury management
Trust Agreement	Trust Agreement dated 17 June 2020 entered into between the Company and the Trustee in relation to the Fourth Tranche Bonds
Trustee	BDO Unibank, Inc. – Trust and Investments Group
TRO	Temporary Restraining Order
TSI	Therma South, Inc.
TVI	Therma Visayas, Inc.
TWh	Terawatt-hour

ULGPP	Unified Leyte Geothermal Power Plant
Underwriting Agreement	Underwriting Agreement dated 17 June 2020 entered into between the Company and the Joint Issue Managers and Joint Lead Underwriters in relation to Fourth Tranche Bonds
UnionBank	Union Bank of the Philippines
US$ or USD or U.S. dollar	The lawful currency of the United States of America
VAT	Value Added Tax
VEC	Vivant Energy Corporation
VIGC	Vivant Integrated Generation Corporation
Visayan Electric	Visayan Electric Company, Inc.
Vivant	Vivant Energy Corporation
Vivant Group	Vivant and its Subsidiaries
WCIP – SEZ	West Cebu Industrial Park – Special Economic Zone
WESM	Philippine Wholesale Electricity Spot Market
WESM Rules	The WESM Rules are the basic rules, requirements, and procedures that govern the operation of the Philippine electricity market that are promulgated by the DOE
WMPC	Western Mindanao Power Corporation
WMPC Plant	A 100-MW Bunker C-fired power station in Zamboanga City owned and operated by WMPC
YoY	Year-on-Year

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements and notes thereto appearing elsewhere in this Prospectus. Because it is a summary, it does not contain all of the information that a prospective purchaser should consider before investing. Prospective investors should read the entire Prospectus carefully, including the section entitled "Risk Factors and Other Considerations", and the financial statements and the related notes to those statements included in this Prospectus, and disclosures made available to the general public in accordance with the relevant rules of the SEC and PSE.

The Offering

AboitizPower is offering for subscription and issue to eligible Bondholders the Fourth Tranche Bonds, consisting of up to two (2) series, at the discretion of AboitizPower, with an aggregate principal amount of up to ₱6,000,000,000.00, with an Oversubscription Option of up to ₱3,550,000,000.00. In case the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the Fourth Tranche Bonds under Oversubscription Option that will not be taken up or exercised during the Offer Period will remain under shelf registration and may be issued in tranches within the Shelf Period.

Investment Thesis

AboitizPower is a diversified, and experienced industry leader, with a strong financial position. These competitive strengths allow it to pursue its robust growth initiatives to meet the country's energy needs. Its mission is to provide reliable power, at a reasonable price, with the least possible adverse effects on its environment and host communities.

The Company

AboitizPower is a publicly listed holding company. Its controlling shareholder, AEV, is a diversified conglomerate that is listed on the PSE and has interests in power, banking and financial services, food, infrastructure, and land. This relationship with AEV allows the Company to draw on the extensive business networks, local business knowledge, relationships and expertise of AEV's and the Aboitiz Group's senior managers to identify growth opportunities at an early stage and to capitalize on such opportunities more decisively.

The power generation business of AboitizPower is among the leaders in the Philippines in terms of installed capacity.[2] Moreover, AboitizPower has the second largest distribution utility in terms of captive customer connections and energy sales[3] and the second largest RES company.[4] AboitizPower is a pioneer in building and operation of run-of-river hydropower plants in the country. Today, through its renewable energy Subsidiaries, AboitizPower has the largest renewable energy company installed capacity.[5]

For a full discussion, please refer to the section on *"The Company"* on page 65 of this Prospectus.

History

Incorporated in 1998, AboitizPower has grown to become a leader in the Philippine power industry with interests in a number of privately-owned generation companies and distribution utilities. AEV owns 76.88% of the outstanding capital stock of AboitizPower, as of 31 March 2020.

Ownership in AboitizPower was opened to the public through an IPO of its common shares in July 2007. Its common shares were officially listed in The Philippine Stock Exchange, Inc. (the "PSE") on 16 July 2007. As of 31 March 2020, the Company's market capitalization was at ₱193.5 bn.

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[2] Based on Energy Regulatory Commission (ERC) Resolution No. 5 dated 18 June 2019
[3] Based on DOE's Distribution Development Plan 2016-2025
[4] Based on share in total retail market demand presented in ERC Competitive Retail Electricity Market Monthly Statistical Data as of August 2019
[5] Based on ERC Resolution No. 5 dated 18 June 2019

For a full discussion, please refer to the section on "*The Company*" on page 67 of this Prospectus.

Summary of Financial Information

The summary of financial and operating information presented below as at 31 December 2019 and 2018, and for each of the three years in the period ended 31 December 2019 were derived from the consolidated financial statements of AboitizPower, audited by SyCip Gorres Velayo & Co. ("SGV") and prepared in accordance with Philippine Financial Reporting Standards ("PFRS").

The Group adopted PFRS 16, *Leases*, using the modified retrospective approach with the initial date of application of 01 January 2019. Amounts presented in the balance sheets and statements of income as of, and for the years ended, 31 December 2018 and 2017 are based on PAS 17, *Leases*; IFRIC 4, D*etermining whether an Arrangement contains a Lease*; SIC-15, *Operating Leases-Incentives;* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The comparative financial information for accounts affected by the adoption of PFRS 16 may not be comparable to the information presented as of, and for the year ended, 31 December 2019. Please refer to Note 2 of the Group's audited consolidated financial statements, which are included as an Annex to this Prospectus, for the effect of the adoption of PFRS 16.

Prospective Bondholders should read the summary financial information below together with the AboitizPower's audited consolidated financial statements, including the Notes thereto, presented as an Annex and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 154 of this Prospectus. The information is not necessarily indicative of the results of the future operations.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31		
	2019	2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents	**₱37,433,929**	₱46,343,041	₱35,699,631
Trade and other receivables	**21,747,422**	21,721,776	17,359,828
Derivative assets	**–**	71,583	228,644
Inventories	**6,632,029**	6,690,453	5,643,607
Property held for sale	**–**	675,819	–
Other current assets	**11,083,405**	13,205,935	9,029,886
Total Current Assets	**76,896,785**	88,708,607	67,961,596
Noncurrent Assets			
Investments and advances	**₱60,878,541**	₱34,334,126	₱31,248,595
Property, plant and equipment	**209,521,466**	207,110,412	204,025,303
Intangible assets	**46,712,501**	46,165,494	46,344,658
Derivative assets – net of current portion	**82,327**	221,245	113,297
Available for sale investments	**-**	-	102,999
Financial assets at fair value through profit or loss (FVTPL)	**3,906**	101,441	–
Net pension assets	**68,209**	126,977	56,400
Deferred income tax assets	**2,786,310**	2,233,695	1,406,796
Other noncurrent assets	**13,519,312**	10,660,179	10,217,355
Total Noncurrent Assets	**333,572,572**	300,953,569	293,515,403
TOTAL ASSETS	**₱410,469,357**	₱389,662,176	₱361,476,999
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	**₱10,335,420**	₱11,546,560	4,717,300
Current portions of:			
Long-term debts	**10,386,311**	8,697,404	20,692,751
Lease liabilities	**5,486,745**	4,131,059	3,316,165
Long-term obligation on power distribution system	**40,000**	40,000	40,000
Derivative liabilities	**2,255,736**	159,926	47,577
Trade and other payables	**22,376,120**	21,801,288	19,852,383
Income tax payable	**510,137**	438,783	646,115
Total Current Liabilities	**₱51,390,469**	₱46,815,020	₱49,312,291

(Forward)

	December 31		
	2019	2018	2017
Noncurrent Liabilities			
Noncurrent portions of:			
Long-term debts	**₱167,585,311**	₱149,360,287	₱131,360,749
Lease liabilities	**39,302,899**	42,763,296	45,909,089
Long-term obligation on power distribution system	**159,350**	173,496	186,071
Derivative liabilities – net of current portion	**212,588**	–	–
Customers' deposits	**6,521,469**	6,008,364	6,094,690
Decommissioning liability	**3,567,492**	3,678,810	2,959,060
Deferred income tax liabilities	**848,471**	858,290	912,601
Net pension liabilities	**426,047**	244,857	361,228
Other noncurrent liabilities	**6,812,250**	3,183,089	402,756
Total Noncurrent Liabilities	**₱225,435,877**	₱206,270,489	₱188,186,244
Total Liabilities	**₱276,826,346**	₱253,085,509	₱237,498,535
Equity Attributable to Equity Holders of the Parent			
Paid-in capital	**₱19,947,498**	₱19,947,498	₱19,947,498
Net unrealized loss on AFS investments	**-**	-	(625)
Share in net unrealized valuation gain on fair value through other comprehensive income (FVOCI) of an associate	**101,727**	101,727	124,121
Cumulative translation adjustments	**(994,253)**	525,916	113,637
Share in cumulative translation adjustments of associates and joint ventures	**(153,485)**	321,139	(144,507)
Actuarial losses on defined benefit plans	**(923,833)**	(587,267)	(601,461)
Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures	**(14,299)**	29,729	4,963
Acquisition of non-controlling interests	**(6,321,325)**	(259,147)	(259,147)
Excess of cost of investments over net assets	**(421,260)**	(421,260)	(421,260)
Loss on dilution	**(433,157)**	(433,157)	(433,157)
Retained earnings			
Appropriated	**33,660,000**	34,060,000	34,060,000
Unappropriated	**81,095,377**	74,427,738	63,006,308
	₱125,542,990	₱127,712,916	₱115,396,370
Non-controlling Interests	**8,100,021**	8,863,751	8,582,094
Total Equity	**133,643,011**	136,576,667	123,978,464
TOTAL LIABILITIES AND EQUITY	**₱410,469,357**	₱389,662,176	₱361,476,999

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share Amounts)

	Years Ended December 31		
	2019	2018	2017
OPERATING REVENUES			
Sale of power:			
Generation	**₱55,895,587**	₱61,854,685	₱57,418,126
Distribution	**46,120,403**	44,880,546	43,532,403
Retail electricity supply	**22,805,450**	24,216,767	18,065,832
Technical, management and other fees	**813,717**	620,086	374,942
OPERATING REVENUES	**₱125,635,157**	₱131,572,084	₱119,391,303
OPERATING EXPENSES			
Cost of purchased power	**35,835,144**	36,006,080	35,392,094
Cost of generated power	**35,526,706**	35,674,218	28,557,756
Depreciation and amortization	**9,895,695**	8,681,403	7,596,268
General and administrative	**8,155,366**	8,188,512	7,222,268
Operations and maintenance	**7,366,372**	6,525,189	6,449,188
	₱96,779,283	₱95,075,402	₱85,217,574
FINANCIAL INCOME (EXPENSES)			
Interest income	**1,291,703**	880,085	927,012
Interest expense and other financing costs	**(14,047,646)**	(12,082,158)	(11,247,780)
	₱(12,755,943)	₱(11,202,073)	₱(10,320,768)
OTHER INCOME (EXPENSES)			
Share in net earnings of associates and joint ventures	**3,813,962**	4,356,825	4,697,864
Other income (expenses) – net	**3,483,387**	(1,292,311)	(1,704,000)
	₱7,297,349	₱3,064,514	₱2,993,864
INCOME BEFORE INCOME TAX	**23,397,280**	28,359,123	26,846,825
PROVISION FOR INCOME TAX	**3,215,498**	2,925,623	3,858,398
NET INCOME	**₱20,181,782**	₱25,433,500	₱22,988,427
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱17,322,677**	₱21,707,603	₱20,416,442
Non-controlling interests	**2,859,105**	3,725,897	2,571,985
	₱20,181,782	₱25,433,500	₱22,988,427
EARNINGS PER COMMON SHARE			
Basic and diluted, income for the period attributable to ordinary equity holders of the parent	**₱2.35**	₱2.95	₱2.77

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the parent	**₱17,322,677**	₱21,707,603	₱20,416,442
Non-controlling interests	**2,859,105**	3,725,897	2,571,985
	₱20,181,782	₱25,433,500	₱22,988,427
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:			
Share in net unrealized valuation gains (losses) on AFS investments of an associate	**–**	(22,394)	9,201
Movement in unrealized gain on AFS investments	**–**	–	2,686
Movement in cumulative translation adjustments	**(1,767,498)**	584,087	389,254
Share in movement in cumulative translation adjustment of associates and joint ventures	**(474,624)**	465,646	(16,304)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	**₱(2,242,122)**	₱1,027,339	₱384,837
Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:			
Actuarial losses on defined benefit plans, net of tax	**(329,029)**	8,893	(13,186)
Share in actuarial gains on defined benefit plans of associates and joint ventures, net of tax	**(44,028)**	24,766	6,841
Net other comprehensive gain not to be reclassified to profit or loss in subsequent periods	**₱(373,057)**	₱33,659	₱ (6,345)
Total other comprehensive income (loss) for the period, net of tax	**(2,615,179)**	1,060,998	378,492
TOTAL COMPREHENSIVE INCOME	**₱17,566,603**	₱26,494,498	₱23,366,919
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱14,947,290**	₱22,602,094	₱20,617,187
Non-controlling interests	**2,619,313**	3,892,404	2,749,732
	₱17,566,603	₱26,494,498	₱23,366,919

For a full discussion, please refer to the section on "*Financial And Other Information*" beginning on page 223 of this Prospectus.

Competitive Strengths

The Company believes that its principal strengths are the following:

- Strong track record in both power generation and distribution
- Ability to take advantage of expected strong power market fundamentals
- Power generation contracts that provide steady and predictable cash flow
- Benefits and low operating costs from renewable energy sources
- Dependable and growing sources of income from its power distribution businesses
- Strong financial position and the ability to obtain limited recourse and corporate level financing
- Established relationships with strategic partners
- Strong and experienced management team

For a full discussion, please refer to the section on "*Competitive Strengths*" on page 71 of this Prospectus.

Business Strategy

The Company's business strategy is to increase shareholder value by developing new generation projects, selectively acquiring existing generating facilities, expanding its electricity-related services and continuing to improve the operational efficiency of its existing generation and distribution facilities. More specifically, the Company's strategy includes the following:

- Expand the Company's generation portfolio
- Contract the bulk of the Company's attributable net sellable capacity and leverage the generating portfolio mix
- Expand the scope of the Company's distribution business and continue to improve the operational efficiency of its existing distribution assets
- Maintain a high level of social responsibility in the communities in which the Company operates

For a full discussion, please refer to the section on "*Business Strategy*" beginning page 73 of this Prospectus.

Risks of Investing

An investment in the Fourth Tranche Bonds involves a certain degree of risk. A prospective Bondholder should carefully consider the following factors, in addition to the other information contained in this Prospectus, in deciding whether to invest in the Fourth Tranche Bonds.

Risks related to the Company's business:

- Project Risk
- Regulatory Risk
- Reputation Risk
- Information Security Risk
- Business Interruption Due to Force Majeure, Natural Calamities, and Critical Equipment Breakdown
- Financial Risk
- Competition Risk
- Talent Risk
- Pandemic Risk
- Emerging Risk

Risks Related to the Philippines:

- A slowdown in the Philippines' economic growth could adversely affect the Company
- Any political instability in the Philippines may adversely affect the Company
- Territorial disputes involving the Philippines and its neighboring countries may adversely affect its economy and business development

Risks Related to the Offer:

- Liquidity Risk
- Reinvestment Risk
- Pricing Risk
- Retention of Ratings Risk
- Suitability of Investment
- Bonds have no preference under Article 2244(14) of the Civil Code

For a full discussion, please refer to the section on "*Risk Factors and Other Considerations*" on page 30 of this Prospectus.

This Prospectus contains forward-looking statements that involve risks and uncertainties. AboitizPower adopts what it considers conservative financial and operational controls and policies to manage its business risks. AboitizPower's actual results may differ significantly from the results discussed in the forward-looking statements. See section *"Forward-Looking Statements"* on page 2 of this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of AboitizPower, in particular, and those that pertain to the over-all political, economic, and business environment, in general.

CAPITALIZATION

The table below presents a summary of the short-term debts, long-term debts, and capitalization of the Group as of 31 December 2019 and as adjusted to reflect the issue of the Fourth Tranche Bonds. Estimated net proceeds of ₱5,923,969,437.50 for a ₱6,000,000,000.00 Issue Size, or ₱9,434,511,187.50 for an Issue Size of ₱9,550,000,000.00, will be used for AboitizPower's equity contributions to GNPD in relation to its construction of the 2x668 MW supercritical coal-fired power plant located in Mariveles, Bataan; and for general corporate purposes.

	As of 31-Dec-19	**As adjusted for ₱6 bn issue**	**As adjusted for ₱9.55 bn issue**
		(in ₱ mns)	
Short-term debt			
Short-term loans	10,335	10,335	10,335
Current portions of:			
Long-term Debts	10,386	10,386	10,386
Lease liabilities	5,487	5,487	5,487
Total current debts	26,208	26,208	26,208
Long-term debts – net of current portion			
Non-current portions of:			
Long-term debt	167,585	167,585	167,585
Lease liabilities	39,303	39,303	39,303
The issue of Bonds	–	5,924	9,435
Total long-term debts	206,888	212,812	216,323
Equity			
Equity attributable to equity holders of the parent	125,543	125,543	125,543
Non-controlling interests	8,100	8,100	8,100
Total Equity	133,643	133,643	133,643
Total Capitalization	366,739	372,663	376,174

SUMMARY OF THE OFFERING

The following summary is qualified in its entirety by, and should be read in conjunction with the more detailed information appearing elsewhere in the Prospectus to which it relates.

Issuer	:	Aboitiz Power Corporation
Joint Issue Managers and Joint Lead Underwriters	:	BDO Capital & Investment Corporation China Bank Capital Corporation First Metro Investment Corporation
Trustee	:	BDO Unibank, Inc. – Trust and Investments Group
Registrar and Paying Agent	:	Philippine Depository & Trust Corp.
Issue / Issue Amount	:	SEC–registered fixed rate, Peso-denominated bonds constituting the direct, unconditional, unsecured and unsubordinated obligations of the Issuer consisting of a primary offer in the aggregate principal amount of up to ₱6,000,000,000.00, with an Oversubscription Option of up to ₱3,550,000,000.00 In case the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the Fourth Tranche Bonds under Oversubscription Option that will not be taken up or exercised during the Offer Period will remain under shelf registration and may be issued in tranches within Shelf Period. The Oversubscription Option is exercisable by the Joint Issue Managers and Joint Lead Underwriters in consultation with the Issuer.
Use of Proceeds	:	Proceeds of the Offer will be used for AboitizPower's equity contributions to GNPD in relation to the construction of its 2x668 MW supercritical coal-fired power plant located in Mariveles, Bataan; and for general corporate purposes**,** as more described in the section entitled *"Use of Proceeds"* on page 39 of this Prospectus.
Issue Price	:	100% face value
Manner of Distribution	:	Public Offering
Offer Period	:	The Offer shall commence on 19 June 2020 and end on 26 June 2020.
Issue Date	:	06 July 2020
Maturity Date or Redemption Date	:	Series E Bonds: 2 years from Issue Date Series F Bonds: 5 years from Issue Date Except when the Early Redemption Option (as defined below) is exercised, the Fourth Tranche Bonds will be redeemed at par (or 100% of face value) on the Maturity Date.
Interest Rate	:	Series E Bonds: 3.125% Series F Bonds: 3.935%

Interest Payment Date	:	The Interest shall be paid quarterly in arrears on 06 January, 06 April, 06 July, and 06 Octoberof each year commencing on 06 October 2020, until and including the Maturity Date (each, an "Interest Payment Date"), or the next Banking Day if such dates fall on a non-Banking Day without any adjustment in the amount of interest as originally computed. Interest on the Fourth Tranche Bonds shall be calculated on a 30/360-day basis.
Form and Denomination	:	The Fourth Tranche Bonds shall be issued in scripless form in minimum denominations of ₱50,000.00 each, and in multiples of ₱10,000.00 thereafter.
Early Redemption	:	The Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), the outstanding Series F Bonds (the "Early Redemption Option"), on the Interest Payment Dates specified below (any such date, the "Optional Redemption Date") or the immediately succeeding Banking Day if such date is not a Banking Day, without any adjustment in the amount of interest as originally computed. The amount payable to the Bondholders upon the exercise of the Early Redemption Option by the Issuer shall be calculated based on the principal amount of the relevant Fourth Tranche Bonds being redeemed as the aggregate of the: (i) accrued interest computed from the last Interest Payment Date up to the relevant Optional Redemption Date; and (ii) the product of the principal amount (total outstanding principal amount of the relevant Fourth Tranche Bonds) and the applicable Early Redemption Price (as set out below) in accordance with the following schedule: *Series F Bonds*

Optional Redemption Dates	**Early Redemption Price (Inclusive of Prepayment Penalty)**
3 years from Issue Date	101.00%
4 years from Issue Date	100.25%

The Issuer shall give not less than thirty (30) nor more than sixty (60) days prior written notice of its intention to redeem the Series F Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption on the Optional Redemption Date stated in such notice.

Redemption for Taxation Reasons	:	The Issuer may redeem the Fourth Tranche Bonds in whole, but not in part, on any Interest Payment Date (having given not more than sixty (60) nor less than thirty (30) days' notice to the Trustee) at par plus accrued interest, subject to the requirements of Applicable Law, if payments under the Fourth Tranche Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on Issue Date as a result of certain changes in Applicable Law, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer.

		For avoidance of doubt, the Issuer shall not be liable for the payment of the additional or increased taxes on the income of the Bondholders, which shall be for the account of the Bondholders.
Negative Pledge	:	The Fourth Tranche Bonds shall have the benefit of a negative pledge on all existing and future assets of the Issuer, subject to certain permitted liens, as provided under Section 5.2 (a) of the Trust Agreement.
Purchase and Cancellation	:	The Issuer may at any time purchase any of the Fourth Tranche Bonds at any price in the open market or by tender or by contract, in accordance with PDEx Rules, without any obligation to purchase (and the Bondholders shall not be obliged to sell) Fourth Tranche Bonds pro-rata from all Bondholders. The Fourth Tranche Bonds so purchased will be redeemed and cancelled, and may no longer be reissued. Upon listing of the Fourth Tranche Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.
Status of the Fourth Tranche Bonds	:	The Fourth Tranche Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of the Issuer and shall rank *pari passu* and rateably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law; (ii) any obligation incurred by the Issuer pursuant to Section 5.2 (a) of the Trust Agreement or as may be allowed by the Trust Agreement; and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of Issue Date. The Fourth Tranche Bonds shall effectively be subordinated in right of payment to, among others, all of AboitizPower's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines, unless the Issuer procures a waiver of the preference created by such notarization or equally and ratably extend such preference to the Fourth Tranche Bonds.
Rating	:	The Fourth Tranche Bonds are rated PRS Aaa by PhilRatings.
Listing	:	The Issuer intends to list the Fourth Tranche Bonds in the PDEx on Issue Date.
Non-Reliance		Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that it has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations hereunder, except for its gross negligence or wilful misconduct.

Own Risk	Bondholders understand and acknowledge that investment in the Fourth Tranche Bonds is not covered by the Philippine Deposit Insurance Corporation ("PDIC") and that any loss or depreciation in the value of the assets of the Bondholders, resulting from the investments or reinvestment in the Fourth Tranche Bonds and the regular conduct of the Trustee's trust business shall be for the account of the Bondholder.
Contact Details of the Trustee	BDO Unibank, Inc. – Trust and Investments Group Attention: Michael G. Munsayac Subject: Aboitiz Power Corporation Bonds Due 2022 and 2025 Address: 15th Floor, South Tower BDO Corporate Center. 7899 Makati Avenue, Makati City Facsimile: (632) 8840-7040 E-mail: munsayac.michael@bdo.com.ph

RISK FACTORS AND OTHER CONSIDERATIONS

An investment in the Fourth Tranche Bonds described in this Prospectus involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. There is an extra risk of losing money when securities are bought from smaller companies. Past performance is not a guide to future performance and there may be a large difference between the buying price and the selling price of these securities. Investors deal with a range of investments, each of which may carry a different level of risk. Investors should carefully consider all the information contained in this Prospectus, including the risk factors described below before deciding to invest in the Fourth Tranche Bonds.

This section entitled "Risk Factors and Other Considerations" does not purport to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study the trading of these securities before commencing any trading activity. Investors should seek professional advice regarding any aspect of the securities such as the nature of risks involved in trading of securities, and specifically those high-risk securities. Investors may request publicly available information on the Fourth Tranche Bonds and the Company from the Philippine SEC.

The risks factors discussed in this section are of equal importance and are only separated into categories for easy reference.

RISKS RELATED TO THE COMPANY'S BUSINESS

An integral part of AboitizPower's Enterprise Risk Management process is to anticipate, understand, and mitigate the risks that the Company may encounter in its generation, distribution, and retail electricity supply businesses.

Project Risk

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

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

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

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

Regulatory Risk

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

To anticipate and proactively respond to changes in regulations, the Regulatory Affairs Team of AboitizPower constantly collaborates with DOE and ERC to work towards a sound and sustainable regulatory and policy

environment. Similarly, the Safety, Health, Environment and Security (SHES) Team keeps abreast with environmental laws and coordinates with DENR on matters pertaining to environmental compliance.

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

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

Reputation Risk

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

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

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

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

Information Security Risks

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

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

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

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

Business Interruption due to Force Majeure, Natural Calamities, and Critical Equipment Breakdown

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

Planned maintenance and overall outage management of AboitizPower's generation facilities and its critical equipment and operational technology infrastructure and systems are governed by asset management standards based on global best practice. AboitizPower's generation facilities have all achieved asset management certifications based on ISO 55001:2014 standard. Recently commissioned plants will also be lined up for certification.

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

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

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

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

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

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

Financial Risk

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

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

Aside from the negative impact to the Group's net income, these risks would also constrain any expansion and growth projects. Furthermore, defaulting on existing loans and other financial obligations will consequently put the Company's reputation at risk.

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

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

Competition Risk

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

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

Talent Risk

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

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

Pandemic Risk

In December 2019, a novel coronavirus strain ("COVID-19") emerged in the city of Wuhan, China. Starting in January 2020, the resulting COVID-19 outbreak became a major global concern to countries including the Philippines. On 08 March 2020, President Rodrigo R. Duterte declared a State of Public Health Emergency throughout the Philippines. Thereafter, President Duterte declared a State of Calamity for a period of six (6) months (unless earlier lifted or extended as circumstances may warrant) and imposed an "enhanced community quarantine" throughout the entire island of Luzon from 16 March 2020 until 12 April 2020, which was initially extended until 30 April 2020 and further extended until 15 May 2020. The "enhanced community quarantine" measures include the suspension of work in private sector, except in establishments providing basic necessities and engaged in food and medicine production; suspension of mass public transport facilities; suspension of travel to and from Metro Manila; and observance of strict home quarantine.

On 12 May 2020, Presidential Spokesman Harry Roque announced that Metro Manila, Laguna, and Cebu City will be placed under "modified enhanced community quarantine" until 31 May 2020, while other regions in the Philippines will be placed under "general community quarantine" or "modified general community quarantine". "Modified enhanced community quarantine" measures still include strict stay-at-home measures; however, essential travel is allowed, *i.e.,* to obtain essential goods or to go to work in industries allowed to resume by the government. Industries allowed to operate during the "modified enhanced quarantine" include essential industries like health care, pharmacies, veterinary clinics, food manufacturing and supply chains, and groceries, which can operate at full capacity, while certain manufacturing and processing plants will also be allowed to operate but only at 50% capacity. Meanwhile, the Inter-Agency Task Force for the Management of Emerging Infectious Diseases ("IATF") extended the enhanced community quarantine of Cebu City and Mandaue City until 31 May 2020.

Since the declaration of a State of Public Health Emergency and the implementation of various community quarantine measures on business operations, public transportation, social distancing, international travel bans, and health protocols, the Company has been implementing work-from-home arrangements and facility quarantine rotational duty schemes to address any constrained mobility brought about by the quarantine measures, as well as to ensure the health and safety of the Company's employees while continuing to serve its customers and other stakeholders. To date, all AboitizPower power generation facilities and power distribution utilities have normal operations. The Company's business continuity plans have been successfully implemented to ensure the adequate and reliable supply and distribution of electricity.

Due to the protocols and guidelines for the implementation of community quarantines, as well as the related circulars issued by the DOE, several operational areas have been impacted by the COVID-19 pandemic. While DOE Memorandum dated 14 March 2020 (Ensuring Unimpeded Delivery of Energy Services) and the IATF identification cards issued by the DOE have afforded the Company's employees, suppliers, and service providers the mobility to continue serving customers, perform plant repairs and maintenance, and execute major projects, certain local quarantine guidelines have caused delays in some project schedules and planned maintenance, and other challenges in responding to emergency calls, meter reading, and bill delivery.

The curtailed economic activity brought about by the quarantine measures has resulted in significant drops in electricity demand and consumption which, in turn, have affected the revenue targets of the Distribution Companies, Generation Companies, and RES Business Units. Nevertheless, the Company has been in constant discussions, and has been working together with its customers and other key stakeholders to minimize the impact of the pandemic to the respective parties' power supply agreements.

The Company has also been compliant with the DOE circulars on distribution utilities granting extensions on the payments of electricity consumers for bills falling due during the community quarantine period with the cumulative amount of such electricity bills being amortized in four (4) equal installments payable in the four (4) succeeding billing months following the end of the quarantine. This increased credit and collection risk has posed a challenge to the Company's cash flows.

Such circulars also provide that all private and public corporations in the power sector shall be given a similar grace period for their respective obligations without interest, penalties, fees and charges, as well as the same four (4)-month amortized payment arrangement for all unpaid balances on obligations within the same period. This directive has eased the impact and helped manage the cash flows of AboitizPower Subsidiaries, with respect to all payments due to NGCP, PSALM, IEMOP, independent power producers, and suppliers of oil and steam.

The Company has also been making sure that the fuel supply chain for its plants continues to remain stable, and that the supply of coal, critical spare parts, and services from outside the country continues through a number of options, including alternative local suppliers and service providers.

The Company continues to enable the organization to anticipate and respond accordingly as the COVID-19 situation will require.

Emerging Risks

Embedded in the risk management process is the continuous identification and monitoring of emerging risks. These are newly developing risks that cannot yet be fully assessed (due to high uncertainty) but could have a major impact on an organization in the future. These potential risks could be triggered by the fast-changing landscapes in the political, economic, social, technological, environmental, and legal environs surrounding the Company's operations.

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

Such risks are captured and validated in the semi-annual risk assessment process and during the environmental scans of the annual organizational planning process of AboitizPower. These emerging risks are then communicated to the Group Risk Management Team for further study and analysis, and are reported as part of Risk Management Council and Board Risk Committee regular agenda.

RISKS RELATED TO THE PHILIPPINES

A slowdown in the Philippines' economic growth could adversely affect the Company

Historically, results of operations have been influenced, and will continue to be influenced, to a significant degree by the general state of the Philippine economy, with demand for power, food, financial services and real estate historically being tied to the level of economic activity in the Philippines. As a result, the Company's income and results of operations depend, to a significant extent, on the performance of the Philippine economy. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the peso, and the imposition of exchange controls.

From mid-1997 to 1999, the economic crisis in Asia adversely affected the Philippine economy, causing a significant depreciation of the Philippine Peso, increases in interest rates, increased volatility and the downgrading of the Philippine local currency rating and the ratings outlook for the Philippine banking sector. These factors had a material adverse impact on the ability of many Philippine companies to meet their debt-servicing obligations. Over the last several years, the government instituted several reforms in the fiscal and banking sectors, among others, that strengthened the country's economic fundamentals.

The Philippines enjoys investment grade credit ratings from the following major agencies:

Fitch Ratings - BBB (stable), which was affirmed last July 2018
Standard & Poors - BBB+ (stable) which was granted April 2019
Moody's Investors Service - Baa2 (stable), which was affirmed last July 2018

The Philippine GDP grew by 5.9% in 2019. As identified in the Philippine Development Plan 2017-2022, Philippine GDP growth is expected to strengthen at 7% to 8% in the medium term, making the Philippines one of the faster growing economies of the ASEAN region.

Nonetheless, any deterioration in the Philippine economy may adversely affect consumer sentiment and lead to a reduction in demand for the Company's products. There is no assurance that current or future Government administrations will adopt economic policies conducive to sustaining economic growth.

Historically, the demand for power for the past ten (10) years, has shown an increasing trend. This has been the case despite the volatility in the economic, financial, and political conditions of the country. It may be attributable to the inelasticity of electricity at certain levels wherein essential appliances and industries need to operate. The rising population and remittances from overseas workers will likewise provide a minimum growth in the demand for power.

The foregoing notwithstanding, and as mentioned in the previous section on Pandemic Risk, a series of quarantine measures have been implemented throughout the Philippines to contain the spread of COVID-19. While it is still too early to determine the economic impact of the outbreak to the Philippine economy, the government has indicated implementation of certain monetary and fiscal tools to counter potential adverse economic fallout.

Any political instability in the Philippines may adversely affect the Company

The Philippines has from time to time experienced political, social, and military instability. In the past decade, there has been political instability in the Philippines, including alleged extrajudicial killings, alleged electoral fraud, impeachment proceedings against two (2) former presidents, the chief justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. In addition, a number of current and past officials of the Philippine government are currently under investigation on corruption charges stemming from allegations of misuse of public funds, extortion, and bribery. An unstable political environment may also arise from the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting.

There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy. Likewise, no assurance can be given that the future political or social environment in the Philippines will be stable.

Further, in May 2016, the Philippines elected Duterte as its new president, winning 38.5% of the votes cast. The 2016 elections had a record voter turnout of 81%, the highest in the country's three automated elections. The Duterte administration has unveiled a "10-point plan" which has committed, among others, to "continue and maintain current macroeconomic policies, including fiscal, monetary, and trade policies." As of the last quarter of 2016, President Duterte's approval and trust ratings remained high. The new leadership is currently focused on executing its reform agenda. The Duterte government has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups. The shift to the federal-parliamentary form of government is likewise targeted to be achieved in two years. As of the date of this Prospectus, a consultative committee to review the 1987 Philippine Constitution has already been formed, and has already submitted the first draft of the proposed federal constitution for review of President Rodrigo Duterte. On July 27, 2018, President Rodrigo Duterte signed RA No. 11054, approving the BBL which was renamed to Bangsamoro Organic Law. There is no assurance that current or future Government administrations will adopt economic policies conducive to sustaining economic growth.

In 2018, the Supreme Court also ruled against Maria Lourdes P. Sereno in the quo warranto proceedings initiated by the Office of the Solicitor General, removing her from the post of Chief Justice of the Supreme Court.

The ouster was labelled as political persecution and was heavily marred by controversy as it was not coursed through the constitutional process of impeachment. Following the removal of Chief Justice Sereno, Teresita Leonardo de Castro was appointed as Chief Justice. The current Chief Justice is Diosdado Peralta, who was appointed by President Duterte on 18 October 2019.

In May 2019, the Philippine legislative and local elections were held. Majority of the senatorial candidates endorsed by the administration won the 2019 elections. The senators elected in the 2019 elections will join the senators elected in the 2016 elections. There are allegations of fraud and voter disenfranchisement in the conduct of the 2019 elections.

In general, political or social instability in the Philippines could negatively affect the general economic conditions and business environment in the Philippines, which could have a material adverse effect on the business, operations, and financial position of the Company.

Territorial disputes involving the Philippines and its neighboring countries may adversely affect its economy and business environment

Competing and overlapping territorial claims by the Philippines, China, and several Southeast Asian nations (such as Vietnam, Brunei, Malaysia) over certain islands and features in the West Philippine Sea (South China Sea) have for decades been a source of tension and conflicts. The West Philippine Sea covers more than three million square

kilometers in terms of area and is home to some of the biggest coral reefs of the world. It is also believed that under the seabed lies vast unexploited oil and natural gas deposits. China claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent years dramatically expanded its military presence in the sea which has raised tensions in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at The Hague, Netherlands to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea (UNCLOS). In July 2016, the tribunal rendered a decision stating that "as between the Philippines and China, Mischief Reef and Second Thomas Shoal (in the West Philippine Sea/South China Sea) form part of the exclusive economic zone and continental shelf of the Philippines" and that the "nine-dash line" claim of China is invalid. China rejected the ruling, saying that it did not participate in the proceedings for the reason that the court had no jurisdiction over the case. China was reported to conduct land reclamation activities in the disputed territories, which was completed in 2016. News reports indicate increased Chinese activity in the contested waters, including the installation of missile systems and the deployment of bomber planes. Several countries have conducted Freedom of Navigation operations in the contested waters to challenge China's militarization of artificial features in the West Philippine Sea. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect the Bank's business, financial position and results of operations.

There is no guarantee that the territorial dispute between the Philippines and other countries, including China, would end or that any existing tension will not escalate further, as China has repeatedly announced that it will not honor said ruling. In such event, the Philippine economy may be disrupted and its business and financial standing may be adversely affected.

RISKS RELATED TO THE OFFER

Liquidity Risk

The Philippine securities markets are substantially smaller, less liquid, and more concentrated than major global securities markets. As such, the Company cannot guarantee that the market for the Fourth Tranche Bonds will always be active or liquid. Even if the Fourth Tranche Bonds are listed on the PDEx, trading in securities such as the Fourth Tranche Bonds, may sometimes be subject to extreme volatility in response to interest rates, developments in local and international capital markets and the overall market for debt securities and other factors. There is no assurance that the Fourth Tranche Bonds may be disposed at prices, volumes or at times deemed appropriate by the Bondholders.

Reinvestment Risk

Prior to the Maturity Date, the Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), the outstanding Series F Bonds on the relevant Optional Redemption Dates (see "*Description of The Offer – Optional Redemption*" on page 52 of this Prospectus). In the event that the Company exercises this early redemption option, the Series F Bonds of the Fourth Tranche Bonds will be redeemed and the Company would pay the amounts to which Bondholders would be entitled. Following such redemption and payment, there can be no assurance that investors in the redeemed Fourth Tranche Bonds will be able to re-invest such amounts in securities that would offer a comparative or better yield or terms, at such time.

Pricing Risk

The market value of bonds moves (either up or down) depending on the change in interest rates. The Fourth Tranche Bonds when sold in the secondary market are worth more if interest rates decrease since the Fourth Tranche Bonds have a higher interest rate relative to the market. Conversely, if the prevailing interest rate increases the Fourth Tranche Bonds are worth less when sold in the secondary market. Therefore, an investor faces possible loss if he decides to sell when the prevailing interest rate has increased.

Retention of Ratings Risk

There is no assurance that the rating of the Fourth Tranche Bonds will be retained throughout the life of the Fourth Tranche Bonds. The rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

Suitability of Investment

Each potential investor in the Fourth Tranche Bonds must determine the suitability of that investment in the context of its own distinct circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a satisfactory evaluation of the Fourth Tranche Bonds, the merits and risks of investing in the Fourth Tranche Bonds and the information contained in this Prospectus; (ii) have access to, and knowledge of, relevant analytical tools to evaluate, in the context of its particular financial situation, an investment in the Fourth Tranche Bonds and the impact the Fourth Tranche Bonds will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Fourth Tranche Bonds, including where the currency for principal or interest payments is different from the potential investor's currency; (iv) understand thoroughly the terms of the Fourth Tranche Bonds and be familiar with the behavior of any relevant financial markets; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Fourth Tranche Bonds have no preference under Article 2244(14) of the Civil Code.

The Master Certificate of Indebtedness, which represents the Fourth Tranche Bonds subject of the Offer, shall not be notarized and, thus, will not be deemed a public instrument under Article 2244 (14) of the Civil Code. As such, the Fourth Tranche Bonds shall not enjoy preference under Article 2244 (14) of the Civil Code, unless the Issuer procures a waiver of the preference created by such notarization or equally and ratably extend such preference to the Fourth Tranche Bonds. This is consistent with the status of the Fourth Tranche Bonds as being direct, unconditional, unsecured, and unsubordinated Peso denominated obligations of the Issuer.

USE OF PROCEEDS

The Issue Price shall be at par, which is equal to the face value of the Series E Bonds and the Series F Bonds. AboitizPower expects that the net proceeds of the Fourth Tranche Bonds shall amount to approximately ₱5,923,969,437.50 for a ₱6,000,000,000.00 Issue Size or ₱9,434,511,187.50 for an Issue Size of ₱9,550,000,000.00, assuming full exercise of the Oversubscription Option, and after deducting fees, commissions and expenses.

Based on an Issue Size of ₱6,000,000,000.00

Documentary Stamp Tax	₱45,000,000.00
Issue Management and Underwriting Fees[6]	20,250,000.00
Other Professional Fees	6,384,000.00
SEC Registration Fee	2,566,562.50
Credit Rating Fees	1,440,000.00
Other Expenses (e.g. Trustee Fee, PDEx Listing Fee, Printing Cost, etc.)	390,000.00
Estimated net proceeds of the Issue	₱5,923,969,437.50

Based on an Issue Size of ₱9,550,000,000.00

Documentary Stamp Tax	₱71,625,000.00
Issue Management and Underwriting Fees[7]	32,231,250.00
Other Professional Fees	6,384,000.00
SEC Registration Fee	2,566,562.50
Credit Rating Fees	2,292,000.00
Other Expenses (e.g. Trustee Fee, PDEx Listing Fee, Rating Fee, Printing Cost, etc.)	390,000.00
Estimated net proceeds of the Issue	₱9,434,511,187.50

Aside from the foregoing one-time costs, AboitizPower expects the following annual expenses related to the Fourth Tranche Bonds:

1. Aside from the Listing Application Fee, the Issuer will be charged an annual maintenance fee of ₱150,000.00 charged by the Philippine Dealing and Exchange Corporation, in advance upon the approval of the Listing;

2. The Issuer will pay a yearly retainer fee to the Trustee amounting to ₱180,000.00 per annum;

3. After the Issue, a Paying Agency fee equivalent to 5 basis points of the amount to be paid with a maximum of ₱100,000.00 is payable every Interest Payment Date. The Registrar will charge a monthly maintenance fee based on the face value of the Fourth Tranche Bonds and the number of Bondholders; and

4. The Issuer will pay an annual monitoring fee to Philratings amounting to ₱560,000.00 (VAT inclusive). However, Philratings charges the annual monitoring fee to the Company in relation to all of its bonds outstanding.

The net proceeds of the Offer will be used for AboitizPower's equity contributions to GNPD in relation to GNPD's construction of the 2x668 MW supercritical coal-fired power plant located in Mariveles, Bataan; and for general corporate purposes.

[6] Inclusive of GRT
[7] Inclusive of GRT

The allocation of the proceeds of the Offer, in the order of priority, and the schedule of disbursements shall be as follows:

Oversubscription Option is Not Exercised

	No Oversubscription	Timing of Disbursement
Reimburse Previous Equity Contributions to GNPD through AA Thermal and TPI	₱5.92 bn	Upon receipt of bond proceeds

Oversubscription Option is Fully Exercised

	With Oversubscription	Timing of Disbursement
Reimburse Previous Equity Contributions to GNPD through AA Thermal and TPI	₱6.74 bn	Upon receipt of bond proceeds
Fund Succeeding Equity Infusions in AA Thermal and TPI	2.08 bn	Within 2020 to 2021
General Corporate Purposes	0.61 bn	Within 12 months from issue date
Total	**₱9.43 bn**	

* *Sum figures will differ due to rounding effect*

ABOITIZPOWER'S EQUITY CONTRIBUTIONS TO GNPD

TPI, a wholly owned subsidiary of the Company, has 40% interests in GNPD. On 02 May 2019, the Company completed its acquisition of 49% voting stake and 60% economic stake in AA Thermal which, in turn, also has interests in GNPD, the developer and owner of a 2x668 MW supercritical coal plant project in Mariveles, Bataan that is currently under construction. With the completion of the acquisition of AA Thermal in 2019, the Company's economic interests in GNPD increased to 70%.[8]

Reimburse Equity Contributions to GNPD

Using internal funds, the Company, through AA Thermal and TPI, made the following equity contributions to GNPD to partially finance the construction of the 2x668 MW supercritical coal plant:

	Amount of Equity Contributions to GNPD		
	AA Thermal	TPI	Total
Q3 2018	-	₱66,051,786	₱66,051,786
Q4 2018	-	629,667,850	629,667,850
Q1 2019	-	898,067,996	898,067,996
Q2 2019	67,444,592	908,960,500	976,405,092
Q3 2019	409,706,765	996,891,000	1,406,597,765
Q4 2019	96,766,269	477,414,700	574,180,969
Q1 2020	614,734,558	1,004,168,900	1,618,903,458
Q2 2020	215,254,924	351,618,918	566,873,842
TOTAL	**₱1,403,907,107**	**₱5,332,841,650**	**₱6,736,748,756**

The Company plans to use up to ₱5.92 bn, if the oversubscription option is not exercised, or ₱6.74 bn, if the oversubscription option is fully exercised, of the net proceeds from the Offer to reimburse such equity contributions.

[8] The Company's final economic interests in GNPD will be 70% by ennd of 2020.

Fund Succeeding Equity Infusions in AA Thermal and TPI for Their Respective Shares in the Equity Requirements of GNPD

The net proceeds of the Offer shall also be used by the Company to fund further equity infusions in AA Thermal and TPI in the amount of up to ₱2.08 bn to finance AA Thermal and TPI's respective shares in the equity requirements of GNPD for the construction of its 2x668 MW supercritical power plant.

The Company anticipates that it will be able to disburse the net proceeds of the Offer through the foregoing equity infusions in accordance with the following schedule:

	Amount of Equity Infusions		
	AA Thermal	**TPI**	**Total**
Q3 2020	₱592,663,667	₱968,116,100	₱1,560,779,767
Q4 2020	198,250,761	323,842,618	522,093,380
TOTAL	₱790,914,428	₱1,291,958,718	₱2,082,873,146

The Company expects the completion and subsequent operation of the 2x668MW supercritical coal plant to generate additional cash flows that will allow GNPD to distribute profits to AA Thermal and TPI, which, in turn, may declare dividends to compensate the Company for the capital it contributed for the construction of the GNPD plant.

GENERAL CORPORATE PURPOSES

The balance of proceeds from the Offer shall be used by the Company to fund general corporate purposes, which may include the funding of the working capital requirements of Malvez of up to ₱0.10 bn, Hedcor of up to ₱ 0.37 bn, and Hedcor Bukidnon of up to ₱0.05 bn, as well as for the funding of pre-development costs of the Company's projects of up to ₱0.09 bn. The Company expects to fully disburse the proceeds for such purpose within twelve (12) months from Issue Date. The audited financial statements of Malvez, Hedcor, and Hedcor Bukidnon for the fiscal year ended 2019 are attached as Annexes B, C, and D, respectively.

The foregoing discussion represents a best estimate of the use of proceeds of the Offer based on the Company's current plans and anticipated expenditures. In the event there is any change in the Company's current plans, including force majeure, market conditions and other circumstances, the Company will carefully evaluate the situation and may reallocate the proceeds at the discretion of Management. In the event of any material deviation or adjustment in the planned use of proceeds, the Company shall inform the Bondholders, file an amended prospectus and seek approval of the SEC before its implementation.

Pending the above use of proceeds, the Company shall invest the net proceeds from the Offer in short-term liquid investments including but not limited to short-term government securities, bank deposits, and money market placements which are expected to earn at prevailing market rates.

In the event that the Oversubscription Option is partly exercised or not exercised at all, or in case the Company is not able to raise the full amount of the Offer, the Company shall use internally generated funds and/or available bank lines to the extent the proceeds of the Offer are insufficient to fund the aforementioned equity infusions.

No amount of proceeds shall be used to reimburse any officer, director, employee, or stockholder for services rendered, assets previously transferred, money loaned or advanced, or otherwise. Except for the underwriting fees, issue management fees and expenses related to the Fourth Tranche Bonds, no amount of the proceeds will be utilized to pay any outstanding financial obligation to the Joint Issue Managers and Joint Lead Underwriters.

DETERMINATION OF THE OFFERING PRICE

The Fourth Tranche Bonds shall be issued on a fully-paid basis and at an issue price that is at par.

The interest rate of the Series E Bonds was based on the 3-day average of the 2-year BVAL, as published on the relevant page of Bloomberg, ending on and including the pricing date, plus a spread of 57 basis points.

The interest rate of the Series F Bonds was based on the 3-day average of the 5-year BVAL, as published on the relevant page of Bloomberg, ending on and including the pricing date, plus a spread of 110 basis points.

PLAN OF DISTRIBUTION

THE OFFER

The Fourth Tranche Bonds is offered by the Company as the fourth tranche of the Bonds under the Company's ₱30,000,000,000.00 Debt Securities Program. The Company shall issue the Fourth Tranche Bonds to institutional and retail investors in the Philippines through a public offering to be conducted through the Joint Issue Managers and Joint Lead Underwriters. The Offer does not include an international offering.

Pursuant to the confirmation and certificate of permit to offer securities for sale to be issued by the SEC, the Offer will consist of the primary offer of an aggregate principal amount of up to ₱6,000,000,000.00 with an Oversubscription Option of up to ₱3,550,000,000.00. In case the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the Fourth Tranche Bonds under Oversubscription Option that will not be taken up or exercised during the Offer Period will remain under shelf registration and may be issued in tranches within the Shelf Period.

SHELF REGISTRATION OF SECURITIES NOT COVERED BY THE OFFER

After the close of the Offer and within the Shelf Period, AboitizPower may, at its sole discretion, offer any or all of the remaining balance of the aggregate principal amount of the Bonds in subsequent tranches, including any amount remaining if the Oversubscription Option is partly exercised or not exercised at all. Any such subsequent offering requires the submission by AboitizPower of the relevant updates and amendments to the registration statement and the issuance of the corresponding permit to sell by the SEC. As a listed Company, AboitizPower regularly disseminates such updates and information in its disclosures to the SEC, PDEx, and PSE.

However, there can be no assurance in respect of: (i) whether AboitizPower would issue such Bonds at all; (ii) the size or timing of any individual issuance or the total issuance of such Bonds; or (iii) the specific terms and conditions of such issuance. Any decision by AboitizPower to offer such debt securities will depend on a number of factors at the relevant time, many of which are not within AboitizPower's control, including but not limited to: prevailing interest rates, the financing requirements of AboitizPower's business and prospects, market liquidity and the state of the domestic capital market, and the Philippine, regional and global economies in general.

UNDERWRITING OBLIGATIONS OF THE JOINT ISSUE MANAGERS AND JOINT LEAD UNDERWRITERS

BDO Capital, China Bank Capital, and First Metro, pursuant to the Underwriting Agreement with AboitizPower dated 17 June 2020, have agreed to act as Joint Issue Managers and Joint Lead Underwriters for the Offer and as such, distribute and sell the Fourth Tranche Bonds at the Issue Price. Subject to the satisfaction of certain conditions provided in the Underwriting Agreement and in consideration for certain fees and expenses. The Joint Issue Managers and Joint Lead Underwriters have committed severally and not jointly to underwrite the following amounts on a firm basis:

Joint Issue Managers and Joint Lead Underwriters	Commitment
BDO Capital	₱2,000,000,000.00
China Bank Capital	₱2,000,000,000.00
First Metro	₱2,000,000,000.00
Total	**₱6,000,000,000.00**

The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to AboitizPower of the net proceeds of the Offer. In case the Underwriting Agreement is terminated, the Company shall notify SEC of the termination and its subsequent course of action.

BDO Capital & Investment Corporation, China Bank Capital Corporation and First Metro Investment Corporation are the Joint Issue Managers and Joint Lead Underwriters for the Offer.

The Joint Issue Managers and Joint Lead Underwriters shall receive an aggregate fee of up to 0.3375% inclusive of GRT on the final aggregate nominal principal amount of the Fourth Tranche Bonds issued, which is inclusive of underwriting fees, issue management fees and selling commissions to be paid to selling agents. There are no other discounts and commissions to be paid to the Joint Issue Managers and Joint Lead Underwriters in connection with the Offer.

The Joint Issue Managers and Joint Lead Underwriters are duly licensed by the SEC to engage in underwriting or distribution of securities. The Joint Issue Managers and Joint Lead Underwriters may, from time to time, engage in transactions with and perform services in the ordinary course of its business for AboitizPower.

The Joint Issue Managers and Joint Lead Underwriters have no direct relations with AboitizPower in terms of ownership by either of their respective majority shareholder/s and have no right to designate or nominate any member of the Board.

BDO Capital, one of the Joint Issue Managers and Joint Lead Underwriters is a subsidiary of BDO Unibank, Inc. which serves as the Trustee.

The Joint Issue Managers and Joint Lead Underwriters have no contract or other arrangement with the Company by which it may return to the Company any unsold Bonds.

BDO Capital is a leading investment bank in Philippines and was incorporated in the Philippines on 8 September 1998 as a wholly owned subsidiary of BDO Unibank, Inc. BDO Capital presently conducts business as a full service investment house with the following functions, among others: securities underwriting and trading; loan syndication; financial advisory; and private placement of debt and equity. As of 31 December 2019, it had total assets of ₱3.89 bn, total liabilities of ₱0.29 bn and total equity of ₱3.60 bn.

First Metro is a leading investment bank in the Philippines with over fifty years of service in the development of the country's capital markets. It is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the country. First Metro and its subsidiaries offer a wide range of services, from debt and equity underwriting to loan syndication, project finance, financial advisory, investment advisory, government securities and corporate debt trading, equity brokering, online trading, asset management, and research. First Metro has established itself as a leading bond house with key strengths in origination, structuring, and execution. As of 30 September 2019, it had total consolidated assets of ₱37.68 bn, and its capital base amounted to ₱15.91 bn.

China Bank Capital is the wholly-owned investment banking subsidiary of the China Banking Corporation. It was registered and licensed as an investment house on 27 November 2015 as a result of the spin-off of China Bank's Investment Banking Group. China Bank Capital offers a wide array of advisory and capital-raising services to corporate clients. For capital raising, China Bank Capital is involved in arranging, managing or underwriting debt or equity transactions. Its expertise in debt transactions range from loan syndications, bilateral loans and project financing to retail bonds, corporate notes, commercial paper issuances and asset securitizations. For equity transactions, these include, among others, initial public offerings, follow-on offerings, private placements, and issuances of convertible or other equity-linked instruments. It also provides financial advisory services to its clients, which cover various assignments such as deal structuring, valuation exercises, and the execution of mergers, acquisitions, divestitures, joint ventures, recapitalizations, and other corporate transactions.

SALE AND DISTRIBUTION

The distribution and sale of the Fourth Tranche Bonds shall be undertaken by the Joint Issue Managers and Joint Lead Underwriters who shall sell and distribute the Fourth Tranche Bonds to third party buyers/investors. The Joint Issue Managers and Joint Lead Underwriters are authorized to organize a syndicate of selling agents for the purpose of the Offer; provided, however, that the Joint Issue Managers and Joint Lead Underwriters shall remain severally, but not jointly responsible to the Issuer in respect of its obligations under the Underwriting Agreement entered into by them with the Issuer and the Issuer shall not be bound by any of the terms and conditions of any agreement entered into by the Joint Issue Managers and Joint Lead Underwriters with such other parties. Nothing herein shall limit the rights of the Joint Issue Managers and Joint Lead Underwriters from purchasing the Fourth Tranche Bonds for its respective accounts.

There are no persons to whom the Fourth Tranche Bonds are allocated or designated. The Fourth Tranche Bonds shall be offered to the public at large and without preference.

Depending on the actual or expected demand for the Fourth Tranche Bonds during the Offer Period, the Joint Issue Managers and Joint Lead Underwriters may opt to exercise the Oversubscription Option which shall be distributed to investors. Consistent with customary underwriting agreements, upon the exercise of the Oversubscription Option, the portion exercised will be underwritten by the relevant Joint Issue Managers and Joint Lead Underwriters that have clients with excess demand.

TERM OF APPOINTMENT

The engagement of the Joint Issue Managers and Joint Lead Underwriters shall subsist so long as the SEC permit to sell remains valid, unless otherwise terminated pursuant to the Underwriting Agreement.

MANNER OF DISTRIBUTION

The Joint Issue Managers and Joint Lead Underwriters shall, at its discretion but with written notice to AboitizPower, determine the manner by which proposals for applications for purchase and issuances of the Fourth Tranche Bonds shall be solicited, with the primary sale of the Fourth Tranche Bonds to be effected only through the Joint Issue Managers and Joint Lead Underwriters.

The Joint Issue Managers and Joint Lead Underwriters, in consultation with the Issuer, shall agree on the process for allocating the Fourth Tranche Bonds and the manner of accepting the Applications to Purchase (the "Allocation Plan"). Consistent with bank procedures (if applicable) and the allocation plan, each of the Joint Issue Managers and Joint Lead Underwriters shall be responsible for determining who are Eligible Bondholders from the Applicants and for establishing the *bona fide* identity of each in accordance with AMLA, as well as its own internal policies and arrangements under acceptable standards and policies regarding "know-your-customer" and anti-money laundering.

OFFER PERIOD

The Offer Period shall commence on 19 June 2020 and end on 26 June 2020 or such other date as may be mutually agreed by the Company and the Joint Issue Managers and Joint Lead Underwriters.

All applications to purchase the Fourth Tranche Bonds shall be evidenced by a duly completed and signed Application to Purchase, together with two (2) fully executed signature cards authenticated by the Corporate Secretary with respect to corporate and institutional investors, and shall be accompanied by the payment in full of the corresponding purchase price of the Fourth Tranche Bonds applied for, by check or by appropriate payment instruction, and the required documents which must be submitted to the Joint Issue Managers and Joint Lead Underwriters and Selling Agents.

Corporate and institutional purchasers must also submit a certified true copy of its SEC Certificate of Registration, its latest Articles of Incorporation and By-laws, or such other relevant organizational or charter documents, and the duly notarized certificate of the Corporate Secretary attesting to the resolution of the board of directors and/or committees or bodies authorizing the purchase of the Fourth Tranche Bonds and designating the authorized signatory/ies therefore, including his or her specimen signature. Individual Applicants must also submit a photocopy of any one of the following identification cards (ID): passport, driver's license, postal ID, company ID, SSS/GSIS ID and/or Senior Citizen's ID or such other ID and documents as may be required by or acceptable to the selling bank, which must be valid as of the date of the Application.

An Applicant who is exempt from or is not subject to withholding tax, or who claims preferential tax treaty rates shall, in addition, be required to submit the following requirements to the relevant Joint Issue Manager and Joint Lead Underwriter or Selling Agent (together with their applications) who shall then forward the same to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:

a. Proof of Tax Exemption or Entitlement to Preferential Tax Rates

i. For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed "valid, current and subsisting" if it has not been more than 3 years since the date of issuance thereof;

ii. For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;

iii. For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax; and

iv. For entities claiming tax treaty relief – (i) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief ("CORTT") Form prescribed under Revenue Memorandum Order No. 8-2017), and (ii) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)).

In addition, upon the request of the relevant Joint Issue Managers and Joint Lead Underwriter, the Bondholder shall submit an updated Part II (A), (B), (C) and (D) of the CORTT Form.

Only the originals should be submitted to the relevant Joint Issue Managers and Joint Lead Underwriter.

b. A duly notarized declaration (in the prescribed form) warranting that the Bondholder's tax-exemption certificate or ruling has not been revoked or cancelled and that there are no material changes in character, purpose or method of operation of the Bondholder which are inconsistent with the basis of its income tax exemption, or warranting the Bondholder's entitlement to preferential treaty rates, and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and

c. Such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

Failure to submit any of the documents provided under (a), (b) and (c) above, as may be applicable, will result in the application of the regular income tax rate provided under the Tax Code.

Completed Applications to Purchase and corresponding payments must reach the relevant Joint Issue Manager and Joint Lead Underwriter or Selling Agent prior to the end of the Offer Period, or such earlier date as may be specified by the relevant Joint Issue Manager and Joint Lead Underwriter or Selling Agent. Acceptance by each Joint Issue Manager and Joint Lead Underwriter or Selling Agent of the completed Application to Purchase shall be subject to the availability of the FourthTranche Bonds and the approval by AboitizPower and the relevant Joint Issue Manager and Joint Lead Underwriter or Selling Agent. In the event that any check payment is returned by the drawee bank for any reason whatsoever, the Application to Purchase shall be automatically cancelled and any prior acceptance of the Application to Purchase is deemed revoked.

MINIMUM PURCHASE

A minimum purchase of ₱50,000.00 shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of ₱10,000.00.

ALLOTMENT OF THE FOURTH TRANCHE BONDS

If the Fourth Tranche Bonds are insufficient to satisfy all Applications to Purchase, the available Fourth Tranche Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice subject to AboitizPower's exercise of its right of rejection.

ACCEPTANCE OF APPLICATIONS

AboitizPower and the Joint Issue Managers and Joint Lead Underwriters and Selling Agents reserve the right to accept or reject applications to subscribe in the Fourth Tranche Bonds, and in case of oversubscription, allocate the Fourth Tranche Bonds available to the applicants in a manner they deem appropriate. If any application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Joint Issue Manager and Joint Lead Underwriter or Selling Agent.

REFUNDS

In the event an Application is rejected or the amount of the Fourth Tranche Bonds applied for is scaled down, the relevant Joint Issue Manager and Joint Lead Underwriter or Selling Agent, upon receipt of such rejected and/or scaled down applications, shall notify the Applicant concerned that his application has been rejected or the amount of Fourth Tranche Bonds applied for is scaled down, and refund the amount paid by the Applicant with no interest thereon. With respect to an Applicant whose application was rejected, refund shall be made by the relevant Joint Issue Manager and Joint Lead Underwriter or Selling Agent by making the check payment of the Applicant concerned available for his retrieval. With respect to an Applicant whose application has been scaled down, refund shall be made by the issuance by the relevant Joint Issue Manager and Joint Lead Underwriter or Selling Agent of its own check payable to the order of the Applicant and crossed ''Payees' Account Only'' corresponding to the amount in excess of the accepted Application. All checks shall be made available for pick up by the Applicant concerned at the office of the relevant Joint Issue Manager and Joint Lead Underwriter or Selling Agent to whom the rejected or scaled down Application was submitted within ten (10) Banking Days after the last day of the Offer Period. The Issuer shall not be liable in any manner to the Applicant for any check payment corresponding to any rejected or scaled-down application which is not returned by the relevant Joint Issue Manager and Joint Lead Underwriter or Selling Agent; in which case, the Joint Issue Manager and Joint Lead Underwriter or Selling Agent shall be responsible directly to the Applicant for the return of the check or otherwise the refund of the payment.

SECONDARY MARKET

AboitizPower intends to list the Fourth Tranche Bonds at the PDEx. AboitizPower may purchase the Fourth Tranche Bonds at any time, in the open market or by tender or by contract, in accordance with PDEx Rules, without any obligation to make pro rata purchases of Bonds from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Fourth Tranche Bonds on the PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.

REGISTRY OF BONDHOLDERS

The Fourth Tranche Bonds shall be issued in scripless form and will be eligible for trading under the scripless book-entry system of PDTC. Master Certificates of Indebtedness representing the Fourth Tranche Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Legal title to the Fourth Tranche Bonds shall be shown in the Registry Book (the "Registry Book") to be maintained by the Registrar. Initial placement of the Fourth Tranche Bonds and subsequent transfers of interests in the Fourth Tranche Bonds shall be subject to applicable prevailing Philippine selling restrictions. AboitizPower will cause the Registry Book to be kept at the specified office of the Registrar. The names and addresses of the Bondholders and the particulars of the Fourth Tranche Bonds held by them and of all transfers of Bonds shall be entered into the Registry Book.

Initial placement of the Fourth Tranche Bonds and subsequent transfers of interests in the Fourth Tranche Bonds shall be subject to applicable prevailing Philippine selling restrictions.

DESCRIPTION OF THE OFFER

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Fourth Tranche Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and Shareholders of the Company, the information contained in the Prospectus, the Trust Agreement, the Underwriting Agreement, the Registry and Paying Agency Agreement and other agreements relevant to the Offer.

The corresponding issue of the Fourth Tranche Bonds in an aggregate principal amount of up to ₱6,000,000,000.00, with an Oversubscription Option of up to an aggregate principal amount of up to ₱3,550,000,000.00, were authorized by a resolution of the Board dated 28 January 2020.

The Fourth Tranche Bonds shall be constituted by a Trust Agreement executed on 17 June 2020 (the "Trust Agreement") entered into between the Issuer and BDO Unibank, Inc. - Trust and Investments Group (the "Trustee"), which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement. The description of the terms and conditions of the Fourth Tranche Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement.

A registry and paying agency agreement executed on 17 June 2020 (the "Registry and Paying Agency Agreement") in relation to the Fourth Tranche Bonds among the Issuer, Philippine Depository & Trust Corporation as paying agent (the "Paying Agent") and as registrar (the "Registrar").

The Fourth Tranche Bonds shall be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of Fifty Thousand Pesos (₱50,000.00) and in multiples of Ten Thousand Pesos (₱10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market.

The Series E Bonds shall mature on 2022, unless earlier redeemed by the Issuer pursuant to the terms thereof and subject to the provisions on redemption and payment below.

The Series F Bonds shall mature on 2025, unless earlier redeemed by the Issuer pursuant to the terms thereof and subject to the provisions on redemption and payment below.

The Paying Agent and Registrar has no interest in or relation to AboitizPower which may conflict with its role as Registrar for the Offer. The Trustee has no interest in or relation to AboitizPower which may conflict with the performance of its functions as Trustee.

Copies of the Trust Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The holders of the Fourth Tranche Bonds (the "Bondholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Agreement and are deemed to have notice of those provisions of the Registry and Paying Agency Agreement applicable to them.

FORM AND DENOMINATION

The Fourth Tranche Bonds are in scripless form, and shall be issued in denominations of Fifty Thousand Pesos (₱50,000.00) each as a minimum and in multiples of Ten Thousand Pesos (₱10,000.00) thereafter and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market.

TITLE

Legal title to the Fourth Tranche Bonds shall be shown in the Registry Book maintained by the Registrar. A notice confirming the principal amount of the Fourth Tranche Bonds purchased by each applicant in the Offering shall be issued by the Registrar to all Bondholders following the Issue Date. Upon any assignment, title to the Fourth Tranche Bonds shall pass by recording of the transfer from the transferor to the transferee in the electronic Registry Book maintained by the Registrar. Settlement in respect of such transfer or change of title to the Fourth Tranche Bonds, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

BOND RATING

The Fourth Tranche Bonds have been rated PRS Aaa by Philratings. The rating and Outlook were assigned given the following key considerations:

1. significant levels of cash flows and financial flexibility in relation to debt service requirements;
2. adequate capital structure supported by the healthy increase in retained earnings;
3. diversified portfolio, with good growth prospects; and
4. its experienced management team.

Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

TRANSFER OF BONDS

Registry Book

The Issuer shall cause the Registry to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Fourth Tranche Bonds held by them and of all transfers of Fourth Tranche Bonds shall be entered into the Registry Book. As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Bondholder, in the mode elected by such Bondholder in the Application to Purchase or the Registration Form, a written statement of registry holdings at least quarterly (at the cost of the Issuer) and a written advice confirming every receipt or transfer of the Fourth Tranche Bonds that is effected in the Registrar's system (at the cost of the relevant Bondholder). Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfers of the Fourth Tranche Bonds may be made during the period commencing on a Record Date as defined in the section on "*Interest Payment Date.*"

Transfers: Tax Status

The Registrar shall ultimately and conclusively determine all matters regarding the evidence necessary to effect any such transfers. Settlement in respect of such transfers or change of title to the Fourth Tranche Bonds, including the settlement of any documentary stamps taxes, if any, arising from subsequent transfers, shall be settled directly between the transferee and/or the transferor Bondholders.

Transfers across tax categories shall not be allowed except on Interest Payment Dates that fall on a Banking Day. Restricted transfers include, but are not limited to, transfers between taxable and non-taxable entities, between taxable entities of different tax categories (where tax-withheld entities with different final withholding tax rates (e.g. 20%, 25%, 30%) are considered as belonging to different tax categories), or between parties who claim the benefit of a tax treaty; provided, however, that transfers from a tax-exempt category to a taxable tax category on a non-Interest Payment Date shall be allowed using the applicable tax rate to ensure that the computation is based on the final withholding tax rate of the taxable party to the trade. For such transactions, the tax-exempt entity shall be

treated as belonging to the same tax category as its taxable counterpart for the interest period within which such transfer occurred. A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under the Registry and Paying Agency Agreement upon submission of the account opening documents to Registrar. Transfers taking place in the Register of Bondholders after the Fourth Tranche Bonds are listed on PDEx shall be allowed between tax-exempt and non-tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions, and guidelines of PDEx and PDTC.

Secondary Trading of the Fourth Tranche Bonds

The Issuer intends to list the Fourth Tranche Bonds at PDEx for secondary market trading or such other securities exchange as may be licensed as such by the SEC. Secondary market trading in PDEx shall follow the applicable PDEx rules, conventions, and guidelines governing trading and settlement between bondholders of different tax status and shall be subject to the relevant fees of PDEx and PDTC. Upon listing of the Fourth Tranche Bonds with PDEx, investors shall course their secondary market trades through PDEx Brokering Participants for execution in the PDEx Trading Platform in accordance with PDEx Trading Rules, Conventions and Guidelines, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The PDEx rules and conventions are available in the PDEx website (www.pds.com.ph). An Investor Frequently Asked Questions (FAQ) discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEx website.

Market Information on Other Debt Securities

While there are already listed debt securities of Aboitiz Power on PDEx, these securities have maturities that may be different from the Series E Bonds and the Series F Bonds, and were priced at a time when benchmark rates were likely different. As such, the listed price of the said securities may not necessarily be directly comparable with the Series E Bonds and the Series F Bonds.

RANKING

The Fourth Tranche Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of the Issuer and shall rank *pari passu* and rateably in priority of payment without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by the Issuer pursuant to Section 5.2 (a) of the Trust Agreement or as may be allowed by the Trust Agreement, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of Issue Date. The Fourth Tranche Bonds shall effectively be subordinated in right of payment to, among others, all of AbotizPower's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines, unless the Issuer procures a waiver of the preference created by such notarization or equally and ratably extend such preference to the Fourth Tranche Bonds.

INTEREST

Interest Payment Dates

The Fourth Tranche Bonds bear interest on its principal amount from and including Issue Date at the rate of 3.125% p.a., for the Series E Bonds, and 3.935% p.a. for the Series F Bonds, payable quarterly starting on 06 October 2020 for the first interest payment date, and 06 January, 06 April, 06 July, and 06 October of each year for each subsequent Interest Payment Date at which the relevant series of the Fourth Tranche Bonds are outstanding, or the subsequent Banking Day, without adjustment, if such Interest Payment Date is not a Banking Day. The last Interest Payment Date shall fall on the Maturity Date.

The cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due shall be the day two (2) Banking Days prior to the relevant Interest Payment Date (the "Record Date"), which shall be the reckoning day in determining the Bondholders entitled to receive interest, principal or any other amount due under

the Fourth Tranche Bonds; provided, that if such day falls on a non-Banking Day, the Record Date shall be the next Banking Day immediately preceding said date. No transfers of the Fourth Tranche Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Date.

Interest Accrual

The Fourth Tranche Bonds shall cease to bear interest from and including the Maturity Date, as defined in the discussion on *"Final Redemption,"* unless, upon due presentation, payment of the principal in respect of the Bond then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see *"Penalty Interest"*) shall apply.

Determination of Interest Amount

The interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

REDEMPTION AND PURCHASE

Final Redemption

Unless previously purchased and cancelled, the Fourth Tranche Bonds shall be redeemed at par or 100% of face value on the Maturity Date. However, payment of all amounts due on such date may be made by the Issuer through the Paying Agent, without adjustment, on the succeeding Banking Day if the Maturity Date is not a Banking Day.

Optional Redemption

Prior to the Maturity Date, the Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), the outstanding Series F Bonds on the Optional Redemption Dates, as provided below, or the immediately succeeding Banking Day if such date is not a Banking Day (the "Optional Redemption Date"), without any adjustment on the principal or interest accruing.

The amount payable to the Bondholders in respect of the Optional Redemption exercise (the "Early Redemption Price") shall be calculated based on the principal amount of the Series F Bonds being redeemed as the aggregate of the: (i) accrued interest computed from the last Interest Payment Date up to the relevant Optional Redemption Date; and (ii) the product of the principal amount and the applicable Early Redemption Price in accordance with the following schedule:

Series F Bonds:

Optional Redemption Dates	**Early Redemption Price (inclusive of Prepayment Penalty)**
3 years from Issue Date	101.00%
4 years from Issue Date	100.25%

The Issuer shall give not less than thirty (30) nor more than sixty (60) days prior written notice of its intention to redeem the Series F Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption on the Optional Redemption Date stated in such notice.

Redemption for Taxation Reasons

The Issuer may redeem the Series E Bonds and/or Series F Bonds in whole, but not in part, on any Interest Payment Date (having given not more than sixty (60) nor less than thirty (30) days' notice to the Trustee) at par plus accrued interest, subject to the requirements of Applicable Law, if payments under the Series E Bonds and/or Series F Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on Issue Date

as a result of certain changes in Applicable Law, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer.

For avoidance of doubt, the Issuer shall not be liable for the payment of the additional or increased taxes, which shall be for the account of the Bondholders.

The Trustee, upon receipt of written notice of redemption delivered by the Issuer, shall declare the principal of the Series E Bonds and/or Series F Bonds, including all accrued interest, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable without any pre-payment penalty that is imposed under an optional redemption, anything in this Agreement or in the Series E Bonds and/or Series F Bonds contained to the contrary notwithstanding.

Mandatory Redemption

If any one or more of the following events shall occur, in the reasonable opinion of the Bondholders holding at least two-thirds (2/3) of the outstanding amount of the Fourth Tranche Bonds for the events contemplated in (a), (b) or (c) below or the Majority Bondholders for the events contemplated in (d) below (and with written notice to the Trustee), and be continuing for a period of fifteen (15) Banking Days with respect to the events contemplated in (a) or (c) below:

a. Any law, government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Fourth Tranche Bonds which shall be modified in a manner which, in the reasonable opinion of the Trustee, while not constituting an Event of Default, will materially and adversely affect the ability of the Issuer to comply with such obligations, or shall be withdrawn or withheld;

b. Any provision of the Trust Agreement or any of the related documents is or becomes invalid, illegal or unenforceable by reason of: (i) any final judgment or order by a court of competent authority; or (ii) notwithstanding any pending action before a court of competent authority: (x) any final and effective act of any Government Authority, or (y) any final and effective law, rule, or regulation to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part, or any law is introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Agreement or any other related documents;

c. Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, canceled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, by reason of: (i) any final judgment or order by a court of competent authority; or (ii) notwithstanding any pending action before a court of competent authority: (x) any final and effective act of any Government Authority, or (y) any final and effective law, rule, or regulation, in such a manner as to materially and adversely affect the financial condition or operations of the Issuer; and

d. Any Government Authority or any competent authority condemns, seizes, or expropriates all or substantially all of the assets or properties of the Issuer, unless such act is contested in good faith by the Issuer or unless such act is suspended or restrained by an order of a court of competent jurisdiction;

then, the Trustee, by notice in writing delivered to the Issuer, may declare the principal of the Fourth Tranche Bonds, including all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable without any pre-payment penalty.

Purchase

The Issuer may at any time purchase any of the Fourth Tranche Bonds at any price in the open market or by tender or by contract in accordance with PDEx Rules, without any obligation to purchase Fourth Tranche Bonds pro-rata from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Fourth Tranche Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.

Payments

The principal of, interest on, and all other amounts payable on the Fourth Tranche Bonds shall be paid to the Bondholders by crediting of the settlement accounts designated by each of the Bondholders. The principal of, and interest on, the Fourth Tranche Bonds shall be payable in Philippine Pesos, net of final taxes and fees (if any). AboitizPower shall ensure that so long as any of the Fourth Tranche Bonds remains outstanding, there shall at all times be a Paying Agent for the purposes of the Fourth Tranche Bonds. AboitizPower may terminate the appointment of the Paying Agent, as provided in the Registry and Paying Agency Agreement. In the event the appointed office of any institution shall be unable or unwilling to continue to act as the Paying Agent, AboitizPower shall appoint the Makati City office of such other leading institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

Payment of Additional Amounts - Taxation

Interest income on the Fourth Tranche Bonds is subject to final withholding tax at rates depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such final withholding tax and as otherwise provided below or in the Trust Agreement, and without prejudice to the right of the Issuer to exercise its option to redeem the Series E Bonds and/or Series F Bonds for taxation reasons, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

1. The applicable final withholding tax applicable on interest earned on the Fourth Tranche Bonds prescribed under the Tax Code, as amended and its implementing rules and regulations as maybe in effect from time to time. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:

    a. Proof of Tax Exemption or Entitlement to Preferential Tax Rates

        i. For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed "valid, current and subsisting" if it has not been more than 3 years since the date of issuance thereof;
        ii. For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;
        iii. For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax; and
        iv. For entities claiming tax treaty relief – (i) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief ("CORTT") Form prescribed under

Revenue Memorandum Order No. 8-2017), and (ii) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)).

In addition, upon the request of the Underwriter, the Bondholder shall submit an updated Part II (A), (B), (C) and (D) of the CORTT Form.

Only the originals should be submitted to the Underwriter.

b. A duly notarized declaration (in the prescribed form) warranting that the Bondholder's tax-exemption certificate or ruling has not been revoked or cancelled and that there are no material changes in character, purpose or method of operation of the Bondholder which are inconsistent with the basis of its income tax exemption, or warranting the Bondholder's entitlement to preferential treaty rates, and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and

c. Such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

Failure to submit any of the documents provided under (a), (b), and (c) above, as may be applicable, will result in the application of the normal income tax rate provided under the Tax Code.

2. Any applicable taxes on other income due to any Bondholder arising from the Fourth Tranche Bonds, including but not limited to the Prepayment Penalty, if and when applicable;

3. Gross Receipts Tax under the Tax Code;

4. Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and

5. Value Added Tax ("VAT") under the Tax Code, as amended. Documentary stamp tax for the primary issue of the Fourth Tranche Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

FINANCIAL RATIOS

The Issuer shall not incur any loan obligation with a maturity of more than one (1) year, if on the Transaction Date, after giving effect to the incurrence of such loan obligation, and any other such cumulative obligations, but not giving any effect to the receipt or application of proceeds therefrom, the Net Debt, as at the last day of the Relevant Period immediately preceding the Transaction Date, to Consolidated Equity, in respect of the Relevant Period immediately preceding the Transaction Date, will exceed 3:1.

With respect to the Fourth Tranche Bonds, there are no other regulatory ratios that the Issuer is required to comply with.

For the schedule of the Issuer's relevant consolidated financial ratios as of December 2019, December 2018, December 2017, and December 2016, please refer to the table below as well as the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section beginning on page 154.

	31 December 2019	31 December 2018	31 December 2017	31 December 2016
Interest Coverage Ratio[9]	2.83	3.53	3.60	4.78

[9] Earnings Before Interest and Taxes divided by Interest Expense

	31 December 2019	31 December 2018	31 December 2017	31 December 2016
Return on Common Equity[10]	14.50%	20.20%	21.00%	22.60%
Current Ratio[11]	1.53	1.89	1.38	2.25
Debt to Equity Ratio[12]	2.07	1.85	1.92	2.18

EVENTS OF DEFAULT

Each of the following events constitutes an Event of Default.

1. **Payment Default.** The Issuer fails to pay when due and payable any amount of principal or interest which the Issuer is obligated to pay the Bondholders under the Trust Agreement and the Fourth Tranche Bonds, and such failure to pay is not remedied within seven (7) Banking Days from due date thereof.

   The Issuer fails to pay when due and payable any other amount payable by the Issuer in respect of the Fourth Tranche Bonds and under the Trust Agreement in the manner, at the place, and in the currency in which it is expressed to be payable, and such non-payment continues for thirty (30) days from the date such payment is due. These other amounts include Penalty Interest, insofar as the payment of such interest is concerned.

2. **Representation Default.** Except for clerical or typographical error, any representation or warranty made by the Issuer in the Trust Agreement or in any document issued pursuant thereto or otherwise in connection therewith shall prove to have been untrue, incorrect, or misleading in any material respect as at the time it was made or deemed to have been made or is violated or not complied with, and the circumstances which cause such representation or warranty to be incorrect or misleading continue for not less than thirty (30) days (or such longer period as the Majority Bondholders shall approve) after receipt of written notice from the Trustee to that effect.

3. **Other Provisions Default.** The Issuer fails to perform or comply with any other term, obligation, or covenant contained in the Trust Agreement or in any other document or instruments related or otherwise in connection therewith in any material respect and any such failure, violation, non-compliance is not remediable or if remediable, continues unremedied for a period of ninety (90) days for financial covenants and sixty (60) days for all other covenants from the date after written notice thereof shall have been given by the Trustee; Provided, however, that for the avoidance of doubt, no additional grace period shall apply to the Events of Default.

4. **Cross-Default.** The Issuer violates any other material obligation by the Issuer with any bank, financial institution or other person, corporation or entity for the payment of borrowed money which constitutes an event of default under said contract, or in general, violation of any, law or regulation which violation, if remediable, is not remedied by the Issuer within thirty (30) Banking Days from receipt of notice by the Trustee to the Issuer, or which violation is otherwise not contested by the Issuer, and the effect of such violation results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; and which violation will, further, in the reasonable opinion of the Trustee, adversely and materially affect the performance by the Issuer of its obligations under this Agreement and the Fourth Tranche Bonds. Provided, however, that no event of default will occur under this paragraph unless the aggregate amount of indebtedness in respect of which one or more of the events above mentioned has/have occurred equals or is in excess of five percent (5%) of the Fair Market Value of Assets of the Issuer, based on the relevant parent-only financial statements of the Issuer.

5. **Insolvency Default.** The Issuer becomes insolvent or is unable to pay its debts when due or commits or permits any act of bankruptcy, which act shall include: (i) the filing of a petition in any bankruptcy, reorganization, winding up or liquidation of the Issuer, or any other proceeding analogous in purpose and

[10] Net Income after Tax divided by Total equity adjusted for cash dividends
[11] Current Assets divided by Current Liabilities
[12] Total liabilities divided by total stockholders' equity

effect: Provided, however, that in case the foregoing petition is filed by any other party, other than the Issuer, such event shall be considered a declared Event of Default only upon the issuance of a final order by the court of competent authority; (ii) the making of an assignment by the Issuer of substantially all or all of its assets, or in fraud of creditors; (iii) the admission in writing by the Issuer of its inability to pay its debts; (iv) the entry of any final order or judgment of any court, tribunal, or administrative agency or body confirming the bankruptcy or insolvency of the Issuer or approving any reorganization, winding up or liquidation of the Issuer; or (v) the appointment of a receiver, liquidator, assignee, trustee, or sequestrator of the Issuer, or a substantial part of its property or assets or a substantial part of its capital stock or to assume custody or control of the Issuer, or the ordering of its dissolution, winding-up or liquidation of its affairs.

6. **Closure Default.** The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days, except that if the closure is: (i) due to strikes or lockouts; or (ii) necessary to prevent business losses; or (iii) due to fortuitous events or force majeure, then such closure shall not be deemed a Closure Default.

7. **Judgment Default.** Any final judgment, decree or arbitral award for the sum of money, damages or for a fine or penalty in excess of 20% of the Issuer's Fair Market Value of Assets or its equivalent in any other currency is entered against the Issuer and any relevant period specified for payment in such judgment, decree, order, or agreement, and any extension thereof, shall have expired without being satisfied, discharged, or stayed; and

8. **Writ and Similar Process Default.** Any writ, warrant of attachment or execution, or similar process shall be issued or levied against all or substantially all of the Issuer's assets, and such writ, warrant, or similar process shall not be released, vacated, or fully bonded within sixty (60) days after its issue or levy (or such longer period as the Issuer satisfies the Majority Bondholders as appropriate under the circumstances).

CONSEQUENCES OF DEFAULT

Declaration

1. If any one or more of the Events of Default shall occur and be continuing, the Trustee, upon the written direction of the Bondholders holding at least two-thirds (2/3) of the outstanding amount of the Fourth Tranche Bonds, by notice in writing delivered to the Issuer, may declare the principal of the Fourth Tranche Bonds then outstanding, including all interest accrued and unpaid thereon and all amounts due thereunder, to be due and payable immediately, anything contained in this Agreement or in the Fourth Tranche Bonds to the contrary notwithstanding.

2. The provision above, however, is subject to the condition that, except in the case of a Writ and Similar Process Default, the Majority Bondholders, by written notice to the Issuer and to the Trustee, may rescind and annul such declaration made by the Trustee pursuant to a consequence of default and its consequences, upon such terms, conditions and agreements, if any, as they may determine, including, in connection with a Cross Default, the fact that the non-payment of the obligation is contested in good faith by the Issuer; provided, that, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereto. Any such waiver shall be conclusive and binding upon all the Bondholders and upon all future holders and owners of such Fourth Tranche Bonds, or of any Fourth Tranche Bond issued in lieu thereof or in exchange therefor, irrespective of whether or not notation of such waiver is made upon the Fourth Tranche Bonds.

3. At any time after an Event of Default shall have occurred, the Trustee may:

    a. by notice in writing to the Issuer, the Registrar, and the Paying Agent, require the Registrar and Paying Agent to:

        i. act thereafter as agents of the Bondholders represented by the Trustee on the terms provided in the Registry and Paying Agency Agreement (with consequential amendments as necessary and save that the Trustee's liability under the provisions thereof for the indemnification, remuneration

and payment of out-of-pocket expenses of the Paying Agent and the Registrar shall be limited to amounts for the time being held by the Trustee on the trusts of this Agreement in relation to the Fourth Tranche Bonds and available to the Trustee for such purpose) and thereafter to hold all sums, documents and records held by them in respect of the Fourth Tranche Bonds on behalf of the Trustee; and/or

ii. deliver all evidence of the Fourth Tranche Bonds and all sums, documents and records held by them in respect of the Fourth Tranche Bonds to the Trustee or as the Trustee shall direct in such notice; provided, that, such notice shall be deemed not to apply to any document or record which the Paying Agent or Registrar is not obliged to release by any Applicable Law; and

b. by notice in writing to the Issuer, require the Issuer to make all subsequent payments in respect of the Fourth Tranche Bonds to the order of the Trustee and with effect from the issue of any such notice until such notice is withdrawn.

Notice of Default

The Trustee shall, within ten (10) days after the occurrence of an Event of Default give to the Bondholders written notice of any such Event of Default known to it unless the same shall have been cured before the giving of such notice; provided, that, in the case of a Payment Default, the Trustee shall, upon written notice from the Paying Agent of the Issuer's failure to pay any amount of principal or interest which the Issuer is obligated to pay the Bondholders under the Trust Agreement and the Fourth Tranche Bonds, immediately notify the Bondholders upon the occurrence of such Payment Default; provided further, that such written notice from the Paying Agent shall not be required if the Issuer's failure to pay was caused by a technical error or by reasons beyond the control of the Issuer. The existence of a written notice required to be given to the Bondholders under this Section shall be published in two (2) newspapers of general circulation in Metro Manila, Philippines for two (2) consecutive days, indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Fourth Tranche Bonds at the principal office of the Trustee as indicated in this Agreement upon presentation of sufficient and acceptable identification to the Trustee.

Subject to Applicable Law, in case of the occurrence of an Event of Default, the Issuer shall authorize the Registrar to provide the Trustee with the list of Bondholders containing the names, addresses, tax identification number (TIN), tax status, and account details of the Bondholders, the amount of the Fourth Tranche Bonds held by them, the Cash Settlement Account numbers where payment to them shall be credited and such other information as may be agreed upon between the Registrar and the Issuer.

Penalty Interest

In case any amount payable by the Issuer under the Fourth Tranche Bonds, whether for principal, interest, fees due to the Trustee, Registrar or Paying Agent or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay penalty fee on the defaulted amount(s) at the rate of two percent (2.0%) per annum (the "Penalty Interest") from the time the amount fell due until it is fully paid.

Payments in the Event of Default

The Issuer covenants that upon the occurrence of any Event of Default, the Issuer will pay to the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Fourth Tranche Bonds on the overdue principal and with Penalty Interest, where applicable, and in addition thereto the Issuer will pay to the Trustee such further amounts as shall be determined by the Trustee to be sufficient to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee hereunder.

Upon the occurrence of an Event of Default and in accordance with the requirements of the Trust Agreement, the Bondholders shall have the right, but not the obligation, to require the Issuer to redeem the Fourth Tranche Bonds

in full, by payment of the amounts stated above, plus the principal amount, by delivery of the relevant evidence of the Fourth Tranche Bonds to the Trustee.

Application of Payments

Any money collected by the Trustee and any other funds held by it, subject to any other provision of the Trust Agreement relating to the disposition of such money and funds, shall be applied by the Trustee in the order of preference as follows:

First: To the payment of the costs, expenses, fees and other charges of collection, including reasonable compensation to the Trustee, Paying Agent, Registrar, and each such person's agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursement made by the Trustee, Paying Agent and Registrar without negligence or bad faith.

Second: To the payment of Penalty Interest.

Third: To the payment of the interest, in the order of the maturity of such interest.

Fourth: To the payment of the principal amount of the outstanding Bonds due and payable.

Fifth: The remainder, if any, shall be paid to the Issuer, its successors or assigns, or to whosoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

Except for any interest and principal payments, all disbursements of the Paying Agent in relation to the Fourth Tranche Bonds shall require the conformity of the Trustee.

Remedies

All remedies conferred by the Trust Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extrajudicial proceedings appropriate to enforce the conditions and covenants of in the Trust Agreement.

No delay or omission by the Trustee or by any Bondholder to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto, and every power and remedy given in the Trust Agreement to the Trustee or to the Bondholder may be exercised from time to time and as often as may be necessary or expedient.

Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of this Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless all of the following conditions have been fulfilled: (1) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Fourth Tranche Bonds, and (2) the Majority Bondholders shall have decided and made a written request upon the Trustee to institute such suit, action or proceeding in its own name, and (3) the Trustee for sixty (60) days after receipt of such notice and request shall have neglected or refused to institute any such suit, action or proceeding, unless such failure was due to any circumstance beyond its control, and (4) no directions inconsistent with such written request or waiver of default by the Bondholders shall have been made, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholder shall have any right in any manner whatsoever by virtue of or by availing of any provision of this Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under this Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all Bondholders. For the protection and enforcement of

the provisions of this Section, each and every Bondholder and the Trustee shall be entitled to such relief as can be given under the Applicable Law.

Waiver of Default by Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or the Majority Bondholders may decide for and in behalf of the Bondholders to waive any past default except the Payment Default, Cross-Default, Insolvency Default, and Closure Default, and its consequences. In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, but no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Fourth Tranche Bonds.

MEETINGS OF BONDHOLDERS

Meetings

A meeting of Bondholders may be called at any time and from time to time pursuant to the provisions of this Section for the purpose of taking any action authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Agreement or under applicable law and such other matters related to the rights and interests of the Bondholders under the Fourth Tranche Bonds.

Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Fourth Tranche Bonds may direct the Trustee to call a meeting of the Bondholders, to take any action specified herein, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders and published in two (2) newspapers of general circulation in Metro Manila, Philippines not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the notices for the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported statement of account.

Failure of Trustee to Call a Meeting

In case at any time the Issuer, pursuant to a resolution of its board of directors, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Fourth Tranche Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, the notice of such meeting within fifteen (15) Banking Days after receipt of such request, then the Issuer or the holders of the Fourth Tranche Bonds in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof, and the costs thereof shall be chargeable to the Trustee, except when such failure is beyond the control of the Trustee.

Quorum

The presence of the Majority Bondholders personally or by proxy shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

Procedure for Meetings

The Trustee shall preside at all the meetings of the Bondholders unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be,

shall move for the election of the chairman and secretary of the meeting from among the Bondholders then present or represented during the meeting.

Any meeting of the Bondholders duly called pursuant to the provisions of this Section may be adjourned from time to time for a period or periods not to exceed in the aggregate one (1) year from the date for which the meeting shall originally have been called, and the meeting so adjourned may be held on another date without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Fourth Tranche Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

In an event consent/s are requested from the Bondholders, the Bondholders' records with the Registrar as of the immediately preceding month-end prior to the date of the request shall be used by the Trustee until the results of the exercise is completed. Transfers or changes to ownership during any exercise shall be disregarded by the Trustee. Notwithstanding the foregoing, if the Registrar determines the record date of Bondholders according to its Agreements then such listing shall prevail and the Trustee shall rely on such records

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of the Fourth Tranche Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of such meeting. Bondholders shall be entitled to one vote for every Ten Thousand Pesos (₱10,000.00) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representative of the Issuer and its legal counsel.

Voting Requirement

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the majority of the Bondholders present or represented in a meeting at which there is a quorum, except as otherwise provided in the Trust Agreement.

Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Trustee as if the votes were unanimous.

Role of the Trustee in Meetings of Bondholders

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, with regard to proof of ownership of Bonds, the appointment of proxies by registered holders of Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem fit. The minutes of each meeting and any resolution made thereat shall be taken by the Trustee.

Evidence Supporting Bondholders' Action

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of Bonds may take any action (including the making of any demand or request, the giving of any notice or consent, or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing; (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith; or (iii) a combination of such instruments and any such record of meeting of the Bondholders. The Trustee shall rely on the Registrar to authenticate all Bondholders' signature at all times.

Duties and Responsibilities of the Trustee

The Trustee shall act as trustee for and in behalf of the Bondholders and as such shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the Issuer's observance of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters to be taken up with the Issuer.

The Trustee shall have custody of and hold in its name, for and in behalf of the Bondholders, the Master Certificates of Indebtedness for the total issuance of the Fourth Tranche Bonds.

The Trustee shall promptly and faithfully carry out the instructions or decisions of the Majority Bondholders issued or reached in accordance with the Trust Agreement.

The Trustee may, from time to time, request the Issuer to submit such certification of its officers, reports of its external auditors, and other documents relating to the Issuer's ability to comply with its obligations under the Fourth Tranche Bonds and the Trust Agreement, as well as to examine such records of the Issuer as may be related to the Issuer's obligations under the Fourth Tranche Bonds and the Trust Agreement.

The request shall be reasonable, made not less than seventy-hours (72) hours prior to the intended date of examination and shall be in writing to the Issuer which shall include, in reasonable detail, the purpose for such request and the intended use of the requested documents or information. The Issuer may require the Trustee, its directors, officers, employees, representatives, agents, partners, consultants and advisors to hold in confidence such documents and information furnished to the Trustee pursuant to said request or to limit the use thereof for the purpose intended as stated in the request, provided such limitation shall not apply if in conflict with the duties and responsibilities of the Trustee under any provision of the Trust Agreement.

The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs under similar circumstances.

The Trustee shall inform the Bondholders of any event, breach of representations and warranties, and Events of Default within a reasonable period from the time that the Trustee learns of such events.

The Trustee shall perform such other powers and functions as provided for elsewhere under the Trust Agreement.

Supplemental Agreements

With the written consent of the Majority Bondholders, the Issuer, when authorized by a resolution of its board of directors, and the Trustee may, from time to time and at any time, enter into an agreement or agreements supplemental hereto for the purpose of adding any provision to or changing in any manner or eliminating any of the provisions of the Trust Agreement; provided, however, that no such supplemental agreement shall:

1. Without the consent of each Bondholder affected thereby:

    a. extend the fixed maturity of the relevant Series E Bonds and/or Series F Bonds, or
    b. reduce the principal amount of the relevant Series E Bonds and/or Series F Bonds, or
    c. reduce the rate or extend the time of payment of interest and principal thereon;

2. Affect the rights of some of the Bondholders without similarly affecting the rights of all the Bondholders; or

3. Reduce the percentage required to be obtained of the Bondholders to consent to or approve any supplemental agreement or any waiver provided for in this Agreement without the consent of all the Bondholders.

It shall not be necessary to obtain the consent of the Bondholders for the purpose of approving the particular form of any proposed supplemental agreement but such consent shall be necessary for the purpose of approving the substance thereof.

Any consent given shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof or of any Bonds issued in lieu thereof or in exchange therefor, irrespective of whether or not any notation of such consent is made upon the Fourth Tranche Bonds.

Promptly after the execution by the Issuer and the Trustee of any supplemental agreement, the Issuer shall send a notice to the Bondholders setting forth in general terms the substance of such supplemental agreement. Any failure of the Issuer to send such notice or any defect therein shall not, however, in any way impair or affect the validity of any supplemental agreement.

MISCELLANEOUS PROVISIONS

Notice

Any notice or demand authorized by the Trust Agreement to be given to the Issuer and the Trustee shall be sufficiently given for all purposes hereof, if delivered or mailed at their respective addresses mentioned herein or at such address designated by them subsequently in writing.

Notices to the Bondholders shall be sent to their mailing address as set forth in the Registry Book. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Registry Book. The Trustee shall rely on the Registry Book provided by the Registrar, in determining the Bondholders entitled to notice.

All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by surface mail; (iii) on the date of publication, or (iv) on the date of delivery, for personal delivery.

Binding and Conclusive Nature

Except as provided under the Trust Agreement, all notifications, opinion, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Agreement, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, and all Bondholders and (in the absence of willful default, bad faith or manifest error) no liability to the Issuer, the Registrar, the Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Agreement, resulting from the Trustee's reliance on the foregoing.

Dispute Settlement

In case any dispute shall arise between the Issuer, the Trustee or any of the Bondholders in respect of the Trust Agreement, or other related agreements or arrangements, the Issuer, the Trustee or any of the Bondholders shall attempt to resolve the same amicably by agreement which shall be in writing. However, if no such agreement is concluded within thirty (30) Banking Days from the time the dispute arose, or such period as may be reasonable under the circumstances, the parties may have recourse to the usual judicial action obtaining under the circumstances.

No Right to Set-Off

The Trustee shall have no right to apply funds or money of the Issuer on deposit with or in the custody of the Trustee or any of its branches, subsidiaries, or affiliates on reduction of amounts past due under the Trust Agreement.

Governing Law

The Fourth Tranche Bonds issued hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the Republic of the Philippines.

THE COMPANY

BUSINESS DEVELOPMENT

AboitizPower is a publicly-listed holding company incorporated on, and has been in business since, 13 February 1998. AboitizPower was incorporated as a holding company for the Aboitiz Group's investments in power generation and distribution. Through its Subsidiaries and Affiliates, AboitizPower is a well-positioned leader in the Philippine power industry being the second largest generation, distribution, and retail electricity supply company.

The Company's controlling shareholder, AEV, is a diversified conglomerate that is listed in the PSE, and has interests in power, banking and financial services, food, infrastructure, and land. This relationship with AEV allows the Company to draw on AEV's strong foundation for sustained growth by being the Philippines' second oldest family-led business group, with an experienced management team, right partners and robust talent management, strong financial position, proactive risk and insurance management, and Global Reporting Initiative-certified sustainability reporting system to support the Company's robust growth initiatives.

The Company has accumulated interests in a portfolio of power generating plants, using renewable and non-renewable sources. As of 31 March 2020, its generation companies have an attributable net sellable capacity of 3,455 MW. Following the ERC's ownership test to determine the market share of the Company, the Company's projected market share of the national grid's installed generating capacity by 31 March 2020 is 16.45%.

The table below summarizes the Company's power generation companies and key information as of 31 March 2020:

Plant Name	Installed Capacity[13]	Net Sellable Capacity (MW)	Attributable Net Sellable Capacity (MW)	Management Company	Off-takers
Ambuklao	105	105	53	SNAP-Benguet	WESM
Bakun	74.8	74.8	74.8	Luzon Hydro Corporation	NPC (2026)
Benguet 1-11	32	52.5	52.5	Hedcor, Inc	FIT / Bilaterals
Binga	140	140	70	SNAP-Benguet	WESM / ASPA
Davao 1-5	4	5	5	Hedcor, Inc.	Distribution Utility
Magat	380	388	194	SNAP-Magat	WESM / Coops / ASPA
Manolo Fortich	72.8	69	69	Hedcor, Inc.	FIT
Sibulan (A, B and Tudaya A)	52	49	49	Hedcor Sibulan	Distribution Utility
Sabangan	15	14	14	Hedcor Sabangan	FIT
Maris Main Canal 1	9	9	4	SNAP-Magat	FIT*
Tudaya (B)	8	7	7	Hedcor Tudaya	FIT
Tiwi - Makban	628	290	290	APRI	Bilaterals/WESM
Sacasun (San Carlos)	23	46	46	San Carlos Sun Power, Inc.	WESM
STEAG Power Plant (Mindanao)	210	210	71	STEAG Power	NPC (2031)
Mariveles Project	632	632	495	GMCP	Bilaterals/WESM
TSI Plant (Davao)	301	260	260	TSI	Bilaterals
Pagbilao	700	700	700	TLI	Bilaterals / WESM
Pag3	420	400	200	PEC	TLI
Cebu Energy (Toledo)	246	216	57	CEDC	Bilaterals
TVI Plant (Cebu Coal)	354	300	240	TVI	Bilaterals/WESM

[13] Based on ERC Resolution No. 02, Series of 2020, A Resolution Setting the Installed Generating Capacity and Market Share Limitation Per Grid and the National Grid for 2020.

Plant Name	Installed Capacity[13]	Net Sellable Capacity (MW)	Attributable Net Sellable Capacity (MW)	Management Company	Off-takers
CPPC Plant (Cebu Oil)	64	66	40	CPPC	Visayan Electric
Bunker Cotabato	4	4	4	Cotabato Light	Cotabato Light
SPPC Plant (General Santos)	0	55	11	SPPC	N/A
EAUC Plant (Mactan)	44	44	44	EAUC	MEPZ I / Bilaterals
Power Barge Mobile 1	96	96	96	TMI	Bilaterals
Power Barge Mobile 2	96	96	96	TMI	Bilaterals
Power Barge Mobile 3-6	202	200	200	TMO	Distribution utility
WMPC (Zamboanga)	107	100	20	WMPC	Bilaterals
Total	**5,020.8****	**4,627.3****	**3,461.3****		

**FIT application pending approval*
***Sum figures will differ due to rounding effect*

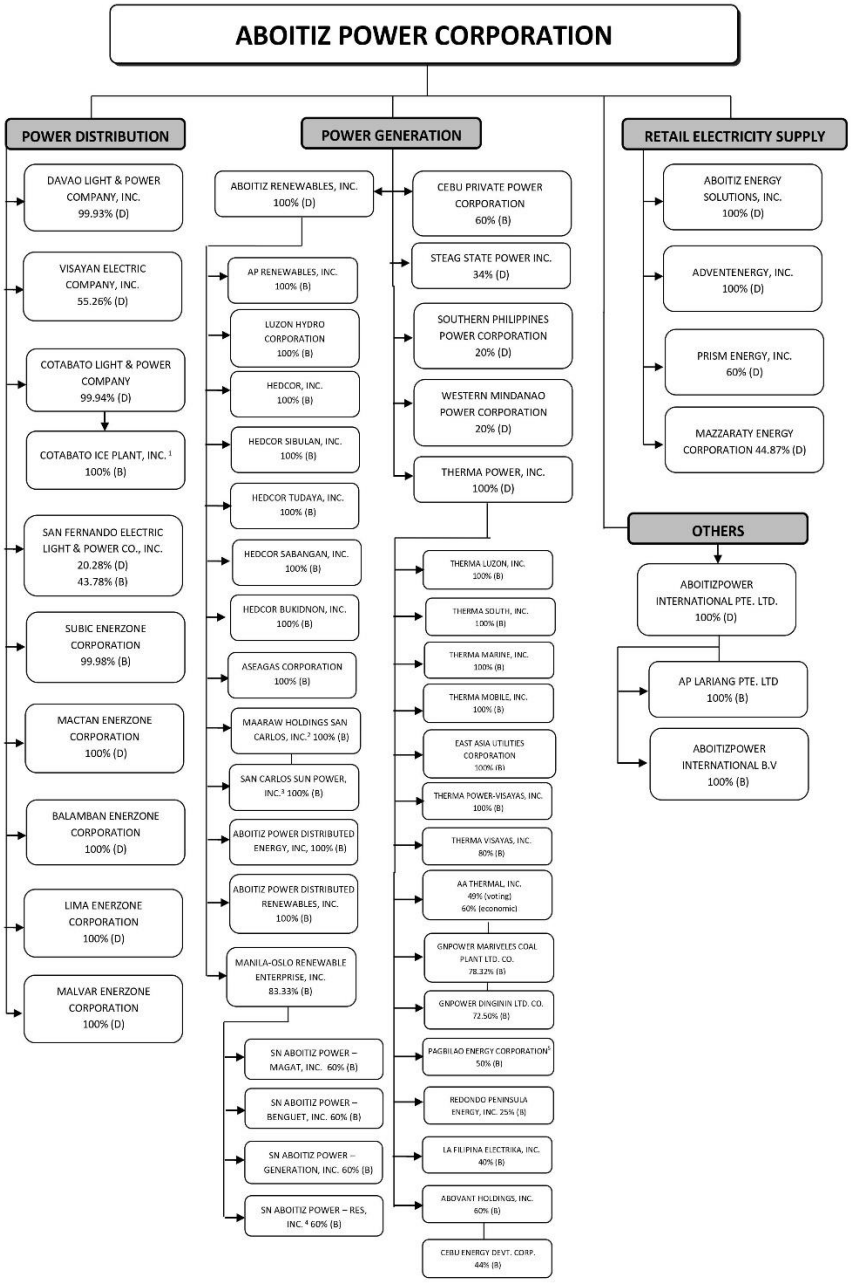
The Company owns interests in several distribution utilities in Luzon, Visayas and Mindanao, including Visayan Electric and Davao Light, which are respectively the second and third largest privately-owned distribution utilities in the Philippines in terms of both customers and annual GWh sales. The Company also owns interests in Cotabato Light, SFELAPCO, SEZ, MEZ, BEZ, LEZ, and Malvez. For 2019, the Distribution Companies sold a total attributable energy of 5,851 GWh. As of 31 March 2020, the Distribution Companies are serving approximately 1,039,686 customers.

AboitizPower's interests, direct and indirect, in the Group's Distribution Utilities, as well as their franchise periods as of 31 March 2020, are shown in the table below:

Distribution Utility	AboitizPower % Ownership	Franchise Term	Franchise Expiry
Visayan Electric	55.26%	25 years	2030
Davao Light	99.93%	25 years	2025
SFELAPCO	43.72%	25 years	2035
Cotabato Light	99.94%	25 years	2039
SEZ	99.98%	25 years	2028
MEZ	100%	21 years	Zone Life
BEZ	100%	50 years	Zone life
LEZ	100%	50 years	Zone Life

MEZ, BEZ, LEZ, and Malvez which operate the power distribution utilities in Mactan Economic Processing Zone II, West Cebu Industrial Park, and Lima Technology Center, and Light Industry & Science Park IV (LISP IV) in Malvar, Batangas, respectively, are duly registered with the Philippine Economic Zone Authority as Ecozone Utilities Enterprises.

BRIEF HISTORY OF ABOITIZPOWER AND ITS SIGNIFICANT SUBSIDIARIES



Legend:
B – Beneficial Ownership
D – Direct Ownership

[1] Other services
[2] ARI has a 60% direct ownership in Maaraw San Carlos; AboitizPower International B.V. has a 40% direct ownership in Maaraw San Carlos
[3] ARI has a 75% direct ownership in Sacasun; AboitizPower International has 15% direct ownership in Sacasun
[4] Engages in Retail Electricity Supply Business
[5] Joint operations

AS OF MARCH 31, 2020

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

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

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

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

Year	Milestones
1998	Incorporated as a holding company for the Aboitiz Group's investments in power generation and distribution.
2005	Consolidated its investments in mini-hydroelectric plants in a single company by transferring all of HEDC's and Cleanergy's mini- hydroelectric assets to Hedcor, Inc. (Hedcor).
2007	Entered into a share swap agreement with AEV in exchange for AEV's ownership interest in the following distribution utilities: (i) An effective 55% equity interest in Visayan Electric; (ii) 100% equity interest in each of Davao Light and Cotabato Light; (iii) An effective 64% ownership interest in SEZ; and (iv) An effective 44% ownership interest in SFELAPCO.
	As part of the reorganization of the power-related assets of the Aboitiz Group, the Company: (i) Acquired 100% interest in MEZ and 60% interest in BEZ from AboitizLand; and (ii) Consolidated its ownership interests in SEZ by acquiring the combined 25% interest in SEZ held by AEV, SFELAPCO, Okeelanta Corporation, and Pampanga Sugar Development Corporation. These acquisitions were made through a Share Swap Agreement, which involved the issuance of the Company's 170,940,307 common shares issued at the initial public offering (IPO) price of ₱5.80 per share in exchange for the foregoing equity interests in MEZ, BEZ, and SEZ.
	Together with its partner, Statkraft Norfund Power Invest AS of Norway, through SNAP-Magat, acquired possession and control of the Magat Plant following its successful bid in an auction by PSALM.
	Formed Abovant with the Vivant Group as the investment vehicle for the construction and operation of a coal-fired power plant in Toledo City, Cebu (the "Cebu Coal Project"). Abovant entered into a MOA with Global Power of the Metrobank group for the acquisition of a 44% equity interest in Cebu Energy.
	TPI, its wholly-owned Subsidiary, entered into a MOA with TCIC for the Subic Coal Project, an independent coal-fired power plant in the Subic Bay Freeport Zone. RP Energy was incorporated as the project company.

Year	Milestones
	Acquired 50% of EAUC from El Paso Philippines Energy Company, Inc and 60% of CPPC.
	Purchased 34% equity ownership in STEAG Power from Evonik Steag GmbH in August 2007.
	Purchased Team Philippines Industrial Power II Corporation Industrial Power II Corp.'s 20% equity in SEZ, bringing AboitizPower's total equity in SEZ to 100%.
2008	SNAP–Benguet submitted the highest bid for the Ambuklao-Binga Hydroelectric Power Complex.
	Acquired Tsuneishi Holdings (Cebu), Inc.'s 40% equity ownership in BEZ, bringing AboitizPower's total equity in BEZ to 100%.
2009	APRI acquires and takes over the ownership and operations of the 234 MW Tiwi geothermal power facility in Albay and the 449.8 MW Makiling-Banahaw geothermal power facility in Laguna (collectively referred to as the "Tiwi-MakBan Geothermal Facilities").
	TLI becomes the IPPA for the 700-MW contracted capacity of the Pagbilao Plant, becoming the first IPPA of the country.
2010	TMI, acquired ownership over Mobile 1 (Power Barge 118) and Mobile 2 (Power Barge 117) from PSALM.
2011	MGen, TCIC, and TPI entered into a Shareholders' Agreement to formalize their participation in RP Energy. MGen took the controlling interest in RP Energy, while TCIC and TPI maintained the remaining stake equally.
	TMO acquired four barge-mounted floating power plants from Duracom Mobile Power Corporation and EAUC, including their respective operating facilities. In the same year, the barges underwent rehabilitation and started commercial in 2013.
2013	AESI won 40 strips of energy corresponding to 40 MW capacity of ULGPP. The contract between AESI with PSALM with respect to the ULGPP capacity was terminated on 26 October 2019.
2014	TPI entered into a joint venture agreement with TPEC Holdings Corporation to form PEC to develop, construct, and operate the 400 MW coal-fired Pag 3.
	TPVI was declared the highest bidder for the privatization of the NPPC. SPC, the other bidder, exercised its right-to-top under the Naga Power Plant Land-Based Gas Turbine Land Lease Agreement, and PSALM declared SPC as the winning bidder. After protracted legal proceedings, TPVI accepted the turn-over for the NPPC plant on 16 July 2018.
	Acquired 100% of LEZ, from Lima Land, a wholly-owned Subsidiary of AboitizLand.
	TPI entered into a Shareholders' Agreement with Vivant Group, for the latter's acquisition of 20% issued and outstanding shares in TVI.
2015	Aboitiz Renewables formed a joint venture company, San Carlos Sun Power, Inc. (SacaSun), with SunEdison Philippines to explore solar energy project.
	TSI commences full commercial operations of its Unit 1.
2016	TSI commences full commercial operations of its Unit 2.
	TPI acquired 66% ultimate beneficial ownership interest in GMCP and 50% ultimate beneficial ownership interest in GNPD.
	Through TPI, acquired the remaining 50% interest in EAUC from El Paso Philippines.
2017	AboitizPower International completes its acquisition of SunEdison Philippines, and consolidates ownership of Sacasun.
2018	Pag 3 began commercial operations.
	TPVI accepted the turnover of the Naga Power Plant Complex PSALM.
2019	TMO signed a PSA with Meralco, after the facility went into preservation mode on 05 February 2019.
	TMO re-registered with IEMOP on 22 April 2019 and commenced delivery of power to Meralco on 26 April 2019.
	AboitizPower acquired 49% voting stake and a 60% economic stake in AA Thermal.

AboitizPower plans to enter the rooftop solar business through APX1 and expand the renewable energy portfolio under its Cleanergy brand. AboitizPower's Cleanergy portfolio includes its geothermal, run-of-river hydro, and large hydropower facilities. AboitizPower first ventured into the solar market in 2016 with Sacasun. As of 31 March2020,

AboitizPower has 995 MW of attributable net sellable capacity, through its partners, under its Cleanergy brand. The Company is pushing for a balanced mix strategy – maximizing Cleanergy while taking advantage of the reliability and cost efficiency of thermal power plants.

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

Developments in the Past Three (3) Years

Maris Main Canal 1

This project, undertaken by SNAP-Magat was inaugurated in January 2018. The 8.5MW Maris plant has been operating under the Feed-In Tariff (FIT) System at a rate of P5.8705 kwh/hour starting from its commercial operations date on 20 November 2017.

Naga Power Plant Complex

On 16 July 2018, the Naga Power Plant Complex (NPPC) was physically turned over and accepted by Therma Power-Visayas, Inc. (TPVI) from PSALM.

On 31 March 2014, TPVI was declared the highest bidder for the privatization of the NPPC located in Colon, Naga City, Province of Cebu. SPC, the other bidder, exercised its right-to-top (RTT) under the Naga Power Plant Land-Based Gas Turbine Land Lease Agreement (LBGT- LLA), and PSALM declared SPC as the winning bidder.

Senator Sergio R. Osmeña III filed a petition for certiorari and prohibition to enjoin PSALM from implementing SPC's RTT, and to have the said RTT declared null and void. PSALM, SPC and TPVI were impleaded as respondents. In its 28 September 2015 Decision, the Supreme Court cancelled the award to SPC on the finding that SPC's RTT is void for lack of interest or right to the object over which the right to top is to be exercised. The Supreme Court has denied the motions filed by SPC with finality and issued an Entry of Judgment on 09 January 2017. On 14 February 2017, TPVI through counsel, received a copy of the Entry of Judgment dated 09 January 2017, stating that the 28 September 2015 Decision and 05 October 2016 Resolution have become final and executory on 28 November 2016 and have been recorded in the Book of Entries of Judgment. On 24 May 2018, TPVI received the Certificate of Effectivity (COE) from PSALM to initiate the Company's purchase of the NPPC. The COE implements the 28 September 2015 decision of the Supreme Court, which upheld the 30 April 2014 award of the facility to TPVI.

Pagbilao Unit III

In March 2018, the 400-MW Pagbilao Unit III commenced commercial operations. Pagbilao Unit III is owned by PEC, the joint venture company with TPEC Holdings Corporation. Pagbilao Unit III (Pag 3) is located in the same site as the existing 700-MW Pagbilao Units I (Pag 1) and II (Pag 2) coal-fired thermal power plant in Pagbilao Quezon.

Issuance of Fixed-Rate Corporate Retail Bonds

On 23 March 2017, the Board of Directors approved the issuance of fixed-rate corporate retail bonds in the aggregate amount of up to ₱30 bn (the "2017 Bonds"), registered under the shelf registration program of the SEC to be issued in tranches. On 16 May 2017, PhilRatings assigned an issue credit rating of "PRS Aaa" with Stable Outlook for the first tranche of the 2017 Bonds. SEC issued the Order of Registration and Certificate of Permit to Offer Securities for Sale on 19 June 2017. On 03 July 2017, an aggregate amount of ₱3 bn Series "A" Bonds was issued with a fixed interest rate of 5.3367% per annum. The Series "A" Bonds, which will mature on 03 July 2027, were listed with PDEx, allowing the bonds to be traded in the secondary market. SEC issued the Certificate of Permit to Sell Securities on 11 October 2018 for the Series "B" and Series "C" bonds in the aggregate amount of ₱10 bn with an oversubscription option of up to ₱5 bn, of which ₱0.2 bn was exercised. The Series "B" bonds has an interest rate of 7.5095% per annum, maturing in 2024, while Series "C" bonds has an interest rate of 8.5091% per annum, maturing in 2028. Same as the 2017 Bonds, PhilRatings assigned an issue credit rating of "PRS Aaa" with Stable Outlook for the bonds which were also listed with PDEx on 25 October 2018. SEC issued the Certificate of Permit to Sell Securities on 27 September 2019 for the Series "D" bonds in the amount of ₱7 bn with an oversubscription option of up to ₱5 bn, of which ₱250

mn was exercised. The Series "D" bonds has an interest rate of 5.2757% per annum, maturing in 2026. Same as the 2018 Bonds, PhilRatings assigned an issue credit rating of "PRS Aaa" with Stable Outlook for the bonds which were also listed with PDEx on 14 October 2019.

Solar Photovoltaic Power Generation Projects

In December 2017, AboitizPower, through its wholy-owned Subsidiary, AboitizPower International, consolidated its ownership of San Carlos Sun Power, Inc. (Sacasun) when the former acquired SunE Solar equity interest in Sunedison Philippines.

Sacasun is the project company that owns and operates the 59-Megawatt peak (MWp) solar photovoltaic power generation project in San Carlos City, Negros Occidental.

Ownership Interests in GMCP and GNPD

On 26 September 2018, the Company entered into a share purchase agreement with Arlington Mariveles Netherlands Holding BV, an affiliate of AC Energy, and a shareholders' agreement with AC Energy, a wholly-owned subsidiary of Ayala Corporation, for the proposed acquisition of a 49% voting stake and 60% economic stake in AA Thermal, AC Energy's thermal platform in the Philippines.

Through the acquisition of AA Thermal, which holds interests in GMCP, the owner and operator of an operating 2x316 MW coal plant in Mariveles, Bataan and in GNPD, the developer and owner of a 2x668 MW supercritical coal plant project in Dinginin, Bataan, which is currently under construction, AboitizPower's economic interests in GMCP and GNPD have been increased to 78.3% and 70% respectively.[14]

Ownership in AA Thermal

After the satisfaction of all conditions precedent under the share purchase agreement with Arlington Mariveles Netherlands Holding BV on 02 May 2019, the Company completed its acquisition of a 49% voting stake and a 60% economic stake in AA Thermal. The PCC approved the transaction in 28 February 2019. The transaction was valued at USD 572.9 mn, after adjustments.

COMPETITIVE STRENGTHS

The Company believes that its principal strengths are the following:

Strong track record in both power generation and distribution.

Power generation. AboitizPower's generation group has developed some of the largest private power producers in the Philippines, having a well-balanced portfolio of renewable (hydro, geothermal and solar) and non-renewable (coal and oil) energy sources across 47 generation facilities since 1978. AboitizPower's hydro group, Hedcor, has played an integral role in the power generation business by emerging as a pioneer in the development of small-to medium-sized hydroelectric plants in the Philippines. The Company ensures that its operations at existing power plants remain at par with globally recognized standards and best practices. AboitizPower's various business units continue to earn multiple certifications for quality, safety, environmental, asset management, business continuity, and information security management from the International Organization for Standardization (ISO). Furthermore, the RES group of AboitizPower is the second largest RES player (based on share in total retail market demand presented in ERC Competitive Retail Electricity Market Monthly Statistical Data as of March 2020) in the Philippines.

Power distribution. The Aboitiz Group entered the power distribution business in 1918 when the Aboitiz family bought a 20% equity stake in Visayan Electric, which at that time was an integrated power business (i.e., had both generation and distribution assets). AboitizPower's power distribution business is currently composed of nine distribution utilities, two of which serve the second- and third-largest markets in the Philippines: Cebu City and Davao City, and their surrounding areas. These two are Visayan Electric and Davao Light, which are among the first

[14] The Company's final economic interests in GNPD will be 70% by ennd of 2020.

few in the country to be certified with an ISO 14000:2015 and ISO 45000:2018 for Occupational Health and Safety, and Environmental Management. AboitizPower continues to invest to improve reliability and increase efficiency by instituting standardised operating systems and processes. AboitizPower's ownership interests in power distribution companies are expected to continue providing stable sources of revenue. The Company believes it is well-positioned to benefit from the stable electricity demand growth rate in the country, as economic activity in two of the largest electricity markets, Cebu City and Davao City, increases.

Ability to take advantage of expected strong power market fundamentals.

According to the DOE for the period from 2016 to 2040, growth in demand for electricity in the Luzon, Visayas, and Mindanao grids increase at an average annual growth rate of 4.78%, 6.83% and 7.58% respectively. As an established and reputable operator of IPPs, the Company believes that its portfolio of generation facilities located in strategic points across the three grids will allow it to benefit from the continued economic development of the Philippines. The Company is well-positioned to provide a number of energy-related services, such as baseload, peaking, and reserve power requirements.

Power generation contracts that provide steady and predictable cash flow.

In 2019, over 80% of the Company's attributable net sellable capacity were covered by bilateral contracts. These bilateral contracts provide steady cash flows from a variety of offtakers, including distribution utilities and contestable customers under the Retail Competition and Open Access (RCOA) regime. In particular, the Generation Companies have existing bilateral contracts that require offtakers to either pay for available capacity (in the case of the majority of the Company's baseload and oil plants), or pay for all the electricity generated by the relevant plant (in the case of the bulk of the Company's run-of-river hydropower plants). A number of plants also have contracts that do not assume fuel risk because of direct pass-through mechanisms in their respective PPAs or fuel is supplied by their offtakers. For contracts with no direct pass-through mechanisms, the fuel risk is hedged.

Benefits from renewable energy sources.

Operating leverage. Since the Company's run-of-river hydroelectric power generation facilities rely on natural water flow to generate electricity, they are not exposed to market fluctuations in the price of hydrocarbon fuels. Further, hydroelectric plants, such as the 360 MW Magat plant and 231 MW Ambuklao-Binga plants, have relatively quick ramp-up and ramp-down capabilities. The Company's Magat and Ambuklao-Binga plants can provide multiple ancillary services to the Luzon Grid, such as frequency regulation, acting as a spinning reserve and providing back-up power.

Other benefits from renewable energy. Sales from generating facilities using renewable energy sources, such as the Company's hydroelectric, geothermal and solar-powered facilities, are "zero-rated" for purposes of VAT. This means that the Generation Companies are not required to include the VAT as part of the rates they charge offtakers. While the Generation Companies are allowed to claim as tax credit the amount of VAT charged or passed on to their suppliers, the process has allowed the Company to claim, albeit with a lot of effort and is continuously being challenged by the BIR.

Further, because the Company has a number of run-of-river hydroelectric facilities located in different regions of the Philippines, the Company believes it has a natural hedge against the risk of hydrological conditions in one area of the Philippines affecting all of the Company run-of-river facilities.

RA No. 9513, or the Renewable Energy Act, is intended to give additional incentives to the Generation Companies, which will in turn translate to lower operating costs. The law provides fiscal and non-fiscal incentives, including income tax holiday (ITH) for a period of seven (7) years, ten percent (10%) corporate income tax after the lapse of the ITH, duty-free importation, and special rates on real property taxes among others. See the section entitled "*The Renewable Energy Act of 2008*" on page 221 of this Prospectus.

Dependable and growing sources of income from its power distribution businesses.

The Company's ownership interests in the Distribution Companies are expected to continue providing stable sources of revenues. With Visayan Electric and Davao Light, the second and third largest privately-owned distribution utilities in the Philippines in terms of both customers and annual GWh sales, forming part of the Company's distribution utilities portfolio, the Company is well-positioned to benefit from a stable electricity demand growth rate in the country, as economic activity in two of the largest electricity markets increases.

Strong financial position and the ability to obtain limited recourse and corporate level financing.

The Company believes that its strong financial position enables it to implement its strategy of expanding its generation portfolio through selective acquisitions and Greenfield projects, while at the same time improving the operation performance and efficiency of the Distribution Companies. The Company's strong balance sheet supports its growth plans. The Company has also consistently been able to secure bank financing from leading Philippine and multinational banks.

Established relationships with strategic partners.

The Company has established a strategic partnership to own and operate the Magat, Maris, and Ambuklao-Binga hydroelectric plants with SN Power, which is a leading renewable energy company with projects and operations in Asia, Africa and Latin America. Aside from this, AboitizPower has also established partnerships with the likes of STEAG GmbH, AC Energy, Global Power, Meralco, and TeaM Energy, which are recognized names in their respective industries. The Company remains open to strategic partnerships in the pursuit of exploratory projects.

The Company believes that it can build on its relationships with these partners to enhance its ability to compete for, develop, finance and operate future power generation projects.

Strong and experienced management team.

The Company is led by a seasoned management team with a track record of hands-on management in the complex power generation and distribution business. The management team is not only tenured but has in depth technical and financial expertise to meet the challenges of this fast-growing business. In line with this, further domain expertise has been integrated in trading, energy economics, assets and contracts management, business development, environmental and construction management, among others. As a result, AboitizPower posts sustained positive growth and an equally strong financial performance.

As a leader of this industry, the Company's management team is in constant collaboration and communication with regulatory bodies such as the DOE and ERC. Hand in hand with various energy stakeholders on a national and local level, the management team works to promote good business practices and the interests of the public. With over 100 years in business, the Aboitiz Group knows that the strength of the business not only rests in operational expertise but in its reputation as it meets its obligations to its various stakeholders.

AboitizPower is committed to becoming a critical enabler in the country's development.

BUSINESS STRATEGY

The Company's business strategy is to increase shareholder value by developing new generation projects, selectively acquiring existing power plants, leveraging the generating portfolio mix in energy sales and trading, and expanding its distribution business.

1. **Expand the Company's generation portfolio**

Despite the anticipated economic impact to GDP of the COVID-19 pandemic in the Philippines, the economy is expected to recover and continue its positive growth momentum in the coming years, according to the International Monetary Fund. To sustain this growth, the Philippines will require a sufficient amount of competitively priced power

to meet the country's increasing energy needs. AboitizPower is strategically constructed to meet this increasing demand. The Company seeks to provide the country with reliable power at a reasonable cost and in a responsible manner. Furthermore, AboitizPower has a strong pipeline which features a generation portfolio of multi-fuel technologies. The Company has been increasing its generation portfolio since 2007 and expects to continue to develop a strong and sustainable pipeline for the future while also protecting and optimising the Company's current business to drive cost-efficient growth. AboitizPower has a goal to grow its capacity to more than 9,000 MW by 2029, which the Company expects to come from a portfolio of renewables and selective baseload builds. In terms of renewable energy, the Company aims to maximize opportunities coming from the implementation of the RPS by DOE starting in 2019. The Company will pursue its international aspirations with focus on renewable energy projects in Vietnam, Indonesia, and Myanmar. From a 73% thermal and 27% renewable mix as of 31 December 2019, the Company's portfolio ratio will be close to a 50:50 Cleanergy (renewable energy) and thermal energy mix at the end of the next decade.

Supporting its developmental efforts, acquisitions like GNPD are expected to play a critical role in the Company's pursuit of growth. Baseload power has a critical role in the country's energy mix, so the Company is on the constant lookout for the most competitively priced baseload fuel at every stage, employing best in class technologies to manage environmental impact.

AboitizPower seeks to leverage on its renewable expertise to ensure it has sufficient assets to comply with the RPS and give customers the power of choice under the Green Energy Option Program. AboitizPower has also recently rolled out its rooftop solar venture, which also gives customers the option to generate their own renewable energy.

As previously mentioned, the Company is exploring renewable energy opportunities overseas as part of its expansion strategy.

2. **Contract the bulk of the Company's attributable net sellable capacity and leverage the generating portfolio mix**

In view of changing market dynamics, the goal of the Company is to contract the bulk of its attributable net sellable capacity into an optimal mix of bilateral contracts, spot market sales, and ancillary services, based on a portfolio optimization strategy. The bilateral contract mix of capacity- and energy-based contracts comprise 85% of the Company's net sellable capacity, and provides steady and predictable cash flows. At the same time, this allows the Company to capitalize on opportunities in the spot and ancillary markets.

3. **Expand the scope of the Company's distribution business and continue to improve the operational efficiency of its existing distribution assets**

To protect AboitizPower's core business and ensure stable growth, the Company's major plans include expanding the Power Distribution business and improving the performance of distribution utilities by aligning its operations to world-class standards. AboitizPower intends to explore opportunities to expand its portfolio of distribution companies by either acquiring additional distribution utilities or electric cooperatives, or by entering into agreements to manage distribution utilities or systems. AboitizPower also expects to focus on improving the distribution utilities' level of service and lowering their operating costs by maximising synergies with the generation units and across the distribution utilities and by investing in new systems that will allow the distribution utilities to be more efficiently managed. AboitizPower believes that a strong distribution business of sufficient scale will continue to provide a springboard for AboitizPower's strategies in electricity generation and electricity-related services.

4. **Maintain a high level of social responsibility in the communities in which the Company operates.**

The Company aims to conduct its business operations consistent with the highest standards of social responsibility and sustainable development, particularly in terms of environmental responsibility. The Company has actively participated in the development of the communities where its projects are located, which contribute to social and political stability in the areas where the Company operates. The Company also contributes a portion of its revenues to local government units to fund community development activities in the areas of education, health care, rural electrification and environmental protection. By continuing to strengthen its relationships with the local communities where it does business and build support and goodwill among the residents, non-governmental

organizations, local government units and other stakeholders, the Company believes that it increases the likelihood that it will benefit from political and social stability in the areas where it operates, and get the continued support and patronage of its key stakeholders.

PRINCIPAL PRODUCTS

Generation of Electricity

AboitizPower's power generation portfolio includes interests in both renewable and non-renewable generation plants. As of 31 March 2020, the power generation business accounted for 92% of earning contributions from AboitizPower's business segments. AboitizPower conducts its power generation activities through the Subsidiaries and Affiliates listed in the table below.

The table below summarizes the Generation Companies' operating results as of 31 March 2020 and full year 2019 compared to the same period in 2018 and 2017:

Generation Companies	Energy Sold				Revenue			
	Q1 2020	2019	2018	2017	Q1 2020	2019	2018	2017
	(in GWh)				(in mn Pesos)			
APRI	784	2,968	2,857	2,747	2,936	12,545	12,518	11,645
Sacasun	13	49	41	41	73	269	197	189
Hedcor	11	226	172	162	59	881	694	**822**
LHC	30	262	291	272	93	787	970	774
Hedcor Sibulan	45	191	213	259	309	1,282	1,385	1,591
Hedcor Tudaya	7	29	32	41	42	172	191	240
Hedcor Sabangan	4	51	53	55	26	300	315	325
Hedcor Bukidnon	58	284	115	-	316	1,605	573	-
SNAP-Magat	511	2,054	2,379	1,324	1,096	6,608	7,182	8,298
SNAP-Benguet	333	1,975	2,085	989	885	6,065	6,070	6,996
TLI	1,758	6,812	6,808	5,126	5,798	25,410	26,603	22,939
TSI	245	1,393	1,959	1,647	1,861	9,099	11,141	10,535
TVI	546	1,710	269	-	2,070	6,254 -	702	-
Cebu Energy	509	1,900	1,978	1,724	2,137	8,578	9,728	8,752
STEAG Power	459	1,840	1,840	1,212	1,187	4,791	4,373	4,255
GMCP	1,169	3,909	5,498	5,482	3,689	19,373	23,492	21,644
WMPC	215	638	438	221	394	1,158	1,393	1,439
SPPC	0	0	161	50	0	0	161	524
CPPC	136	550	551	141	279	1,685	1,253	1,484
EAUC	91	383	368	63	191	1,013	819	844
TMI	227	1,200	1,432	182	292	1,865	2,016	2,076
TMO	277	938	814	286	470	1,970	1,694	3,111

Renewable Energy

Aboitiz Renewables, Inc. (ARI)

AboitizPower has been committed to developing expertise in renewable energy technologies since commencing its operations in 1998. As of 31 March 2020, out of AboitizPower's attributable net sellable capacity of approximately 3,455 MW in operation, its renewable energy portfolio is comprised of 46 MW of solar, 585 MW of hydro, and 290 MW of geothermal.

AboitizPower's investments and interests in various renewable energy projects, including geothermal, large hydro, run-of-river hydro, and solar projects, are held primarily through its wholly-owned Subsidiary, ARI and its Subsidiary power generation companies. ARI was incorporated on 19 January 1995. AboitizPower, through and/or with ARI, owns equity interests in the following Generation Companies, among others. The table below summarizes the Company's renewable power generation companies and key information as of 31 March 2020:

Generation Company	Percentage of Ownership	Plant Name (Location)	Project type	Net Sellable Capacity (MW)	Attributable Net Sellable Capacity (MW)	Offtakers
APRI	100% (ARI)	Tiwi – Makban (Luzon)	Geothermal	290	290	WESM/ Bilaterals
Hedcor	100% (ARI and AboitizPower)	Benguet 1-9 (Luzon) La Trinidad, Bineng 3, Ampohaw, FLS, Labay, Lon-oy, Irisan 1 and 3, and Sal-angan	Run-of-river hydro	52.78	52.78	FIT/ Bilaterals
		Davao 1-5 (Mindanao) Talomo 1, 2, 2A, 2B, and 3	Run-of-river hydro	4.47	4.47	Distribution utility
Hedcor Bukidnon	100% (ARI and AboitizPower)	Manolo Fortich 1 and 2 (Mindanao)	Run-of-river hydro	68.8	73.33	FIT
Hedcor Sabangan	100% (ARI and AboitizPower)	Sabangan (Luzon)	Run-of-river hydro	14.96	14.96	FIT
Hedcor Sibulan	100% (ARI)	Sibulan (A, B and Tudaya 1) (Mindanao)	Run-of-river hydro	49.23	49.18	Distribution utility
Hedcor Tudaya	100% (ARI and AboitizPower)	Tudaya (2) (Mindanao)	Run-of-river hydro	7	8.135	FIT
LHC	100% (ARI)	Bakun AC (Ilocos Sur, Luzon)	Run-of-river hydro	74.8	74.8	NPC (2026)
Sacasun	100% (ARI: 75%, AboitizPower International B.V.: 15%, and Maaraw Holdings San Carlos: 10%)	Sacasun	Solar	47	47	Bilaterial
SNAP-Benguet	60% (through MORE)	Ambuklao (Benguet, Luzon)	Large Hydroelectric	105	53	WESM
		Binga (Luzon)	Large Hydroelectric	140	70	WESM/ASPA
SNAP-Magat	60% (through MORE)	Magat (Luzon)	Large Hydroelectric	388	194	WESM/ Coops/ ASPA
		Maris Main Canal 1 (Luzon)	Run-of-river hydro	8.5	4	FIT*
Total				**1,250***	**936***	

Notes:

** Sum figures will differ due to rounding effect.*

Run-of-River Hydros

Luzon Hydro Corporation (LHC)

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

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

Hedcor, Inc. (Hedcor)

In 2005, ARI consolidated all its mini-hydroelectric generation assets, including those developed by HEDC and Cleanergy, into Hedcor. Cleanergy is Hedcor's brand for clean and renewable energy. Hedcor owns, operates, and manages run-of-river hydropower plants in Northern Luzon and Davao City, with a combined net sellable capacity of 55.77 MW.

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

Northern Luzon's climate is classified as having two pronounced seasons - dry from November to April and wet for the rest of the year. Due to this classification, generation levels of Hedcor's plants, particularly those located in Northern Luzon, are typically lower during the first five months of each year. In 2019, Hedcor's hydropower plants generated a total of 204.78 GWh of Cleanergy.

In 2017, Hedcor broke ground on its 19-MW La Trinidad Hydro project in La Trinidad, Benguet, of which 100% is attributable to the Company. The plant achieved its commercial operations in July 2019. It is a new plant after Hedcor decommissioned Bineng 1, 2, and 2B, which had a combined capacity of 6 MW.

Hedcor Sibulan, Inc. (Hedcor Sibulan)

Hedcor Sibulan, a wholly-owned Subsidiary of ARI, owns, operates, and manages the 49.23-MW hydropower plants composed of three cascading plants (the "Sibulan Project") located in Santa Cruz, Davao del Sur. The Sibulan Project consists of: Sibulan A Hydro, which produces 16.32 MW; Tudaya 1 Hydro, which produces 6.7 MW; and Sibulan Hydro B which produces another 26.25 MW by re-using the water from Sibulan A Hydro and Tudaya 1 Hydro. ERC renewed the Certificates of Compliance (COC) for Tudaya Hydro 1 on 10 March 2014, and for the Sibulan Hydro A and B plants on 18 May 2015. The energy produced by the Sibulan Plants are sold to Davao Light through a PSA signed in 2007. The company was incorporated on 02 December 2005.

Hedcor Tudaya, Inc. (Hedcor Tudaya)

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

The Tudaya Hydro 2 plant has been commercially operating since March 2014. Tudaya Hydro 2 is currently selling energy under the FIT mechanism through a RESA with Davao del Sur Electric Cooperative, and through a REPA with Transco.

Hedcor Sabangan, Inc. (Hedcor Sabangan)

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

Hedcor Bukidnon, Inc. (Hedcor Bukidnon)

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

The Manolo Fortich plant is composed of the 45.94-MW Manolo Fortich 1 and the 27.39-MW Manolo Fortich 2. Both plants produce at least 353.91 GWh annually, harnessing the power of Tanaon, Amusig, and Guihean rivers. The construction of the Manolo Fortich plant was completed in 2018.

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

Large Hydros

SNAP-Magat, Inc. (SNAP-Magat)

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

SNAP-Magat's certificate of compliance ("COC") was issued on December 2015 and is valid for five years or until 28 November 2020. SNAP-Magat is ARI's joint venture with SN Power. SNAP-Magat is 60% owned by MORE.

The Magat Plant was completed in 1983 and was turned over to SNAP-Magat in April 2007 after winning a bidding process conducted by PSALM in December 2006. As a hydroelectric facility that can be started up in a short period of time, the Magat Plant is suited to act as a peaking plant with the capability to capture the significant upside potential that can arise during periods of high demand. This flexibility allows for the generation and sale of electricity at the peak demand hours of the day. This hydroelectric asset has minimal marginal costs, which AboitizPower believes gives it a competitive advantage in terms of economic dispatch order versus other fossil fuel-fired power plants that have significant marginal costs.

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

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

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

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

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

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

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

SNAP-Benguet, Inc. (SNAP-Benguet)

SNAP-Benguet is the owner and operator of the Ambuklao-Binga hydroelectric power complex, which consists of the 105-MW Ambuklao HEPP (the "Ambuklao Plant") and the 140-MW Binga HEPP (the "Binga Plant"), located in Brgy. Tinongdan, Itogon, Benguet Province. SNAP-Benguet is also a joint venture between ARI and SN Power. As of 31 January 2020, 60% equity is owned by MORE and 40% equity interest is owned by SN Power. The company was incorporated on 12 March 2007.

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

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

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

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

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

Geothermal

AP Renewables Inc. (APRI)

APRI, a wholly-owned Subsidiary of ARI, is one of the leading renewable power companies in the country. It owns the 234 MW Tiwi geothermal power facility in Albay and the 449.8 MW Makiling-Banahaw geothermal power facility in Laguna (the "Tiwi-MakBan Geothermal Facilities") located in Albay, Laguna, and Batangas, with a potential capacity of 683.3 MW. These geothermal facilities were formally turned over to APRI on 25 May 2009.

The Tiwi-MakBan Plants produce clean energy that is reasonable in cost, efficient in operation and environment-friendly. As a demonstration of APRI's commitment to providing world class services, adhering to environmental management principles to reduce pollution, complying with regulations, and ensuring a safe and healthy workplace, the Company was issued Integrated Management System (IMS) certifications by TÜV Rheinland Philippines, which

include International Organization for Standardization (ISO) 9001:2015, ISO 14001:2015 (Environment), and OSHAS (Occupational Health and Safety Series) 18001:2007 (Health and Safety).

On 24 August 2018, APRI and PGPC signed a Geothermal Resources Supply and Services Agreement ("GRSSA") for the supply of steam and drilling of new production wells for the Tiwi-MakBan Geothermal Facilities. The GRSSA effective date will run until the expiration of APRI's initial DOE operating contracts term on 22 October 2034, thereby ensuring the long-term operations of the facilities. Under the GRSSA, PGPC has committed to drill at least 12 new production wells over a five-year period to increase steam availability. The GRSSA also provides for more equitable and competitive fuel pricing in the long run.

The Tiwi-MakBan Geothermal Facilities have generally operated at par or better than industry standards. APRI routinely evaluates and implements various projects while improving coordination with PGPC to improve efficiency levels and counteract the challenges of a declining steam supply.

Solar

Maaraw Holdings San Carlos, Inc. (Maaraw San Carlos) and San Carlos Sun Power Inc. (Sacasun)

Sacasun owns and operates the 59-MWp solar photovoltaic power generation plant located in the San Carlos Ecozone, Barangay Punao, San Carlos City, Negros Occidental ("Sacasun Plant"). The project was commissioned on March 9, 2016 and formally inaugurated on 19 April 2016.

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

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

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

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

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

APX1 is a registered PEZA company, which intends to serve customers operating within PEZA zones.

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

Renewables Pipeline

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

SN Aboitiz Power-Gen implements the SN Aboitiz Power Group's Business Development Program, which aims to grow the SN Aboitiz Power Group's renewable energy portfolio by looking at potential power projects in the Philippines, primarily within its current host communities in Northern Luzon.

There is a pipeline of projects in various stages from initial prospecting, pre-feasibility, feasibility, construction, including the completed Maris Plant which has since been transferred to SNAP-Magat.

As of the end of 2019, SN Aboitiz Power-Gen's most significant project is the proposed 380-MW Alimit hydropower complex in Ifugao, which consists of the 120-MW Alimit hydropower plant, the 250-MW Alimit pumped storage facility (which is currently on hold due to market constraints), and the 20-MW Olilicon hydropower plant.

All four of the Indigenous Peoples Organizations that will be impacted by the proposed Alimit hydropower complex have signified their Free and Prior Informed Consent by signing MOAs.

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

Non-Renewable Energy

Therma Power, Inc. (TPI)

AboitizPower's investments and interests in various non-renewable energy projects are held primarily through its wholly-owned Subsidiary, TPI and its Subsidiary power generation companies. TPI was incorporated on 26 October 2007. AboitizPower, through and/or with TPI, owns equity interests in the following Generation Companies, among others. The table below summarizes the Company's non-renewable power generation companies and key information as of 31 March 2020:

Generation Company	Percentage Ownership	Plant Name (Location)	Project Type	Net Sellable Capacity (MW)	Attributable Net Sellable Capacity (MW)	Off-takers
Coal Group						
TLI	100% (TPI)	Pagbilao (Luzon)	Coal-fired	700	700	Bilaterals/WESM
PEC	50% (TPI)	Pagbilao 3 (Luzon)	CFB	400	200	Bilaterals
TSI	100% (TPI and AboitizPower)	TSI Plant (Mindanao)	CFB	260	260	Bilaterals
TVI	80% (TPI and AboitizPower)	TVI Plant (Visayas)	CFB	300	240	Bilaterals/WESM
CEDC	26.4% (through Abovant)	Cebu Energy (Visayas)	CFB	216	57	Bilaterals/WESM
GMCP	78.3% (economic interests through TPI and AA Thermal)	Mariveles Project (Luzon)	Coal-fired	632	495	Bilaterals/WESM
STEAG Power	34% (AboitizPower)	STEAG Power Plant (Mindanao)	Coal-fired	210	71	NPC/PSALM (2031)
Oil Group						
CPPC	60% (through TPI and Visayan Electric)	CPPC Plant (Visayas)	Bunker-C fired power plant	66	40	Distribution utility
EAUC	100% (TPI and AboitizPower)	EAUC Plant (Visayas)	Bunker-C fired power plant	44	44	MEPZ I/Bilaterals
SPPC	20% (AboitizPower)	SPPC Plant (Mindanao)	Bunker-C fired power plant	55	11	N/A
TMI	100% (TPI)	Power Barge Mobile 1 (Mindanao)	Barge-mounted power plant	96	96	Bilaterals

Generation Company	Percentage Ownership	Plant Name (Location)	Project Type	Net Sellable Capacity (MW)	Attributable Net Sellable Capacity (MW)	Off-takers
		Power Barge Mobile 2 (Mindanao)	Barge-mounted power plant	96	96	Bilaterals
TMO	100% (TPI and AboitizPower)	Power Barges Mobile 3-6 (Luzon)	Barge-mounted power plant	200	200	Distribution utility
WMPC	20% (AboitizPower)	WMPC Plant (Mindanao)	Bunker-C fired power plant	100	20	Bilaterals
Cotabato Light	99.94% (AboitizPower)	Bunker Cotabato (Mindanao)	Bunker-C fired power plant	4	4	Cotabato Light
			Total	**3,379**	**2,534**	

Oil Group

Therma Marine, Inc. (TMI)

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

The 192 MW net dependable capacities of TMI are currently contracted to the NGCP as an Ancillary Service Provider of Contingency and Dispatchable Reserves in the Mindanao Grid and to Davao Light. TMI is now registered as a WESM Trading Participant beginning 08 January 2020 in anticipation of WESM in Mindanao.

Therma Mobile, Inc. (TMO)

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

East Asia Utilities Corporation (EAUC)

EAUC, a wholly-owned Subsidiary of TPI, is the owner and operator of a 49.6-MW Bunker C-fired power plant within MEPZ I, Lapu-Lapu City, Cebu. The company supplies the power requirements of the MEPZ I locators, and began supplying power through the WESM on 26 December 2010. EAUC was incorporated on 18 February 1993. EAUC has been awarded by IEMOP for its exemplary regulatory compliance in the WESM.

Therma Power-Visayas, Inc. (TPVI)

TPVI, a wholly-owned Subsidiary of TPI, is the project company that was awarded the winning bid for the privatization of the 25.3-hectare Naga Power Plant Complex (NPPC) located at Naga City, Cebu. The company was incorporated on 08 October 2007.

Following protracted legal proceedings, on 23 May 2018, PSALM issued a Certificate of Effectivity of the Notice of Award originally issued on 30 April 2014 in favor of TPVI. Thereafter, PSALM and TPVI executed the Asset Purchase Agreement and Land Lease Agreement of the NPPC.

On 16 July 2018, PSALM physically turned over the NPPC to TPVI. TPVI is currently working on the rehabilitation of the 44-MW diesel plant, which DOE has endorsed as a committed power project.

Cebu Private Power Corporation (CPPC)

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

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

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

Southern Philippines Power Corporation (SPPC)

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

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

Western Mindanao Power Corporation (WMPC)

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

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

Coal Group

Therma Luzon, Inc. (TLI)

TLI, a wholly owned Subsidiary of AboitizPower, is the first IPPA in the country and assumed the role of the registered trader of the contracted capacity of the 700-MW (2x350 MW) Pagbilao coal-fired thermal power plant located in Pagbilao, Quezon (Pagbilao Plant or Pag1 and Pag2). TLI was incorporated on 20 October 2009.

As IPPA, TLI is responsible for procuring the fuel requirements of and selling the electricity generated by the Pagbilao Plant. The Pagbilao Plant is owned and operated by TeaM Energy Corporation (TeaM Energy). Under the IPPA Agreement, TLI has the right to receive the transfer of Pag1 and Pag2 at the end of the ECA. Over the years, TLI's capacity was contracted to various cooperatives, private distribution utilities, directly connected customers, and to affiliate RES.

Pagbilao Energy Corporation (PEC)

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

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

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

Therma South, Inc. (TSI)

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

TSI contributes to the continuing growing power requirements of Mindanao by providing stable and cost-effective base load power. TSI supplies power to various private distribution utilities and energy cooperatives.

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

Therma Visayas, Inc. (TVI)

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

AboitizPower, together with its wholly owned Subsidiary, TPI, effectively owns 80% equity interest of TVI as of 31 March 2020. The remaining 20% is held by the Vivant Group.

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

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

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

CEDC was incorporated on 05 December 2008 by Abovant and Global Formosa Power Holdings, Inc. (Global Formosa), a joint venture between Global Business Power Corporation and Flat World Limited, for the purpose of constructing three units of 82-MW CFB coal-fired power plant situated within the Toledo Power Complex in Barangay Daanlungsod, Toledo City, Cebu. The first unit was commissioned in February 2010, while the second and third units were commissioned on the second and fourth quarters of 2010, respectively. Cebu Energy declared commercial operations on 26 February 2011, and is the first commercial clean-coal facility in the country.

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

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

As of 31 March 2020, Abovant has a 44% equity interest in CEDC, while Global Formosa owns the remaining 56%. Consequently, AboitizPower, through TPI, holds a 26.4% effective ownership interest in CEDC as of 31 March 2020.

Redondo Peninsula Energy, Inc. (RP Energy)

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

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

retained a 25% stake in RP Energy as of March 31, 2020.

STEAG State Power Inc. (STEAG Power)

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

As of 30 September 2019, AboitizPower has a 34% equity interest in STEAG Power following the purchase of said equity from Evonik Steag GmbH (now STEAG GmbH or STEAG), Germany's fifth largest power generator. STEAG and La Filipina Uy Gongco Corporation currently hold the remaining 51% and 15% equity, respectively, in STEAG Power.

STEAG Power has a 25-year PPA with the NPC/PSALM, which is backed by a performance undertaking issued by the Republic of the Philippines. STEAG Power's COC is effective until August 2021.

AA Thermal, Inc.

On 02 May 2019, AboitizPower completed its acquisition of 49% voting stake and 60% economic stake in AA Thermal, AC Energy Inc. (AC Energy)'s thermal platform in the Philippines.

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

GNPower Mariveles Coal Plant Ltd. Co. (GMCP)

GMCP is a private limited partnership established to undertake the development, construction, operation, and ownership of an approximately 2x316 MW (net) pulverised coal-fired power plant located in Mariveles, Bataan, Philippines ("Mariveles Project"). The Mariveles Project is located within an industrial zone on a 60-hectare coastal site near the port of Mariveles, Bataan. The project site lies near the northern entrance to Manila Bay, providing easy and safe shipping access from the West Philippine Sea. It was declared commercially available in 2013 and currently supplies electric capacity to the Luzon and Visayas markets.

The partnership interests in GMCP are owned by (i) TPI, (ii) ACE Mariveles Power Ltd. Co., a joint venture involving AC Energy, a wholly-owned subsidiary of Ayala Corporation, and (iii) Power Partners Ltd. Co. ("Power Partners").

On 2 May 2019, the company completed its acquisition of AA Thermal, increasing AboitizPower's economic interests in GMCP to 78.3%.

The electricity produced by the Mariveles Project is exported through a newly-built high voltage transmission line owned and operated by the NGCP.

Substantially all of the capacity of the Mariveles Project is contracted under long-term power purchase agreements with a combination of distribution utilities and Contestable Customers.

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

GNPower Dinginin Ltd. Co. (GNPD)

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

GNPD started the construction of Unit 1 in September 2016, proceeded with the expansion of the power plant and achieved financial closing for Unit 2 in December 2017. The expected commercial operations dates of Unit 1 and

Unit 2 are by first quarter of 2021 and second quarter of 2021, respectively. To date, GNPD has signed numerous Power Purchase and Sale Agreements with highly-rated distribution utilities and RES.

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

GNPD is co-developed by Power Partners, AC Energy, and TPI. With the AA Thermal acquisition in 2019, the Company's economic interests in GNPD was increased to 70%.[15]

On 19 December 2019, GNPD became a duly registered personal information controller with the National Privacy Commission.

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

Other Generation Assets

Cotabato Light maintains a stand-by 4.4-MW Bunker C-fired power plant capable of supplying approximately 13.75% of its franchise area requirements.

Distribution of Electricity

The Aboitiz Group has more than 85 years of experience in the Philippine power distribution sector.

With ownership interests in nine Distribution Utilities, the Company believes that AboitizPower is currently one of the largest electricity distributors in the Philippines. AboitizPower's Distribution Utilities collectively supply electricity to franchise areas covering a total of 18 cities and municipalities and five economic zones across Luzon, Visayas and Mindanao.

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

The power distribution business' earnings contribution to AboitizPower's business segments in 2019 is equivalent to 24%, and 50% for the first quarter of 2020. The Distribution Utilities had a total customer base of 1,039,689 as of 31 March 2020 and 1,030,726 as of end-2019, compared to 995,828 in 2018, and 954,300 in 2017.

The table below summarizes the key operating statistics of the Distribution Utilities for year-end 2017, 2018, and 2019, and as of 31 March 2020:

Company	Electricity Sold (MWh)				Peak Demand (MW)				No. of Customers			
	Q1 2020	2019	2018	2017	Q1 2020	2019	2018	2017	Q1 2020	2019	2018	2017
Davao Light	662,091	2,633,920	2,468,192	2,317,985	452	454	421	404	424,564	420,666	404,574	384,434
Cotabato Light	43,648	173,114	165,409	153,973	32	31	31	29	43,915	43,449	41,681	41,110
Visayan Electric	856,353	3,500,781	3,159,032	2,938,532	583	601	547	522	454,021	450,088	437,823	422,814
SFELAPCO	169,652	714,948	665,425	623,607	134	140	134	116	112,726	112,091	107,536	101,942
SEZ	70,157	329,633	423,939	517,558	54	62	100	106	3,484	3,473	3,343	3,267
MEZ	27,500	117,433	123,276	114,272	21	22	22	21	87	87	85	83

[15] The Company's final economic interests in GNPD will be 70% by end of 2020.

Company	Electricity Sold (MWh)				Peak Demand (MW)				No. of Customers			
	Q1 2020	2019	2018	2017	Q1 2020	2019	2018	2017	Q1 2020	2019	2018	2017
BEZ	24,376	101,885	100,554	91,273	26	27	27	27	34	34	31	31
LEZ	54,145	249,394	224,175	197,908	46	44	39	33	853	834	755	619
MEZ	19	51	N/A	N/A	0.07	0.06	N/A	N/A	5	4	N/A	N/A
Total	**1,907,942**	**7,821,159**	**7,330,002**	**6,955,108**	**1,347**	**1,382**	**1,320**	**1,258**	**1,039,689**	**1,030,726**	**995,828**	**954,300**

Visayan Electric Company, Inc. (Visayan Electric)

Incorporated on 22 February 1961, Visayan Electric is the second largest privately-owned distribution utility in the Philippines in terms of customers and annual MWh sales. Visayan Electric supplies electricity to four cities and four municipalities in Metro Cebu covering 674 square kilometers in the island of Cebu with a population of approximately 1.7 mn. Visayan Electric has 19 power substations and one mobile substation that serve the electrical power needs of the areas covered by its franchise in the province of Cebu.

Visayan Electric, directly and through its predecessors-in-interest, has been in the business of distributing electricity in Cebu since 1905. In 1928, Visayan Electric Company, S.A. was granted a 50-year distribution franchise by the Philippine Legislature. The franchise has been renewed in September 2005 for a period of 25 years or until September 2030.

As of 2019, Visayan Electric's total systems loss is at 6.00%. This includes a feeder loss level of 4.38%., which is below the government-mandated feeder loss cap of 6.25%. As of 31 March 2020, total systems loss is at 6.13%, including a feeder loss level of 4.51%, which is below the government-mandated feeder loss cap of 6%.

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

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

Davao Light is the third largest privately-owned electric distribution utility in the country in terms of customer size and annual kWh sales. Davao Light's franchise area covers various cities and municipalities in Davao, with a population of approximately 1.8 mn and a total area of 3,561 sq. kms.

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

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

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

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

As of 2019, Davao Light's total systems loss is at 7.32%. This includes a feeder loss of 4.28%, which is below the government-mandated feeder loss cap of 6.25%. As of 31 March 2020, total systems loss is at 7.43%, includin a feeder loss level of 4.43%, which is below the government-mandated feeder loss cap of 6%.

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

Cotabato Light and Power Company (Cotabato Light)

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

Cotabato Light also maintains a standby 4.4-MW Bunker C-fired plant capable of supplying approximately 13.75% of its franchise area requirements. The standby power plant, capable of supplying electricity in cases of supply problems with its power suppliers or NGCP and for the stability of voltage whenever necessary, is another benefit available to Cotabato Light's customers.

As of 2019, Cotabato Light's total systems loss is at 8.08%. This includes a feeder loss of 7.36%, which is above the government-mandated government-mandated feeder loss cap of 6.25%. Cotabato Light is continuously innovating its strategies and processes to reduce its system losses. As of 31 March 2020, total systems loss is at 8.35%, including a feeder loss level of 7.67%, which is above the government-mandated feeder loss cap of 6%.

As of 31 March 2020, AboitizPower directly owns 99.94% equity interest of Cotabato Light.

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

SFELAPCO was incorporated on 17 May 1927 and was granted a municipal franchise in 1927. The most recent renewal of its franchise was in March 2010 for a period of 25 years.

As of 2019, SFELAPCO's systems loss is at 4.86%. This includes a feeder loss of 3.34%, which is below the government-mandated feeder loss cap of 6.25%. As of 31 March 2020, total systems loss is at 4.72%, including a feeder loss level of 3.20%, which is below the government-mandated feeder loss cap of 6%.

As of 31 March 2020, AboitizPower has an effective equity interest of 43.78% in SFELAPCO.

Subic Enerzone Corporation (SEZ)

On 03 June 2003, SEZ was incorporated as a joint venture owned by a consortium including Davao Light, AEV, and SFELAPCO, among others, to undertake management and operation of the SBFZ power distribution utility.

As of 31 January 2020, SEZ served a total of 3,346 customers, consisting of 82 industrial locators, 1,167 commercial locators, 1,975 residential customers, 103 streetlights and 19 industrial locators under RES.

As of 2019, SEZ's systems loss is at 2.96%. This includes a feeder loss of 2.82%, which is below the government-mandated feeder loss cap of 6.25%. As of 31 March 2020, total systems loss is at 3.09%, including a feeder loss level of 2.88%, which is below the government-mandated feeder loss cap of 6%.

As of 31 March 2020, AboitizPower owns, directly and indirectly through Davao Light, 99.98% equity interest in SEZ.

Mactan Enerzone Corporation (MEZ)

MEZ was incorporated on February 2007 to serve as the power distributor of Mactan Ecozone II, which is operated by AboitizLand.

MEZ sources its power from SNAP-Magat and Green Core Geothermal Incorporated pursuant to a CSEE.

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

As of 2019, MEZ's total systems loss is at 0.96 %. This includes a feeder loss of 0.42%, which is below the government-mandated feeder loss cap of 6.25%. As of 31 March 2020, total systems loss is at 0.95%, including a feeder loss level of 0.42%, which is below the government-mandated feeder loss cap of 6%.

As of 31 March 2020, AboitizPower owns 100% equity interest of MEZ.

Balamban Enerzone Corporation (BEZ)

BEZ was incorporated in February 2007 when CIPDI, a joint venture between AboitizLand and THC, spun off the power distribution system of the West Cebu Industrial Park – Special Economic Zone (WCIP-SEZ). WCIP-SEZ is a special economic zone for light and heavy industries located in Balamban, Cebu.

In 2019, BEZ served a total of 16 captive industrial customers, 12 captive commercial customers, and 6 contestable industrial customers.

As of 2019, BEZ's total systems loss is at 0.42%. This includes a feeder loss of 0.16%, which is below the government-mandated feeder loss cap of 6.25%. As of 31 March 2020, total systems loss is at 0.43%, including a feeder loss level of 0.17%, which is below the government-mandated feeder loss cap of 6%.

As of 31 March 2020, AboitizPower directly owns 100% equity interest of BEZ.

Lima Enerzone Corporation (LEZ)

LEZ was incorporated as Lima Utilities Corporation on 05 June 1997 to serve and provide locators within the Lima Technology Center (LTC) with a reliable and stable power supply.

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

As of 2019, LEZ's total systems loss is at 5.24%. This includes a feeder loss of 0.61%, which is below the government-mandated feeder loss cap of 6.25 %. As of 31 March 2020, total systems loss is at 5.16%, including a feeder loss level of 0.49%, which is below the government-mandated feeder loss cap of 6%.

As of 31 March 2020, AboitizPower directly owns 100% equity interest of LEZ.

Malvar Enerzone Corporation (Malvez)

Malvez was incorporated on 09 June 2017 to serve and provide locators within the Light Industry & Science Park IV (LISP IV) in Malvar, Batangas. Malvez is expected to manage the construction, installation, operation, and maintenance of the power distribution of LISP IV for 25 years. LISP IV is expected to have two 50MVA transformers to provide reliable and quality power to locators, which are mostly from manufacturers and exporters.

As of 31 March 2020, AboitizPower directly owns 100% equity interest of Malvez.

RETAIL ELECTRICITY AND OTHER RELATED SERVICES

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

Aboitiz Energy Solutions, Inc. (AESI)

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

At the start of commercial operations of Open Access on 26 June 2013, AESI served 42 customers. For the year 2019,

AESI supplied retail electricity to a total of 212 customers, with total energy consumption of 2,107.09 mn kWh, and 204 customers with a total consumption of 567 mn kWh as of 31 March 2020. As of 31 March 2020, AboitizPower owns a 100% equity interest of AESI.

AdventEnergy, Inc. (AdventEnergy)

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

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

During 2019, AdventEnergy supplied retail electricity to 79 customers with a total consumption of 1,409.82 mn kWh, and 66 customers with a total consumption of 281 mn kWh as of 31 March 2020.

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

Prism Energy, Inc. (Prism Energy)

Prism Energy was incorporated on 24 March 2009 as a joint undertaking between AboitizPower (60%) and Vivant Corporation (40%). It was granted a license to act as a RES valid until 22 May 2022.

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

During 2019, Prism Energy supplied retail electricity to 48 customers with a total energy consumption of 242.87 mn kWh, and 43 customers with a total consumption of 57 mn kWh as of 31 March 2020.

As of 31 March 2020, AboitizPower directly owns 60% equity interest in Prism Energy.

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

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

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

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

DELIVERY METHODS OF THE PRODUCTS OR SERVICES

Power Generation Business

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

Distribution Utilities Business

Ancillary services are necessary to help ensure a reliable and stable grid, which co-exist with the energy market or

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

In addition, the Hedcor Tudaya 2, Hedcor Irisan 1, Hedcor Sabangan, and Hedcor Manolo Fortich 1 and 2 plants, all in commercial operations, have been approved for inclusion in the FIT system for run-of-river HEPPs. Hedcor, Hedcor Tudaya, Hedcor Sabangan, and Hedcor Bukidnon, the companies that own and operate the foregoing plants, have entered into REPAs with Transco, in its capacity as FIT-All Administrator, for the collection and payment of the FIT. The power generated by Hedcor Tudaya 2 is covered by a RESA.

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

All of AboitizPower's Distribution Utilities have entered into transmission service contracts with NGCP for the use of NGCP's transmission facilities to receive power for distribution to their respective customers. All customers that connect to the Distribution Utilities' distribution lines are required to pay a tariff approved by ERC.

Retail Electricity Supply Business

AboitizPower's wholly-owned RES companies, AdventEnergy and AESI, have existing electricity supply contracts to ensure continuous supply of power to their customers. AdventEnergy and AESI maintain a portfolio of energy-based supply contracts from renewable and non-renewable sources to secure reliable and affordable electricity for its customers. These electricity supply contracts involve a mix of fixed rate and margin-based electricity fees that are updated year on year to ensure that supply is maintained at competitive rates.

New Products and Services

Other than the ongoing Greenfield and/or rehabilitation projects undertaken by AboitizPower's Generation Companies, AboitizPower and its Subsidiaries do not have any publicly announced new product or service to date.

System Performance

The following table sets forth certain information concerning the performance of the Distribution Companies:

Business Unit	As of 31 March 2020		As of 31 December 2019	
	SAIFI (frequency)	SAIDI (minutes)	SAIFI (frequency)	SAIDI (minutes)
Visayan Electric	0.33	36.46	2.46	229.26
Davao Light	0.49	38.47	7.12	539.51
Cotabato Light	0.01	0.49	1.26	5.24
SEZ	1.63	53.06	7.94	518.42
MEZ	0.00	0.00	0.14	5.21
BEZ	0.00	0.00	3.52	87.85
LEZ	0.00	0.00	0.88	420.27
SFELAPCO	0.17	11.77	9.01	680.57

Electricity Losses

The Distribution Companies experience two types of electricity losses: technical losses and non-technical losses. Technical losses are those that occur in the ordinary course of distribution of electricity, such as losses that occur when electricity is converted from high voltage to medium voltage. Non-technical losses are those that result from illegal connections, fraud or billing errors.

The Distribution Companies' system loss may be further broken down to feeder loss, substation loss, and sub-transmission loss. Total electricity losses in 2019 were 6% for Visayan Electric, 7.32% for Davao Light, 8.08% for Cotabato Light, 2.96% for SEZ, 0.96% for MEZ, 0.42% for BEZ, 5.24% for LEZ, and 4.86% for SFELAPCO. On the other hand, total electricity losses as of 31 March 2020 were 6.13% for Visayan Electric, 7.43% for Davao Light, 8.35% for Cotabato Light, 3.09% for SEZ, 0.95% for MEZ, 0.43% for BEZ, 5.16% for LEZ, and 4.72% for SFELAPCO.

The system loss cap set by the ERC is 6.25% for 2019 and 6% as of 2020, which system loss caps only relate to feeder loss.

The Distribution Companies are also actively engaged in efforts to reduce electricity losses, particularly non-technical losses. To achieve this, the Distribution Companies, particularly Visayan Electric and Davao Light, have deployed teams to conduct inspections, enhanced monitoring for irregular consumption, increased replacements for obsolete measuring equipment and developed a computer program to discover and analyze irregular invoicing.

The Distribution Companies continue to find ways to reduce systems losses in any economically viable manner.

Power Outages

The Distribution Companies seek to improve the quality and reliability of their power supply, as measured by the frequency and duration of power outages. The Distribution Companies seek to improve the quality and reliability of their power supply, as measured by the frequency and duration of power outages. The number of sustained outages (>5mins) for the 1st six months of 2019 was 1.53 interruptions per customer at Visayan Electric, 5.40 interruptions per customer at Davao Light, 0.90 interruptions per customer at Cotabato Light, 4.94 interruptions per customer at SEZ, 1.00 interruptions per customer at BEZ, no interruptions for MEZ and LEZ, and15.08 interruptions per customer at SFELAPCO. For the same period in 2019, the number of minutes of sustained outages was 224.53 minutes per customer at Visayan Electric, 334.98 minutes per customer at Davao Light, 50.16 minutes per customer at Cotabato Light, 365.45 minutes per customer at SEZ, 37.19 minutes per customer at BEZ, none for MEZ, and 543.87 minutes per customer at SFELAPCO.

The Distribution Companies each have "hotline" equipment that allows construction, maintenance and repairs to be conducted with only minimal interruption in electricity service. This reduces the number of service interruptions that the Distribution Companies have to schedule. Unscheduled interruptions due to accidents or natural causes, including typhoons, heavy rains and floods, represented the remainder of the Distribution Companies' total interruptions.

SOURCES OF RAW MATERIALS AND SUPPLIES

Generation Business

The Generation Companies produce energy using the following fuel types based on attributable net selling capacity: 17% hydropower, 8% geothermal, 1% solar, 59% coal, and 15% oil. As of 31 March 2020, renewable fuel sources comprised 73% of attributable net selling capacity, while thermal accounted for 27%.

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

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

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

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

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

Distribution Business

The rates at which the Distribution Utilities purchase electricity from affiliated Generation Companies are established pursuant to bilateral agreements. These agreements are executed after the relevant Generation Company has successfully bid for the right to enter into a PSA with a Distribution Utility. These agreements are entered into on an arm's length basis, on commercially reasonable terms, and are approved by ERC. ERC's regulations currently restrict AboitizPower's Distribution Utilities from purchasing more than 50% of their electricity requirements from affiliated Generation Companies.

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

In anticipation of higher demand and lower allocation from PSALM, Davao Light entered into a 10-year PSC with San Miguel Consolidated Power Corporation ("SMCPC") for a supply of 60MW in 2016. SMCPC began supplying the 60-MW contracted capacity in February 2018. Davao Light also renewed its CSEE with PSALM for a period of three years from 2018, 2019, and 2020 for 133 MW, 140 MW and 140 MW, respectively. To cover its peak demand requirement for 2018 to 2021, Davao Light has Non-Firm ESAs with TMI and WMPC for up to 45MW and 60MW, respectively. Davao Light also addressed the projected increase in load for 2020 by entering into an Emergency PSC with SMCPC for 50MW with a term of one year while waiting for the commercial operations of the wholesale spot market in Mindanao.

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

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

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

Transmission Charges

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

Distribution Utility	Valid until
Davao Light	25 January 2024
LEZ	25 July 2022
MEZ	25 January 2020*
BEZ	25 January 2020*
SFELAPCO	25 December 2023
Cotabato Light	25 August 2023
Visayan Electric	25 January 2024
SEZ	25 August 2023

* Ongoing applications with NGCP for renewal of their TSAs

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

CUSTOMERS, ANALYSIS OF DEMAND AND RATES

Customers

Power Generation Business

As of 31 March 2020, total capacity sales in MW can be broken down, as follows:

1. 88% was sold via bilateral contracts to, among others, private distribution utilities, electric cooperatives, NPC, and industrial and commercial companies (Contestable Customers)
2. 11% was sold via ASPAs to NGCP
3. 4% was sold via the WESM.

Retail Electricity Supply Business

The Company's RES business is a vehicle through which the Company sells its capacity to Contestable Customers in the Open Access Market. Currently, its RES companies have more than 340 Contestable Customers from a wide number of industries, including property development, meat processing, semiconductors, steel, and cement. AboitizPower thus believes that this diversity will insulate its RES business from downturns in any one industry.

Distribution Utilities Business

Most of AboitizPower's Distribution Utilities, on the other hand, have wide and diverse customer bases. As such, the loss of any one customer will have no material adverse impact on AboitizPower. The Distribution Companies' customers are categorized into four principal categories:

1. Industrial customers. Industrial customers generally consist of large-scale consumers of electricity within a franchise area, such as factories, plantations and shopping malls;
2. Residential customers. Residential customers are those who are supplied electricity for use in a structure utilized for residential purposes;
3. Commercial customers. Commercial customers include service-oriented businesses, universities and hospitals; and

4. Other customers.

Government accounts for various government offices and facilities are categorized as either commercial or industrial depending on their load. Each Distribution Utility monitors government accounts separately and further classifies them to local government accounts, national government accounts, special government accounts like military camps. Streetlights have a different rate category and are thus monitored independently.

Rates

Rates charged by the Distribution Companies for sales of electricity to final customers are determined pursuant to regulations established by ERC. These ERC regulations establish a cap on rates that provide for annual, periodic, and extraordinary adjustments. Under EPIRA, the distribution utilities such as the Distribution Companies have been required to "unbundle" the electricity rates charged to customers in order to provide transparency in disclosing to customers the components of their monthly bills and to segregate (consistent with the mandate of the EPIRA) the components of the distribution business which will become competitive once the EPIRA is fully implemented (such as supply and metering services) and those which will remain monopolized (such as transmission and wheeling). As a result, the Distribution Companies are required to identify and separately disclose to customers each individual charge that forms part of the cost of providing electricity, including generation, transmission, systems loss, distribution, metering, and supply charges.

Each of the Distribution Companies classifies customers based on factors such as voltage level and demand level at which the electricity is supplied to such customers. Each customer is placed in a certain tariff level determined by the Distribution Companies within the guidelines provided by the ERC and is charged for electricity based on customer classification. Typically, industrial customers pay lower rates relative to the cost of providing services to them, while residential customers pay higher rates relative to the cost of providing services to them.

The following sets forth the material components of each Distribution Companies' monthly charges to customers:

Distribution charges. Previously, the distribution charges that the Distribution Companies collected from customers were computed with reference to the RORB rate-setting system. Under this system, distribution charges were determined based on the appraised value of a distribution utility's historical costs, with the maximum rate of return set at 12.0%. Rate-setting under this system had historically resulted in prolonged review periods by regulators before a final rate was approved, and often resulted in interested parties, such as consumer advocacy groups, contesting rates approved by Government regulators in court. In addition, the determination of the components of a utility's cost base was subject to revision by regulators, with certain material expenses, such as those for income tax, being excluded from the base.

To address the inefficiencies and legal controversies caused by the RORB rate-setting system, the ERC issued the RDWR in 2006, which sets out the manner in which PBR is to be implemented. Under PBR, the distribution-related charges that a distribution utility collects from customers will be fixed by reference to the utility's projected revenues over a four-year regulatory period, which are reviewed and approved by the ERC and thereafter used to determine the utility's efficiency factor. For each year during the regulatory period, the distribution-related charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor set and changes in overall consumer prices in the Philippines. As part of the implementation of PBR, the ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to customer calls, with utilities being penalized for failing to meet these performance targets. During the 18 months prior to the PBR start date for each Distribution Company, each of them will undergo a regulatory reset process through which the PBR rate control arrangements are established based on documents submitted by each Distribution Company with the ERC, ERC resolutions, and consultations with the Distribution Company and the general public.

Transmission charges. These charges are the amounts paid by the Distribution Companies to the National Grid Corporation of the Philippines for the use of transmission facilities to transmit electricity from each Distribution Companies' electricity suppliers to the Distribution Companies' own transmission lines. Current ERC regulations allow the Distribution Companies to pass on to and recover from their customers the transmission charges paid by

the Distribution Companies.

Under applicable laws and regulations, the Distribution Companies are required to allow use of their high-voltage distribution lines by others, including consumers within their franchise areas that are supplied by third parties. All users of the Distribution Companies' respective distribution lines must pay a wheeling fee for such use.

Generation charges. ERC regulations allow distribution utilities to pass through to their customers the full cost of electricity purchased from power generators, such as NPC and IPPs (including the Generation Companies).

Supply and metering charges. The Distribution Companies are currently allowed to charge their customers a fixed monthly amount that is meant to cover customer service-related costs, such as customer billing and collection services, and metering-related costs, such as meter installation, monitoring and reading. Customers are also required to provide deposits on meters that are installed to monitor their electric consumption. The ERC is currently contemplating opening supply and metering services to competition.

Systems loss charges. These charges relate to the electricity losses that each Distribution Company is allowed to recover from customers. Originally, ERC regulations allowed distribution companies to charge customers for electricity losses so long as electricity losses do not exceed 8.50%. If a Distribution Company's electricity losses exceed 8.50%, the Distribution Company will be unable to pass on to its customers the loss charges relating to losses in excess of the 8.50% ceiling.

Under ERC Resolution No. 20, Series of 2017, the ERC set anew the distribution system loss that a Distribution Company may recover from its customers through the system loss charge. This shall not exceed the sum of the actual sub-transmission and substation loss of the Distribution Company and the distribution feeder loss caps, as follows:

2018	6.50%
2019	6.25%
2020	6.00%
2021	5.50%

Others. Other charges collected from customers include: the universal charge, which is meant to cover Stranded Debt and Stranded Costs of the Power Sector Assets and Liabilities Corporation, among others, in accordance with the requirements of the EPIRA; the lifeline subsidy rate, which is an amount collected from end-users to cover subsidies granted to low-consumption, low-income customers; and the FIT-All rate which is an amount collected from end-users under the feed-in tariff system.

Customer Deposits

The bill deposit serves to guarantee payment of bills by a customer which is estimated to equal one month's consumption or bill of the customer. These deposits are refundable, together with the accrued interest, upon termination of the contract. If the deposits and the related accrued interest already exceed the customer's current monthly bills, a refund of the excess can also be made.

Both the Magna Carta and Distribution Services and Open Access Rules (DSOAR) provide that residential and non-residential customers, respectively, must pay a bill deposit to guarantee payment of bills equivalent to their estimated monthly billing. The amount of deposit shall be adjusted after one year to approximate the actual average monthly bills. A customer who has paid his electric bills on or before due date for three consecutive years, may now apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise, bill deposits and accrued interests shall be refunded within one month from termination of service, provided all bills have been paid.

In cases where the customer has previously received the refund of his bill deposit, and later defaults in the payment of his monthly bills, the customer shall be required to post another bill deposit with the distribution utility and lose his right to avail of the right to refund his bill deposit in the future until termination of service. Failure to pay the required bill deposit shall be a ground for disconnection of electric service.

Transformer and lines and poles deposits are obtained from certain customers principally as cash bond for the proper maintenance and care of the said facilities while under their exclusive use and responsibility. These deposits are non-interest bearing and are refundable only after the related contract is terminated and the assets are returned to the Company in their proper condition and all obligations and every account of the customer due to the Company shall have been paid.

Billing Procedures

The procedures used for billing and payment for electricity supplied to customers is determined by customer category. The length of the collection process varies slightly among the Distribution Companies. Meter readings and invoicing take place on a monthly basis. Bills are prepared from meter readings or on the basis of estimated usage under certain circumstances. Low voltage customers are billed within one to two days after the meter reading, with payment required within nine days after the delivery date. In case of non-payment, a notification of non-payment accompanied by the next month's invoice, is sent to the customer and a period of two days is provided to pay the amount owed to the relevant Distribution Company. If payment is not received within two days, the customers' electricity supply is suspended.

COMPETITION

Power Generation Business

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

Geographic Area

To date, AboitizPower operates all over the Philippines, with existing power plants in Luzon, Visayas, and Mindanao.

Principal Methods of Competition

The means by how AboitizPower can effectively compete with its competitors are set forth in the section entitled "Competitive Strengths and Business Strategy" on page 71 of this Prospectus. AboitizPower addresses its competition using a holistic approach and does not address it on a per company basis.

Principal Competitors

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

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

Based on ERC Resolution No. 05, Series 2019, AboitizPower is the second largest generation company by installed capacity. The largest is SMC Global Power, a Subsidiary of San Miguel Corporation, which was founded in 1890, and which through time has built strong stakeholder relationships and enjoyed long-running commercial success

With the commencement of retail competition and Open Access, these foreign and local generation companies have already set up their own RES business, which include Direct Power RES, and Ecozone Power Management Inc. RES.

Of these, the largest player in terms of number of registered Contestable Customers is MPower RES.[16] The main strength of this largest player is its association with the country's largest distribution utility, MERALCO, and the goodwill that comes from its size and dominance.

Retail Electricity Supply Business

Based on ERC's Competitive Retail Electricity Market Monthly Statistical Data as of March 2020, there are 37 RES companies and 25 Local RES companies participating in the Open Access markets in Luzon and Visayas. The Meralco group, through its RES companies, has the largest market share at 30.74%. AboitizPower, through its RES companies, has the second-largest market share at 20.05%,[17] with contracted capacity of 831.78 MW[18] as of March 2020.

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

With the commencement of retail competition and Open Access, these foreign and local generation companies have already set up their own RES business, which include Direct Power RES and Ecozone Power Management Inc. RES. Of these, the largest player in terms of number of registered Contestable Customers is MPower RES,[19] a Subsidiary of the country's largest distribution utility, MERALCO, which has the financial and market strength, as well as goodwill, that comes from its size, long history, and dominance.

AboitizPower believes that its portfolio, consisting of different types of energy sources with a mix of renewables and non-renewables, allows it to be flexible in both pricing and reliability of supply, thus enhancing its competitiveness. It also has long roots in the Philippine economy, starting with the purchase of the Visayan Electric in 1918, and many decades before then, in businesses outside of power. This has allowed it to build a reputation over time as a group that advances business and communities wherever it chooses to operate.

Distribution Business

Each of AboitizPower's Distribution Utilities currently has an exclusive franchise to distribute electricity in the areas covered by its franchise.

TRANSACTIONS WITH AND/OR DEPENDENCE ON RELATED PARTIES

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

AEV, the parent company of AboitizPower, and certain Associates have Service Level Agreements (SLAs) with AboitizPower for corporate center services rendered, such as human resources, internal audit, legal, treasury and corporate finance, among others. These services are obtained from AEV to enable the Group to realize cost synergies and optimize expertise at the corporate center. AEV maintains a pool of highly qualified professionals with business expertise specific to the businesses of the Group. Transaction costs are priced on an arm's length basis, and covered with SLAs to ensure quality of service.

AboitizPower and its Subsidiaries enter into transactions with its parent, associates and other related parties.

Details of the significant account balances of the foregoing related party transactions, retirement fund and compensation of the Board and key management personnel of the Group can be found in the section entitled *"Financial And Other Information" beginning* on page 223 of this Prospectus, particularly Note 32 of the Consolidated financial statements found on page 98 of the Consolidated financial statements of the Company.

[16] Based on ERC's Competitive Retail Electricity Market Report released in May 2020.
[17] Excluding SFELAPCO which is 20.284% owned by AboitizPower.
[18] Excluding SFELAPCO which is 20.284% owned by AboitizPower.
[19] Based on ERC's Competitive Retail Electricity Market Report released in May 2020.

GOVERNMENT APPROVALS, PATENTS, COPYRIGHTS, FRANCHISES

AboitizPower and its Subsidiaries have secured all material permits required to operate its businesses. These are further discussed below.

Generation Business

Power generation is not considered a public utility operation under RA No. 9136 or the Electric Power Industry Reform Act of 2001 (EPIRA). Thus, a national franchise is not needed to engage in the business of power generation. Nonetheless, no person or entity may engage in the generation of electricity unless such person or entity has secured a Certificate of Compliance (COC) from the ERC to operate a generation facility and has complied with the standards, requirements and other terms and conditions set forth in the said COC.

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

Cotabato Light has its own generation facilities and are required under the EPIRA to obtain a COC. Davao Light's generation facility was decommissioned on 26 November 2018. For IPPAs such as TLI, the COCs issued to the IPPs of the relevant generation facilities are deemed issued in favor of the IPPAs. As such, the IPPAs are also bound to comply with the provisions of the Philippine Grid Code, Philippine Distribution Code, WESM rules, and applicable rules and regulations of ERC.

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

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

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

Title of Document	Issued under the Name of	Power Plant					Economic Life/Term of COC	Date of Issuance
		Name	Type	Location	Capacity	Fuel		
COC No. 18-12-M-00330L	Hedcor, Inc.	Irisan 3	Hydroelectric Power Plant	Tadiangan, Tuba, Benguet	1.20 MW	Hydro	05 November 2018 - 04 November 2023	11 December 2018
COC No. 18-12-M-00334L	Hedcor, Inc.	Bineng 3	Hydroelectric Power Plant	Bineng, La Trinidad, Benguet	5.625 MW	Hydro	05 November 2018 - 04 November 2023	11 December 2018
COC No. 18-12-M-00329L	Hedcor, Inc.	Ampohaw	Hydroelectric Power Plant	Banengbeng, Sablan, Benguet	8.00 MW	Hydro	05 November 2018 - 04 November 2023	11 December 2018

Title of Document	Issued under the Name of	Power Plant						
		Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	Date of Issuance
COC No. 18-12-M-00336L*	Hedcor, Inc.	Sal-angan	Hydroelectric Power Plant	Ampucao, Itogon, Benguet	2.40 MW	Hydro	05 November 2018 - 04 November 2023	11 December 2018
COC No. 17-04-M-00032L	Hedcor, Inc.	Irisan 1	Hydroelectric Power Plant	Brgy. Tadiangan, Tuba, Benguet	3.89 MW	Hydro	30 April 2017 – 29 April 2022	19 April 2017
COC No. 16-05-M-00061M*	Hedcor, Inc.	Talomo 1 – Unit 1	Hydroelectric Power Plant	Calinan, Davao City	500 kW	Hydro	15 February 2015 - 14 February 2020	04 May 2016
		Talomo 1 – Unit 2			500 kW			
COC No. 16-05-M-00062M*	Hedcor, Inc.	Talomo 2 – Unit 1	Hydroelectric Power Plant	Mintal Proper, Davao City	200 kW	Hydro	15 February 2015 - 14 February 2020	04 May 2016
		Talomo 2 – Unit 2			200 kW			
		Talomo 2 – Unit 3			200 kW			
COC No. 16-05-M-00063M*	Hedcor, Inc.	Talomo 2A – Unit 1	Hydroelectric Power Plant	Upper Mintal, Davao City	450 kW	Hydro	15 February 2015 - 14 February 2020	04 May 2016
		Talomo 2A – Unit 2			200 kW			
COC No. 16-05-M-00064M*	Hedcor, Inc.	Talomo 2B	Hydroelectric Power Plant	Upper Mintal, Davao City	300 kW	Hydro	15 February 2015 - 14 February 2020	04 May 2016
COC No. 16-05-M-00065M*	Hedcor, Inc.	Talomo 3 – Unit 1	Hydroelectric Power Plant	Catalunan, Pequeño, Davao City	960 kW	Hydro	15 February 2015 - 14 February 2020	04 May 2016
		Talomo 3 – Unit 2			960 kW			
COC No. 18-12-M-00327L	Hedcor, Inc.	Ferdinand L. Singit Plant	Hydroelectric Power Plant	Poblacion, Bakun, Benguet	6.40 MW	Hydro	05 November 2018 - 04 November 2023	11 December 2018
COC No. 18-12-M-00335L	Hedcor, Inc.	Lower Labay	Hydroelectric Power Plant	Ampusongan, Bakun, Benguet	2.40 MW	Hydro	05 November 2018 - 04 November 2023	11 December 2018
COC No. 18-12-M-00328L	Hedcor, Inc.	Lon-oy	Hydroelectric Power Plant	Poblacion, Bakun, Benguet	3.60 MW	Hydro	05 November 2018 - 04 November 2023	11 December 2018
COC No. 15-05-M-56M	Hedcor Sibulan, Inc.	Sibulan A – Unit 1	Hydroelectric Power Plant	Brgy. Sibulan, Sta. Cruz,	8.164 MW	Hydro	25 years	18 May 2015

Title of Document	Issued under the Name of	Power Plant						
		Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	Date of Issuance
		Sibulan A – Unit 2		Davao del Sur	8.164 MW			
COC No. 15-05-M-54M	Hedcor Sibulan, Inc.	Sibulan B – Unit 1	Hydroelectric Power Plant	Brgy. Sibulan, Sta. Cruz, Davao del Sur	13.128 MW	Hydro	25 years	18 May 2015
		Sibulan B – Unit 2			13.128 MW			
COC No. 19-03-M-00346M	Hedcor Sibulan, Inc.	Tudaya 1	Hydroelectric Power Plant	Sta. Cruz, Davao del Sur	6.65 MW	Hydro	10 March 2019-09 March 2024	05 March 2019
COC No. 18-06-M-00017L	Luzon Hydro Corporation	Bakun AC	Hydroelectric Power Plant	Amilongan, Alilem, Ilocos Sur	74.80 MW	Hydro	30 July 2018 – 29 July 2023	20 June 2018
COC No. 19-03-M-00013M	Hedcor Tudaya, Inc.	Tudaya 2 – Unit 1	Hydroelectric Power Plant	Sta. Cruz, Davao del Sur	5.362 MW	Hydro	11 April 2019-10 April 2024	05 March 2019
		Tudaya 2 – Unit 2			2.775 MW	Hydro		
COC No. 15-09-M-00023L	Hedcor Sabangan, Inc.	Sabangan	Hydroelectric Power Plant	Brgy. Namatec, Sabangan, Mountain Province	14.96 MW	Hydro	25 years	29 September 2015
COC No. 19-06-M-00174M	Hedcor Bukidnon, Inc.	Manolo Fortich 1	Hydroelectric Power Plant	Brgy. Santiago, Manolo Fortich, Bukidnon	45.936 MW	Hydro	18 June 2019-17 June 2024	18 June 2019
COC No. 19-06-M-00175M	Hedcor Bukidnon, Inc.	Manolo Fortich 2	Hydroelectric Power Plant	Brgy. Dalirig, Manolo Fortich, Bukidnon	27.387 MW	Hydro	18 June 2019-17 June 2024	18 June 2019
COC No. 17-04-M-15911M	Cotabato Light and Power Company, Inc.	N/A	Bunker C-Fired Diesel Engine	CLPC Compound, Sinsuat Ave., Rosary Heights I, Cotabato City	9.927 MW	Diesel / Bunker C	10 January 2017 – 09 January 2022	19 April 2017
			Blackstart		10 kW	Diesel		
COC No. 18-03-M-00002V	East Asia Utilities Corporation	N/A	Bunker C/Diesel Fired Power Plant	Barrio Ibo, MEPZ 1, Lapu-Lapu City, Cebu	49.60 MW	Bunker C	11 June 2018 – 10 June 2023	27 March 2018
COC No. 18-03-M-00001V	Cebu Private Power Corporation	N/A	Bunker C/Diesel Fired Power Plant	Old Veco Compound, Brgy. Ermita, Carbon, Cebu City	70.59 MW	Bunker C/ Diesel	04 June 2018 – 03 June 2023	27 March 2018
COC No. 18-12-M-00020M	Western Mindanao Power Corporation	N/A	Bunker C-Fired Power Plant	Malasugat, Sangali, Zamboanga City	112 MW	Bunker C/Diesel	27 August 2018 – 26 August 2023	04 December 2018
		N/A	Blackstart		160 kW	Diesel		
COC No. 18-12-M-00021M	Southern Philippines Power Corporation	N/A	Bunker C-Fired Diesel Power Plant	Brgy. Baluntay, Alabel, Sarangani Province	61.72 MW	Bunker C/ Diesel	27 August 2018 – 26 August 2023	04 December 2018
			Blackstart		160 kW	Diesel		

Title of Document	Issued under the Name of	Power Plant						
		Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	Date of Issuance
COC No. 15-11-M-2860L	SN Aboitiz Power – Magat, Inc. (Magat Hydroelectric Power Plant)	Magat Hydroelectric Power Plant – Unit 1	Hydroelectric Power Plant	Ramon, Isabela and A. Lista, Ifugao	90 MW	Hydro	25 years	11 November 2015
		Magat Hydroelectric Power Plant – Unit 2			90 MW			
		Magat Hydroelectric Power Plant – Unit 3			90 MW			
		Magat Hydroelectric Power Plant – Unit 4			90 MW			
		Magat Hydroelectric Power Plant	Blackstart		600 kW	Diesel	25 years	
COC No. 18-04-M-00150L	SN Aboitiz Power – Magat, Inc.	Maris Main Canal I	Hydroelectric Power Plant	Brgy. Ambatali, Ramon, Isabela	8.50 MW	Hydro	04 April 2018 – 03 April 2023	04 April 2018
COC No. 17-03-M-00309L	SN Aboitiz Power – Benguet, Inc.	Binga – Unit 1	Hydroelectric Power Plant	Brgy. Tinongdan, Itogon, Benguet	35.02 MW	Hydro	12 March 2017 – 11 March 2022	09 March 2017
		Binga – Unit 2	Hydroelectric Power Plant		35.02 MW			
		Binga – Unit 3	Hydroelectric Power Plant		35.02 MW			
		Binga – Unit 4	Hydroelectric Power Plant		35.02 MW			
		Binga Hydroelectric Power Plant	Blackstart Generator Set		320 KW	Diesel		
		Binga Hydroelectric Power Plant	Diesel Auxiliary Generator Set		330.40 KW	Diesel		
COC No. 16-08-M-00087L	SN Aboitiz Power – Benguet, Inc.	Ambuklao – Unit 1	Hydroelectric Power Plant	Brgy. Ambuklao, Bokod, Benguet	34.85 MW	Hydro	31 August 2016 - 30 August 2021	18 August 2016
		Ambuklao – Unit 2			34.85 MW			
		Ambuklao – Unit 3			34.85 MW			
		Ambuklao Hydroelectric Power Plant	Auxiliary Generator Set		320 KW	Diesel		
		Ambuklao Hydroelectric Power Plant	Blackstart Generator Set		314 KW	Diesel		
COC No. 16-06-M-00016M	STEAG State Power, Inc.	N/A	Coal Fired Power Plant	Phividec Industrial Estate, Balascanas,	232 MW	Coal	30 August 2016 - 29 August 2021	13 June 2016
			Emergency Generating		1.25 MW	Diesel		

Title of Document	Issued under the Name of	Power Plant						
		Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	Date of Issuance
			Set	Villanueva, Misamis Oriental				
COC No. 15-03-S-00013M	STEAG State Power, Inc.	N/A	Diesel Engine	Phvidec Industrial Estate, Villanueva, Misamis Oriental	400 kW	Diesel	05 September 2019- 04 September 2024	05 September 2019
COC No. 15-05-M-00007L	AP Renewables, Inc.	Makban – Bay, Plant A	Geothermal Power Plant	Brgy. Bitin, Bay, Laguna	63.2 MW	Geo-thermal Steam	23 years	04 May 2015
		Makban – Bay, Plant A			63.2 MW			
		Makban – Bay, Plant D			20.0 MW			
		Makban – Bay, Plant D			20.0 MW			
COC No. 15-05-M-00008L	AP Renewables, Inc.	Makban – Calauan, Plant B	Geothermal Power Plant	Brgy. Limao, Calauan, Laguna	63.2 MW	Geo-thermal Steam	23 years	04 May 2015
		Makban – Calauan, Plant B			63.2 MW			
		Makban – Calauan, Plant C			55.0 MW			
		Makban – Calauan, Plant C			55.0 MW			
COC No. 15-05-M-00009L	AP Renewables, Inc.	Makban – Sto. Tomas, Plant E	Geothermal Power Plant	Brgy. Sta. Elena, Sto. Tomas, Batangas	20.0 MW	Geo-thermal Steam	23 years	04 May 2015
		Makban – Sto. Tomas, Plant E			20.0 MW			
COC No. 15-11-M-00028L	AP Renewables, Inc.	Plant A, Unit 1	Geothermal Power Plant	Brgy. Naga, Tiwi, Albay	60 MW	Geo-thermal Steam	25 years	26 November 2015
		Plant A, Unit 2			60 MW			
COC No. 15-11-M-286rL	AP Renewables, Inc.	Plant C, Unit 5	Geothermal Power Plant	Brgy. Cale, Tiwi, Albay	57 MW	Geo-thermal Steam	25 years	26 November 2015
		Plant C, Unit 6			57 MW			
COC No. 17-05-M-00105L	AP Renewables, Inc.	MakBan Binary 1	Geothermal Power Plant	Brgy. Sta. Elena, Sto. Tomas, Batangas	7.0 MW	Brine	07 November 2016 – 06 November 2021	15 May 2017
COC No. 16-03-M-00286ggM	Therma Marine, Inc.	Mobile 1	Diesel Power Plant	Brgy. San Roque, MACO, Compostela Valley	100.33 MW	Diesel	25 years	30 March 2016
			Blackstart		1.68 MW	Diesel	5 years	

Title of Document	Issued under the Name of	Power Plant						
		Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	Date of Issuance
COC No. 16-03-M-00286bbM	Therma Marine, Inc.	Mobile 2	Diesel Power Plant	Brgy. Nasipit, Agusan del Norte	100.33 MW	Diesel	25 years	30 March 2016
			Blackstart		1.68 MW	Diesel	5 years	
COC No. 17-07-M-00305L	Therma Mobile, Inc.	Barge 1/ Mobile 3	Bunker C-Fired Diesel Power Plant	Navotas Fish Port Complex, Navotas, Metro Manila	66 MW	Bunker C/ Diesel	09 July 2017 – 08 July 2022	22 June 2017
COC No. 17-07-M-00306L	Therma Mobile, Inc.	Barge 2/ Mobile 4	Bunker C-Fired Diesel Power Plant	Navotas Fish Port Complex, Navotas, Metro Manila	56 MW	Bunker C/ Diesel	09 July 2017 – 08 July 2022	22 June 2017
COC No. 17-07-M-00307L	Therma Mobile, Inc.	Barge 3/ Mobile 5	Bunker C-Fired Diesel Power Plant	Navotas Fish Port Complex, Navotas, Metro Manila	57 MW	Bunker C/ Diesel	09 July 2017 – 08 July 2022	22 June 2017
COC No. 17-07-M-00308L	Therma Mobile, Inc.	Barge 4/ Mobile 6	Bunker C-Fired Diesel Power Plant	Navotas Fish Port Complex, Navotas, Metro Manila	52 MW	Bunker C/ Diesel	09 July 2017 – 08 July 2022	22 June 2017
COC No. 15-09-M-00022M	Therma South, Inc.	Unit 1	Coal Fired Power Plant	Brgy. Binugao, Toril District, Davao City	150 MW	Coal	25 years	01 September 2015 - 31 August 2020
		Unit 2	Coal Fired Power Plant	Brgy. Binugao, Toril District, Davao City	150 MW	Coal	25 years	19 January 2016 - 31 August 2020
COC No. 19-09-S-03902V	Therma Visayas, Inc.	N/A	Diesel Power Plant	Brgy. Bato, Toledo City, Cebu	1.275 MW	Diesel	20 September 2019 – 19 September 2024	20 September 2019
COC No. 19-06-M-00176V	Therma Visayas, Inc.	Therma Visayas Circulating Fluidized Bed Coal-Fired Power Plant	Circulating Fluidized Bed Coal-Fired Power Plant	Sitio Looc, Brgy. Bato, Toledo City, Cebu	353.94 MW	Coal	15 April 2019 – 14 April 2024	26 June 2019
COC No. 19-07-M-00040L	TeaM Energy Corporation	Pagbilao Coal Fired Power Plant	Coal Fired Thermal Power Plant	Isla Grande, Ibabang Polo, Pagbilao, Quezon	751.4 MW	Coal	20 July 2019 – 19 July 2024	09 July 2019
			Black Start		800 kW	Diesel		
COC No. 18-02-M-00145L	Pagbilao Energy Corporation	Pagbilao Unit 3 Coal Fired Thermal Power Plant	Coal Fired Thermal Power Plant	Isla Grande, Ibabang Polo, Pagbilao, Quezon	420 MW	Coal	20 February 2018 – 19 February 2023	20 February 2018
			Blackstart		1.04 MW	Diesel		
COC No. 17-11-M-00282L	GNPower Mariveles Coal Plant Ltd. Co.	Unit 1	Coal Fired Power Plant	Brgy. Alas-asin, Mariveles, Bataan	325.8 MW	Coal	03 December 2017 – 02 December	21 November 2017
		Unit 2			325.8 MW			

Title of Document	Issued under the Name of	Power Plant						
		Name	Type	Location	Capacity	Fuel	Economic Life/Term of COC	Date of Issuance
		N/A	Blackstart		1.68 MW	Diesel	2022	

**Awaiting issuance of renewal of COC from ERC.*

Distribution Business

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

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

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

DU	Franchise	Term	Expiry
Visayan Electric	RA No. 9339	25 years from effectivity of RA No. 9339. (RA No. 9339 was approved on 01 September 2005.)	Valid until 24 September 2030
	ERC Certificate No. CPCN-09-01 (ERC Decision dated 26 January 2009, ERC Case No. 2008-095 MC).	25 years, or from 24 September 2005 to 24 September 2030	
Davao Light	RA No. 8960	25 years from effectivity of RA No. 8960 (Lapsed into law 07 September 2000.)	Valid until 07 September 2025
	ERC CPCN Decision dated 26 February 2002, ERC Case No. 2001-792	25 years, or from September 7, 2000 to 07 September 2025	
Cotabato Light	RA No. 10637	25 years from effectivity of RA No. 10637, as amended (RA No. 10637 was approved on 16 June 2014.)	Valid until 16 June 2039
	ERC Certificate No. CPCN-14-01 (ERC Decision dated 09 December 2019, ERC Case No. 2013-063 MC)	25 years, or from 17 June 2014 or until 16 June 2039	
SFELAPCO	RA No. 9967	25 years from effectivity of RA No. 9967 (Lapsed into law on 06 February 2010)	Valid until 23 March 2035
	ERC Certificate No. CPCN-10-01 (ERC Decision dated 31 August 2010, ERC Case No. 2010-029 MC)	25 years, or from 24 March 2010 to 26 March 2035	
SEZ	Distribution Management Service Agreement (DMSA) between SEZ and joint venture of AEV- Davao Light	Notarized on 15 May 2003. Term of the DMSA is 25 years.	Valid until 15 May 2028

MEZ, BEZ, and Malvez, which operate the power distribution utilities in MEPZ II, WCIP-SEZ, LTC, and LISP IV respectively, are duly registered with PEZA as Ecozone Utilities Enterprises.

Retail Electricity Supply Business

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

New Projects

Both units of the 2x668 supercritical coal-fired power plant of GNPD are under construction, with expected commercial operations of Unit 1 by first quarter of 2021 and Unit 2 by second quarter of 2021.

Trademarks

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

Philippine IPO

Trademarks	Owner	Date Filed	Registration No./Date Issued	Description	Status
A Better Future word mark (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	23 April 2010	4-2010-004383 11 November 2010	Application for the word mark "A Better Future".	In use
Better Solutions word mark (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	23 April 2010	4-2010-004384 11 November 2010	Application for the word mark "A Better Solutions".	In use
AboitizPower word mark (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	23 April 2010	4-2010-004385 11 November 2010	Application for the word mark "AboitizPower".	In use
AboitizPower Spiral Device (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	23 Apri 2010	4-2010-004380 10 February 2011	Application for the device mark "AboitizPower Spiral and Device", with color claim. The representation of a spiral rendered in blue.	In use
Cleanergy word mark (Class No. 40)	Aboitiz Power Corporation	19 October 2001	4-2001-007900 13 January 2006	Application for the word mark "Cleanergy".	In use
Cleanergy word mark (Class Nos. 39 and 42)	Aboitiz Power Corporation	16 January 2019	4-2019-000850 09 June 2019	Application for the word mark "Cleanergy" for the additional goods and services under Class Nos. 39 and 42.	In use
Cleanergy Get It and Device (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	23 April 2010	4-2010-004381 11 November 2010	Application for the device mark "Cleanergy Get it and Device". The word Cleanergy", with color claim. The phrase "get it" below it with both words endorsed by	In use

Trademarks	Owner	Date Filed	Registration No./Date Issued	Description	Status
				representation of a thumbs up sign. The whole mark is rendered in two shades of green.	
Cleanergy Got It and Device (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	23 April 2010	4-2010-004382 11 November 2010	Application for the device mark "Cleanergy got it and device". The word "Cleanergy" with the phrase "got it" below it with both words endorsed by representation of a thumbs up sign. The whole mark is rendered in two shades of green.	In use
AboitizPower and Device (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	23 April 2010	4-2010-004379 10 February 2011	Application for the device mark "AboitizPower and Device", with color claim.	In use
Subic EnerZone Corporation and Logo (Class No. 39)	Subic EnerZone Corporation	6 July 2006	4-2006-007306 20 August 2007	Trademark application for Subic EnerZone Corporation and Logo, with color claim (blue and yellow). The mark consists of the words "SUBIC ENERZONE" in Fujiyama extra bold font with the word "CORPORATION" below it, also in Fujiyama font, rendered in cobalt medium blue color, and a representation of the letter "S" taking the shape of a flame (the company logo) above the words. The logo is likewise rendered in the cobalt medium blue color in a yellow background.	In use
Subic EnerZone Corporation and Logo (Class No. 39)	Subic EnerZone Corporation	6 July 2006	4-2006-007305 20 August 2007	Application for the Subic EnerZone Corporation word mark and device (gray). The mark consists of the words "SUBIC ENERZONE" in Fujiyama extra bold font with the word "CORPORATION" below it, also in Fujiyama font, and a representation of	In use

Trademarks	Owner	Date Filed	Registration No./Date Issued	Description	Status
				the letter "S" taking the shape of a flame (the company logo) above the words.	
Subic EnerZone Corporation word mark (Class No. 39)	Subic EnerZone Corporation	6 July 2007	4-2006-007304 04 June 2007	Application for the word mark "Subic EnerZone Corporation".	In use
Cotabato Light Logo (Class No. 39)	Cotabato Light and Power Corporation	29 May 2019	4-2019-502915 20 October 2019	Application for the logo "Cotabato Light"	In use
Davao Light Logo (Class No. 39)	Davao Light and Power Corporation	29 May 2019	4-2019-502917 20 October 2019	Application for the logo "Davao Light"	In use
Balamban Enerzone Logo (Class No. 39)	Balamban Enerzone Corporation	29 May 2019		Application for the logo "Balamban Enerzone"	In use
Mactan Enerzone Logo (Class No. 39)	Mactan Enerzone Corporation	29 May 2019		Application for the logo "Mactan Enerzone"	In use
Lima Enerzone Logo (Class No. 39)	Lima Enerzone Corporation	29 May 2019		Application for the logo "Lima Enerzone"	In use
Malvar Enerzone Logo (Class No. 39)	Malvar Enerzone Corporation	29 May 2019		Application for the logo "Malvar Enerzone"	In use
Subic Enerzone Logo (Class No. 39)	Subic Enerzone Corporation	29 May 2019	4-2019-502914 20 October 2019	Application for the logo "Subic Enerzone"	In use
Visayan Electric Logo (Class No. 39)	Visayan Electric Company, Inc.	29 August 2019	4-2019-015288 29 December 2019	Application for the logo "Visayan Electric"	In use
MORE (Class 35)	Manila-Oslo Renewable Enterprise, Inc.	10 October 2018	4-2018-00018077 21 February 2019	Application for the logo "MORE" in dark blue	In use
SN ABOITIZ POWER GROUP (Class 35 & 40)	Manila-Oslo Renewable Enterprise, Inc., SN Aboitiz Power-Magat, Inc. and SN Aboitiz Power-Benguet, Inc.	10 October 2019	4-2018-00018076	Application for the logo "SN ABOITIZ POWER GROUP" in black, grey and white	In use
SN ABOITIZ POWER-BENGUET, INC.	SN Aboitiz Power-Benguet, Inc.	30 April 2014	4-2014-00005209 29 December 2016	Application for the Logo "SN ABOITIZ POWER-BENGUET, INC."	In use
NURTURE NATURE, NURTURE LIFE	SN Aboitiz Power-Benguet, Inc.	31 January 2011	4-2011-00001049 19 May 2011	Application for the Logo "NURTURE NATURE, NURTURE LIFE"	In use
SNAP ABOITIZ POWER-MAGAT, INC.	SN Aboitiz Power-Magat, Inc.	30 April 2014	4-2014-00005208 09 March 2017	Application for the Logo "SNAP ABOITIZ POWER-MAGAT, INC."	In use
THE POWER TO MAKE A DIFFERENCE	SN Aboitiz Power-Magat, Inc.	31 January 2011	4-2011-001048 26 May 2011	Application for the Logo "THE POWER TO MAKE A DIFFERENCE"	In use
	SN Aboitiz Power-Magat, Inc.	23 November 2017	4-2017-00018969 07 June 2018	Application for Logo	In use

International Trademarks Application (Madrid Protocol)

Trademarks	Owner/Applicant	Country of Application	Status
AboitizPower word mark (#2019006359) (Class Nos. 39)	Aboitiz Power Corporation	Malaysia	The application is still pending.
AboitizPower word mark (#2019006360) (Class Nos. 40)	Aboitiz Power Corporation	Malaysia	The application is still pending.
AboitizPower word mark (#2019006362) (Class Nos. 42)	Aboitiz Power Corporation	Malaysia	The application is still pending.
AboitizPower and device (#2019006349) (Class Nos. 39)	Aboitiz Power Corporation	Malaysia	The application is still pending.
AboitizPower and device (#2019006347) (Class Nos. 40)	Aboitiz Power Corporation	Malaysia	The application is still pending.
AboitizPower and device (#2019006364) (Class Nos. 42)	Aboitiz Power Corporation	Malaysia	The application is still pending.
Cleanergy word mark (#2019006363) (Class Nos. 39)	Aboitiz Power Corporation	Malaysia	The application is still pending.
Cleanergy word mark (#2019006361) (Class Nos. 40)	Aboitiz Power Corporation	Malaysia	The application is still pending.
Cleanergy word mark (#2019006357) (Class Nos. 42)	Aboitiz Power Corporation	Malaysia	The application is still pending.
Cleanergy got it device (#2019006351) (Class Nos. 39)	Aboitiz Power Corporation	Malaysia	The application is still pending.
Cleanergy got it device (#2019006350) (Class Nos. 40)	Aboitiz Power Corporation	Malaysia	The application is still pending.
Cleanergy got it device (#2019006348) (Class Nos. 42)	Aboitiz Power Corporation	Malaysia	The application is still pending.
Cleanergy get it device (#2019006358) (Class Nos. 39)	Aboitiz Power Corporation	Malaysia	The application is still pending.
Cleanergy get it device (#2019006354) (Class Nos. 40)	Aboitiz Power Corporation	Malaysia	The application is still pending.
Cleanergy get it device (#2019006353) (Class Nos. 42)	Aboitiz Power Corporation	Malaysia	The application is still pending.
AboitizPower Word Mark (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	WIPO	Registered.
AboitizPower Word Mark (Class Nos. 30, 40, 42)	Aboitiz Power Corporation	Vietnam	Registered.

Trademarks	Owner/Applicant	Country of Application	Status
AboitizPower Word Mark (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	Indonesia	Registered.
AboitizPower Device (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	WIPO	The application is still pending.
AboitizPower Device (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	Vietnam	The application is still pending.
AboitizPower Device (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	Indonesia	The application is still pending.
AboitizPower A Better Future (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	WIPO	Registered.
AboitizPower A Better Future (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	Indonesia	Registered.
AboitizPower A Better Future (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	Vietnam	Registered.
Cleanergy Word Mark (Agenda Nos. J00.2015.02.7275-77) (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	Indonesia	Registered.
Cleanergy Get It Device (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	WIPO	Registered.
Cleanergy Get It Device (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	Vietnam	Registered.
Cleanergy Get It Device (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	Indonesia	Registered.
Cleanergy Got It Device (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	WIPO	Registered.
Cleanergy Got It Device (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	Vietnam	The application is still pending.
Cleanergy Got It Device (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	Vietnam	The application is still pending.
Cleanergy Got It Device (Class Nos. 39, 40, 42)	Aboitiz Power Corporation	Indonesia	The application is still pending.
AboitizPower	Aboitiz Power Corporation	Myanmar	Registered.
AboitizPower	Aboitiz Power Corporation	Myanmar	Registered.
Cleanergy	Aboitiz Power Corporation	Myanmar	Registered.

Trademarks	Owner/Applicant	Country of Application	Status
Cleanergy Get It	Aboitiz Power Corporation	Myanmar	Registered.
Cleanergy Got It	Aboitiz Power Corporation	Myanmar	Registered.

EFFECT OF EXISTING OR PROBABLE GOVERNMENT REGULATIONS ON THE BUSINESS

AboitizPower and its Subsidiaries are subject to the laws governing all Philippine corporations, such as corporation law, securities law, tax laws, and the Local Government Code. All Philippine corporations are also subject to labor laws and social legislation, including RA No. 11199 or the Social Security Act of 2018, RA No. 10606, the National Health Insurance Act of 2013, RA No. 11223 or the Universal Health Care Act, RA No. 9679 or the Home Development Mutual Fund Law of 2009, The Philippine Labor Code and its implementing rules, and other labor-related laws, regulations, and DOLE mandated work-related programs.

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

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

RA No. 10963, otherwise known as the "Tax Reform for Acceleration and Inclusion (TRAIN)" was signed into law by President Rodrigo Roa Duterte on 19 December 2017, and took effect on 01 January 2018. Its declared policies are: (a) to enhance the progressivity of the tax system through the rationalization of the Philippine internal revenue tax system, thereby promoting sustainable and inclusive economic growth; (b) to provide, as much as possible, an equitable relief to a greater number of taxpayers and their families in order to improve levels of disposable income and increase economic activity; and (c) to ensure that the government is able to provide for the needs of those under its jurisdiction and care through the provision of better infrastructure, health, education, jobs, and social protection for the people.

One of the major provisions of the tax reform is the staggered increase in oil and coal excise taxes. Under the TRAIN Law, rates will be adjusted gradually between 2018 and 2020. For coal, the rates will increase from ₱10 per metric ton to ₱50, ₱100, and ₱150 per metric ton, respectively, in 2018, 2019, and 2020, covering both domestic and imported coal.

Further, with the repeal of Section 9 of RA No. 9511 or the National Grid Corporation of the Philippines Act which removes VAT exemptions on transmission charges and sale of electricity by cooperatives duly registered under the Cooperative Development Authority (CDA), the estimated impact on the cost of electricity are as follows:

Additional Cost

All figures in ₱

	kWh consumption	Current cost per kWh	Current Total Cost	Generation Coal	Generation Diesel/Bunker	Transmission	Distribution	UCME[20]	Total	Estimated new total cost	Percent increase
Grid (Meralco)	**100**	**7.80**	**780.00**	**2.00**	**4.40**	**8.18**	**0.00**	**0.38**	**14.96**	**794.96**	**1.92**
Grid (non-Meralco, NEA)	**100**	**8.80**	**880.00**	**2.00**	**4.40**	**5.91**	**0.00**	**0.38**	**12.69**	**892.69**	**0.44**
Grid (non-Meralco, CDA)	**00**	**8.80**	**880.00**	**2.00**	**4.40**	**5.91**	**7.18**	**0.38**	**19.87**	**899.87**	**2.26**

[20] Universal Charge of Missionary Electrification

All figures in ₱

	kWh consumption	Current cost per kWh	Current Total Cost	Generation Coal	Generation Diesel/Bunker	Transmission	Distribution	UCME[20]	Total	Estimated new total cost	Percent increase
SPUG[21] (NEA[22], coal powered)	**00**	**11.30**	**1,130.00**	**4.00**	**0.00**	**0.00**	**0.00**	**0.38**	**4.38**	**1,134.38**	**0.39**
SPUG (CDA, coal powered)	**00**	**11.30**	**1,130.00**	**4.00**	**0.00**	**0.00**	**10.17**	**0.38**	**14.55**	**1,144.55**	**1.29**
SPUG (NEA, diesel/bunker powered, full pass-through)	**00**	**11.30**	**1,130.00**	**0.00**	**7 1.00**	**0.00**	**0.00**	**0.00**	**71.00**	**1,201.00**	**6.28**
SPUG (CDA, diesel/bunker powered, full pass-through)	**00**	**11.30**	**1,130.00**	**0.00**	**7 1.00**	**0.00**	**10.17**	**0.00**	**8.7**	**2.70**	**7.8**
SPUG (NEA, diesel/bunker powered, subsidized)	**00**	**11.30**	**1,130.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.38**	**0.38**	**30.38**	**0.03**
SPUG (CDA, diesel/bunker powered, subsidized)	**00**	**11.30**	**1,130.00**	**0.00**	**0.00**	**0.00**	**10.17**	**0.38**	**0.55**	**40.55**	**0.93**

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

Notes: Estimates are based on the following assumptions:

i) An additional ₱2.50 per liter increase in the excise tax of diesel and bunker fuel.
ii) An average increase to ₱1.00 in excise tax per metric ton of coal

Another major change introduced by the TRAIN Law is the refund mechanism of zero-rated sales and services under the enhanced VAT refund system. Upon the successful establishment and implementation of an enhanced VAT refund system, refunds of creditable input tax shall be granted by the BIR within ninety (90) days from filing of the VAT refund application, provided that all pending VAT refund claims of the taxpayer as of 31 December 2017 shall be fully paid in cash by 31 December 2019. The following shall no longer be considered as zero-rated transactions and consequently shall be subject to 12% VAT upon the establishment of said refund system:

1. Sale of raw materials or packaging materials to a nonresident buyer for delivery to a resident local export to be used in manufacturing, processing, packing or repacking in the Philippines of the said buyer's goods and paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the BSP;
2. Sale of raw materials or packaging materials to export-oriented enterprise whose export sales exceed seventy percent (70%) of total annual production;
3. Those considered export sales under Executive Order No. 226, otherwise known as the Omnibus Investment Code of 1987, and other special laws;

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

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

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

[21] Small Power Utilities Group
[22] National Electrification Administration

In light of the COVID-19 pandemic, the CITIRA Bill is deemed recalibrated and now referred to as the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE). The proposed amendments include the following: (i) immediate 5% point cut in the corporate income tax rate; (ii) stretch the applicability of the net operating loss carryover (NOLCO) for losses incurred in 2020 from the current 3 to an extended 5 years for non-large taxpayers; and (ii) maintaining up to 9 years the status quo for registered business activitings enjoing the 5% gross income earned (GIE) incentive, among others. CREATE is one of instruments under the Philippine Program for Recovery with Equity and Solidarity (or PH-PROGRESO), the proposed stimulus package of the economic team under the current administration.

2. Revised Corporation Code

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

(a) Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Revised Corporation Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies SEC that it elects to retain its specific corporate term under its current Articles of Incorporation.
(b) A corporation vested with public interest must submit to its shareholders and to SEC an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee.
(c) The Revised Corporation Code Code allows the creation of a "One Person Corporation" except for banks and quasi-banks, pre-need, trust, insurance, public and publicly-listed companies, among others. This restriction also applies with respect to incorporations as close corporations.
(d) Material contracts between a corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.
(e) The right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or *in absentia* if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or *in absentia* are deemed present for purposes of quorum. When attendance, participation, and voting are allowed by remote communication or *in absentia*, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.
(f) In case of transfer of shares of listed companies, SEC may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with SEC rules.

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

3. The Philippine Competition Act

RA No. 10667 (the Philippine Competition Act or the Act) was signed into law on 21 July 2015 and took effect on 08 August 2015. The IRR of the Act was issued on 03 June 2016. This Act aims to codify anti-trust laws in the Philippines and it provides the competition framework in the country. The Philippine Competition Act was enacted to provide free and fair competition in trade, industry, and all commercial economic activities.

To implement its objectives, the Philippine Competition Act provides for the creation of a Philippine Competition Commission ("PCC"), an independent quasi-judicial agency composed of five commissioners. Among PCC's powers

are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, PCC must apply for a warrant with the relevant court.

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

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

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

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

The new thresholds for the notification requirements as provided in PCC Resolution No. 02-2020, effective 01 March 2020, are as follows:

Test	Old Threshold	New Threshold (effective 01 March 2020)
Size of Person Test	₱5.6 bn	₱6 bn
Size of Transaction Test	₱2.2 bn	₱2.4 bn

The new thresholds shall not applicable to: a) transactions that are already pending review by the PCC; b) notifiable transactions consummated before 01 March 2020; and c) transactions already subject of a decision by the PCC.

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

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

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

laws.

4. Foreign Investments Act of 1991

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

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

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

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

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

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

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

ownership and control of the corporation; and (iii) if the corporation passes the Control Test but there is doubt as to the beneficial ownership and control of the corporation, the Grandfather Rule must be applied.

5. Data Privacy Act of 2012

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

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

Its IRR took effect on 09 September 2016, mandating all Philippine companies to comply with the following: (i) appointment of a Data Protection Officer; (ii) conduct of a privacy impact assessment; (iii) creation of a privacy knowledge management program; (iv) implementation of a privacy and data protection policy; and (v) establishment of a breach reporting procedure. In addition, companies with at least 250 employees or access to the personal and identifiable information of at least 1,000 individuals are required to register their data processing systems with National Privacy Commission. The IRR, furthermore provides the only instances when data sharing is allowed, to wit: (a) data sharing is authorized by law, provided that there are adequate safeguards for data privacy and security, and processing adheres to principles of transparency, legitimate purpose and proportionality; (b) in the private sector, data sharing for commercial purposes is allowed upon (i) consent of data subject, and (ii) when covered by a data sharing agreement; (c) data collected from parties other than the data subject for purpose of research shall be allowed when the personal data is publicly available; and (d) data sharing among government agencies for purposes of public function or provision of a public service shall be covered by a data sharing agreement.

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

6. Registration under Board of Investments (BOI)

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

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

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

(a) Wholesale Electricity Spot Market (WESM)

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

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

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

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

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

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

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

On 17 May 2017, PEMC filed an application docketed as ERC Case No. 2017-042 RC for the approval of the Price Determination Methodology for the WESM, which includes, inter alia, (i) scheduling and pricing of energy and reserves, and (ii) revised settlement formula. The application was last heard for expository presentation on 22 November 2017. No Order or pronouncement from the ERC as to the next incident of this case was released as of 23 August 2018.

On 06 August 2018, the ERC issued Department Circular No. DC2018-08-0022 amending WESM Rules and its Market Manuals. This aims to provide the framework for the participation of Non-Generator Resources and

Pumped-Storage Units in the WESM with respect to registration, dispatch protocol and modeling in the market network model.

(b) WESM Mindanao

On 04 May 2017, the DOE issued DC 2017-05-0009 entitled "Declaring the Launch of WESM in Mindanao and Providing Transition Guidelines". This DOE Circular took effect on 07 June 2017, with the following pertinent provisions:

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

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

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

(iv) Automatic termination of IMEM; and

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

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

(c) Independent Electricity Market Operator (IEMOP)

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

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

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

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

(d) Proposed Amendments to the EPIRA

Since the enactment of the EPIRA in 2001, members of Congress have proposed various amendments to the law

and its implementing rules and regulations. A summary of the significant proposed amendments are as follows:

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

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

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

The ERC has also implemented a PIS whereby annual rate adjustments under PBR will take into consideration

the ability of a distribution utility to meet or exceed service performance targets set by ERC, such as the: (a) average duration of power outages; (b) average time of restoration to customers; and (c) average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

The second regulatory period of Cotabato Light ended on 31 March 2013, while that of Visayan Electric and Davao Light ended on 30 June 2014. In addition, the second regulatory period of SEZ and SFELAPCO ended on 30 September 2015. The reset process for the subsequent regulatory period, however, has been delayed due to the issuance by ERC in 2013 of an Issues Paper on the Implementation of PBR for distribution utilities under RDWR. Said paper aims to revisit various matters relating to the reset process. ERC has solicited comments from industry participants and has been holding public consultations on the Issues Paper.

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

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

(i) Cotabato Light: 01 April 2017 to 31 March 2021
(ii) Davao Light and Visayan Electric: 01 July 2018 to 30 June 2022
(iii) SEZ and SFELAPCO: 01 October 2019 to 30 September 2023

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

The reset process for the fourth regulatory period has not yet started for all private distribution utilities as the abovementioned ERC rules have not been published yet for its effectivity.

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

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

(f) ERC Regulation on Systems Loss Cap Reduction

In April 2018, ERC issued Resolution No. 10, Series of 2018 entitled *"A Resolution Clarifying the System Loss Calculation Cap and Providing the Effectivity of the Rules for Setting the Distribution Loss Cap"*. This set of rules provide for the new Distribution System Loss (DSL) cap that can be recovered and charged by distribution utilities to its customers, beginning in the May 2018 billing period.

Under the ERC resolution, the DSL cap for private utilities was set at 6.5% for 2018, which shall be reduced gradually on an annual basis until a DSL cap level of 5.50% is achieved by the year 2021. As of 2019, the DSL cap is already set at 6.25%. The aforementioned caps are exclusive of sub-transmission and substation losses. The aforementioned rules also provide for a PIS, which is a price-linked reward for distribution utilities, with the goal of reducing the DSL passed on to customers and to promote efficiency in distribution systems in the long term.

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

On 04 June 2018, Cotabato Light filed an Application (dated 18 May 2018) for the Individualized Distribution System Loss Cap, requesting, among others, that it be exempted from the 6.5% cap pending the filing and approval of its application for Individualized DSL cap of 7.48% in Technical Loss and 1.77% in Non-Technical Loss and sought approval to use the previous 8.5% DSL cap instead. The case is still pending with ERC to date.

(g) Competitive Selection Process

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

On 20 October 2015, ERC issued Resolution No. 13, Series of 2015, entitled, "*A Resolution Directing All Distribution Utilities (DUs) to Conduct a Competitive Selection Process (CSP) in the Procurement of their Supply to the Captive Market*" ("ERC CSP Rules"). This resolution provides that a PSA shall be awarded to a winning Generation Company following a competitive selection process or by direct negotiation, after at least two failed CSPs. For PSAs which were already executed but were not yet filed with the ERC and those that were still in the process of negotiation during the time of the effectivity of the ERC CSP Rules, the relevant distribution utility already had to comply with the CSP requirement before its PSA application would be accepted by the ERC. The ERC CSP Rules took immediate effect following its publication on 07 November 2015.

ERC Resolution 13, Series of 2015, was restated in ERC Resolution No. 1, Series of 2016, entitled, "*A Resolution Clarifying the Effectivity of ERC Resolution No. 13, Series of 2015.*" ERC Resolution No. 1, Series of 2016, extended the date of the effectivity of the CSP requirement from 07 November 2015 to 30 April 2016. It further stated that all PSAs executed on or after the said date would be required, without exception, to comply with the provisions of the ERC CSP Rules.

On 01 February 2018, DOE promulgated DC No. DC2018-02-0003 ("2018 DOE Circular") entitled "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreements for the Captive Market." Through this Circular, DOE issued its own set of guidelines ("DOE CSP Rules") for the procurement by distribution utilities of PSAs for the Captive Market.

Under the DOE CSP Rules, all PSAs shall be procured through CSP, except for the following instances: (1) generation project owned by the distribution utility funded by grants or donations; (2) negotiated procurement of emergency power supply; (3) provision of power supply by any mandated Government-Owned and Controlled Corporation (GOCC) for off-grid areas prior to, and until the entry of New Power Providers (NPP); and (4) provision of power supply by the PSALM through bilateral contracts. A PSA may also be entered into by direct negotiation if the CSP fails twice. The DOE CSP Rules took effect upon its publication on 09 February 2018.

The validity of ERC CSP Rules and ERC Resolution No. 1, Series of 2016, was challenged before the SC on the ground that ERC, in issuing the said resolutions, amended the 2015 DOE Circular and effectively postponed the date of effectivity of the CSP requirement. Consequently, on 03 May 2019, the SC in the case of *Alyansa Para sa Bagong Pilipinas, Inc. v. ERC (G.R. No. 227670)*, declared the first paragraph of Section 4 of the ERC CSP Rules and ERC Resolution No. 1, Series of 2016, as void *ab initio*. The SC further ruled that all PSAs submitted to ERC on or after 30 June 2015 shall comply with the CSP and that upon compliance with the CSP, the power purchase cost resulting from such compliance shall retroact to the date of the effectivity of the complying PSA, but in no case earlier than 30 June 2015, for purposes of passing on the power purchase cost to the consumers.

(h) Adopting a General Framework Governing the Provision and Utilization of Ancillary Services in the Grid

On 04 December 2019, DOE issued Department Circular No. DC2019-12-0018 entitled "Adopting a General Framework governing the utilization of Ancillary Services (AS) in the Grid" ("AS Circular"). The policy seeks to ensure the reliability, quality and security of the supply of electricity by adhering to principles that will provide the safe and reliable operation of the grid by taking into account the entry of emerging technologies and the intermittency of variable renewable energy generating resources.

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

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

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

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

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

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

(i) Ancillary Services Pricing and Cost Recovery Mechanism

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

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

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

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

On 02 December 2014, DOE issued Circular No. 2014-12-0022, otherwise known as the Central Scheduling and

Dispatch of Energy and Contracted Reserves. The circular aims to prepare the market participants in the integration of ancillary reserves into the WESM. The ancillary service providers will be paid based on their respective ASPAs with NGCP, while the scheduling of capacity and energy will be based on market results.

On 14 September 2018, NGCP filed a Petition seeking the Commission's approval of its proposed amendments to the Ancillary Services – Cost Recovery Mechanism.

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

(j) Energy Efficiency and Conservation Act

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

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

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

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

(k) Providing for the Framework Governing the Operations of Embedded Generators

On 08 February 2019, DOE promulgated Department Circular No. DC2019-02-0003 entitled "Providing for the Framework Governing the Operations of Embedded Generators". As its guiding principle the policy provides for the central dispatch by the System Operator on Embedded Generators with material impact to Grid operations for maintenance of transmission grid stability. The policy shall apply to the following:

(a) Embedded Generators (EGs);
(b) Distribution Utilities;
(c) Metering Service Providers;
(d) Market Operators;
(e) Transmission Service Providers; and
(f) System Operators;

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

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

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

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

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

(l) Energy Virtual One-Stop Shop Act

RA No. 11234 or the Energy Virtual One-Stop Shop Act (EVOSS Law) was signed into law by President Duterte on 08 March 2019 and became effective on 29 March 2019. DOE issued the IRR for the EVOSS Law on 24 June 2019. Under the EVOSS Law, prospective power generation, transmission or distribution companies can apply, monitor and receive all the necessary permits, and even pay for charges and fees, through the online platform called Energy Virtual One-Stop Shop (EVOSS) once it takes effect, cutting down the lengthy permitting process for the development of power projects. The EVOSS online system will be managed and maintained by DOE, while its operations will be monitored by the EVOSS Steering Committee.

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

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

(m) Prescribing Revised Guidelines for Qualified Third Party

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

The policy provides revisions to the existing guidelines covering the qualifications and participation of QTPs in the provision of electric services to "Unviable Areas" within the respective franchise areas of distribution utilities and electric cooperatives. As part of the Scope of the Revised QTP Guidelines, the policy shall apply to the provision of electricity services in defined as unviable areas, which include unserved and underserved electricity customers, within the franchise areas of distribution utilities.

(n) Providing a Framework for Energy Storage System in the Electric Power Industry

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

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

(o) Guidelines Governing the Issuance of Operating Permits to Renewable Energy Suppliers Under the Green Energy Option Program

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

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

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

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

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

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

(p) Promulgating the Renewable Energy Market Rules

On 04 December 2019, DOE issued Department Circular No. DC2019-12-0016, entitled "*Promulgating the Renewable Energy Market (REM) Rules"*, thereby officially starting the Renewable Portfolio Standards (RPS) compliance process.

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

(a) Facilitate the efficient operation of the REM;

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

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

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

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

(q) Feed-in-Tariff System

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

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

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

In line with the increase in installation target for solar energy from 50 MW to 500 MW and wind energy from 200 MW to 400 MW, ERC issued Resolution No. 6 Series of 2015 approving the Solar FIT2 rate of ₱8.69/kWh for the second set of installation target. On 06 October 2015, ERC issued Resolution No. 14, Series of 2015 adopting the Wind FIT2 rate of ₱7.40/kWh. In Resolution No. 1, Series of 2017, ERC set the degressed FIT rates for hydro and biomass plants at ₱5.8705/kWh and ₱6.5969/kWh, respectively. Through a letter dated 23 February 2018, DOE informed ERC of its resolution extending the FIT for Biomass and ROR Hydro until 31 December 2019.

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

ESTIMATE OF AMOUNT SPENT FOR RESEARCH AND DEVELOPMENT ACTIVITIES

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

COSTS AND EFFECTS OF COMPLIANCE WITH ENVIRONMENTAL LAWS

The Safety Health Environment and Security (SHES) group of AboitizPower oversees the SHES programs and activities within its operational control from the corporate center, Business Units, to facility teams. This includes the accounting of all environmental impacts. For the Generation Group, the facilities include: (1) APRI's Tiwi-MakBan

plants, (2) Sacasun Plant, (3) the Benguet, Bakun, Sabangan, Sibulan A, B, and Tudaya A), Tudaya B, Manolo Fortich, and Talomo HEPPs, (4) SN AboitizPower Group's Ambuklao, Magat, and Maris plants, (5) Oil Group's Cebu, Mactan, Mobile 1, Mobile 2, Mobile 3-6, and Naga plants, (6) Coal Group's Davao and Toledo plants. In 2019, the reporting boundary of the SHES group expanded to include AboitizPower's Distribution Utilities, namely, Cotabato Light, Davao Light, Visayan Electric, BEZ, MEZ, LEZ, and SEZ.

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

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

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

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

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

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

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

AboitizPower and its Subsidiaries did not incur any major sanctions for violation of environmental standards and law in 2019. AboitizPower continues to be cognizant of new opportunities to comply with regulatory requirements and improvement of systems to promote safety and prevent adverse impacts to the environment or affected ecosystems.

EMPLOYEES

At the parent company level, AboitizPower has a total of 429 employees as of 31 March 2020. These include executive, supervisory, and rank and file staff employees. There is no existing Collective Bargaining Agreement (CBA) covering AboitizPower employees.

The following table provides a breakdown of total employee headcount on a per business group basis, according to employees' function, as of 31 March 2020:

Business Group	Number of Employees					Unionized Employees	Expiry of CBA
	Total	Executives	Managers	Supervisors	Rank & File		
Aboitiz Power	429	75	72	80	202	0	N/A
Generation Companies							
Run-of-River Hydros	578	14	25	70	469	139	19 September 2022 (Hedcor)
Large Hydros	190	17	31	35	107	0	N/A
Geothermal	283	7	19	49	208	42	28 February 2022 (APRI)
Solar	6	0	0	2	4	0	N/A
Oil	420	12	32	192	184	0	N/A
Coal	1,281	21	90	241	929	180	21 December 2018*
RES	7	0	2	1	4	0	N/A
Distribution Utilities	805	15	59	138	593	298	31 December 2016* (Visayan Electric) 01 July 2024 (Cotabato Light) 16 June 2021 (Davao Light) 09 May 2024 (SFELAPCO)
Total No. of Employees	**3,999**	**161**	**330**	**808**	**2,700**	**479**	

**Under negotiation*

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

The Company's employees are not on strike nor are threatening to strike, and have not been on strike for the past three (3) years.

The Company has performance incentive policies to grant bonuses to eligible employees based on their performance in the previous calendar year. Other than the statutory benefits and the performance incentive program, the Company does not provide its employees any other supplemental benefits.

INSURANCE

It Is the Company's policy to obtain and maintain insurance coverage for its operating assets and employees that is in line with industry standards and good business practices. The Company ensures that all insurance policies are updated, renewed and provides best-fit coverage for the Company's insurance requirements

Power Generation Companies

Group Insurance Program – Industrial All Risks.

To maximize the coverage and competitiveness of insurance terms and conditions, the Company had grouped the

insurance coverage of the following generating companies:

Group IAR Program 1: This program has a policy period of 30 May 2020 to 30 May 2021, procured through Malayan Insurance Co., Inc.

- Sacasun
- Hedcor Sibulan
- Hedcor Tudaya
- Hedcor Sabangan
- LHC
- Hedcor Bukidnon
- Hedcor
- TVI

Group IAR Program 2: This program has a policy period of 30 November 2019 to 30 November 2020, procured through Pioneer Insurance and Surety Corporation

- SN Aboitiz Power (SNAP)
- TLI
- TSI
- APRI

This program will respond to losses and/or damages to (a) declared properties including machinery breakdown; and (b) business interruption exposures.

Noting the uniqueness of the power barges, the Company has decided to engaged separate program for the following Business Units to ensure that the insurance coverage is aligned with the risk exposures of the power barges:

- TMO
- TMI

This program has a policy period of 15 December 2019 to 15 December 2020, procured through Pioneer Insurance and Surety Corporation.

Group Property and Electronic Equipment Insurance. Noting that office-based properties have lesser risk exposure compared to the generating plants, the Company has procured a separate policy to cover properties which are considered as office-based. This was procured from Pioneer Insurance and Surety Corporation with policy period of 31 July 2019 to 31 July 2020.

Group Comprehensive General Liability Insurance. To mitigate risks related to Third Party Liability for bodily injury and/or property damage, the Company procured group cover for the following Business Units through Starr International Insurance Philippines with policy period of 30 November 2019 to 30 November 2020.

BU	Limit per Occurrence (in US$)
Hedcor Sibulan	2,000,000.00
APRI	2,000,000.00
SNAP – Benguet	10,000,000.00
SNAP – Magat	200,000.00
Therma South, Inc.	5,000,000.00

LHC	5,000,000.00
SN Aboitiz Power – Maris	1,000,000.00
Sacasun	2,000,000.00
TVI	5,000,000.00

Stand-alone Program. On a per Business Unit basis, stand-alone insurance programs were procured to ensure that unique risk exposures of particular Business Unit are mitigated.

Hedcor, Inc. – Industrial All Risks. Properties of Hedcor, Inc. are insured through Malayan Insurance Co., Inc. as the lead insurer with total declared value of ₱5.6 bn for all properties located in Benguet and Davao including business interruption exposures. Policy period is from 30 December 2019 to 30 December 2020.

East Asia Utilities Corporation (EAUC) – Industrial All Risks. Properties of EAUC are insured through Malayan Insurance Co., Inc. with total declared value of US$ 60.7 mn including business interruption exposures with policy period of 30 December 2019 to 20 December 2020

Cebu Private Power Corporation (CPPC) – Industrial All Risks. Properties of CPPC are insured through Malayan Insurance Co., Inc. with total declared value of US$ 87.9 mn including business interruption exposures with policy period of 30 December 2019 to 30 December 2020.

Therma Luzon, Inc, (TLI) – Property Damage / Business Interruption Insurance. Protection of revenue streams as IPPA is a risk exposure of TLI in relation to power generation of Pagbilao Coal-Powered plant. In relation to this, the Company has procured business interruption cover through Pioneer Insurance and Surety Corporation with a limit of US$63 mn. The policy period is from 31 May 2020 to 31 May 2021.

Shipment of Coal Policies for Therma Luzon (TLI) and Therma South (TSI). Both Business Units have a Marine Open Policy that covers its import shipments of Coal from Indonesia to the Plant site. Limit of liability per any one shipment is at ₱400 mn. The policy has open-ended expiration date but being reviewed annually.

Power Distribution Companies

Group Insurance Program. Seeing the benefits of grouping the insurance coverage, the Company has procured group cover for the following distribution companies:

- Visayan Electric Company
- Davao Light
- Cotabato Light
- MEZ
- BEZ
- SEZ
- LEZ

The Group Policy covers Industrial All Risks (IAR) insurance that will respond for losses and/or damages to declared properties through Malayan Insurance Co., Inc., as lead insurer, and Pioneer Insurance Company Ltd., and Surety Corp., as co-insurers, with policy period of 30 December 2019 to 30 December 2020. Total declared value of the properties is ₱10.8 bn, broken down as follows:

BU	Declared Values (in ₱)
Visayan Electric	₱5.009 bn
Davao Light	₱4565 bn

BU	Declared Values (in ₱)
Cotabato Light	₱0.596 bn
MEZ	₱0.142 bn
BEZ	₱0.156 bn
SEZ	₱1.011 bn
LEZ	₱0.636 bn

Group Comprehensive General Liability Insurance. The operations of Distribution Companies come with Third Party Liability exposures. The Company has procured a Comprehensive General Liability insurance from Pioneer Insurance and Surety Corporation with combined single limit for bodily injury and/or property damage of ₱5 mn per occurrence and in the aggregate with sub-limit of ₱1 mn for losses related to transmission and distribution. Policy period is from 30 December 2019 to 30 December 2020.

Group Money Insurance. To ensure that cash exposures of the distribution companies are protected, the Company has procured Money Insurance from Pioneer Insurance and Surety Corporation for the following units to respond for losses/damages in relation to cash inside and outside premises with extension to payroll robbery with policy period of 31 July 2019 to 31 July 2020. Limit of Liabilities are as follows:

Business Unit	Limit per Occurrence (in ₱)
Visayan Electric	₱450,000.00
Cotabato Light	₱10,043,883.00

Insurance Program for Transmission & Distribution Lines. Seeing the need to mitigate major exposure on Transmission and Distribution lines, an insurance program for Visayan Electric and Davao Light in relation to loss of or damage to said properties including loss of gross profit was procured through Pioneer Insurance and Surety Corporation with a limit of US$25,000,000 each occurrence and in the aggregate with policy period of 01 March 2020 to 01 March 2021.

Applicable to Both Generation & Distribution Companies

Group Comprehensive Motor Vehicle Insurance. As motor vehicle is an integral part of operation, all registered motor vehicles of Aboitiz Power are covered under the Aboitiz Group's Motor Vehicle insurance through Mapfre Insular Insurance Corporation with policy period of 31 December 2019 to 31 December 2020.

Directors and Officers' Liability Insurance. In order to protect the balance sheet of the Company as well as the personal assets of the Company's directors and officers, a Directors and Officers Liability Insurance was procured. The coverage includes all subsidiaries of AEV. The policy has a total limit of US$25,000,000.00 issued by Starr International Insurance with policy period of 28 February 2020 and expiring on 28 February 2021.

Group Insurance Program – Political Violence. The Company has procured Political Violence insurance, which is a broader form of Sabotage and Terrorism that covers property damage and business interruption caused by any acts of sabotage and/or terrorism and/or political violence for AEV Group including power generation and distribution units. This is a group policy with shared limit of US$250 mn for any acts of sabotage and/or terrorism and/or political violence. This program has a policy period of 30 November 2019 to 30 November 2020 insured through Pioneer Insurance and Surety Corporation.

CORPORATE SOCIAL RESPONSIBILITY

The Company strongly believes that business sustainability can be achieved by balancing the interests of people, planet, and profit. To ensure a profitable enterprise that will last for generations, it is vital for every business to operate with a strong social component amid a healthy environment, while practicing the core principles of good governance and transparency.

The Company recognizes that its operations have an impact on its communities and on the environment. Along with operational efficiency in its generation and distribution facilities and compliance with the government's environmental standards, the Company ensures that the communities where it operates also benefit and develop together with the Company. To this end, the Company has supported community development projects in partnership with local government units and other stakeholders to help address the economic, socio-cultural, health, education, and environmental concerns of these communities.

The Company contributes to social development programs implemented by the Aboitiz Group. Under the guidance of Aboitiz Foundation, Inc. (Aboitiz Foundation), the Group's social development arm, the Company continues to co-create safe, empowered, and sustainable communities by continuously focusing on the areas of education, enterprise development, and the environment. The Company also continues to address the health care and childcare needs of its host communities, and offer assistance to disaster-stricken areas.

In 2014, Aboitiz Foundation launched CSR 2.0, a set of parameters that measures the significance and impact of projects implemented by the different companies of the Aboitiz Group. CSR 2.0 ensures that projects have an inclusive impact on the communities. Its parameters include the alignment with the Group's core businesses and the Foundation's program pillars, scalability, team member engagement, and provision of long-term benefits to our partner-communities. In 2019, about 41% of group-wide CSR programs reached the CSR 2.0 status.

Moreover, the Company provides additional funds for the communities through its compliance with the Energy Regulations No. 1-94 (ER 1-94). The ER 1-94 program is a policy under the Department of Energy Act of 1992 and EPIRA, which stipulate that host communities will get a share of one centavo for every kilowatt-hour (₱0.01/kWh) generated by power plants operating in its area. The funds generated can be used by host beneficiaries for the electrification of areas or households that have no access to power, development and livelihood programs, as well as reforestation, watershed management, health, and environmental enhancement initiatives. With the latest amendments to the ER 1-94 guidelines, power generation companies can now directly download the ER 1-94 fund to their host communities. Streamlining the release of funding will ease the process of implementing projects that benefit the host communities. Towards the end of 2019, the Company led its power generation Business Units to sign memoranda of agreement with their respective beneficiaries for the amended set-up of the ER 1-94. The Company is expected to download about ₱179 mn worth of ER 1-94 funds as of 25 December 2019 to its host beneficiaries. In addition, around ₱620 mn worth of outstanding ER 1-94 funds will be remitted by the Department of Energy to the Company's beneficiaries as well. The Company continues to extend assistance to its communities to ensure the full utilization of the available ER 1-94 funds.

Education

The Company invests in numerous initiatives that aim to nurture and enlighten the minds of students. Primarily, the Company provides scholarship grants for high school, college, and technical-vocational students. As of 2019, the Company has a total of 954 scholars, including 652 technical-vocational high school student beneficiaries.

The Company also provides infrastructure support for educational institutions such as the construction and rewiring of classrooms as well as library revitalization. The company also provides donations of armchairs, desks, computers and school supplies. In 2019, the Company rewired 795 classrooms, donated 30 thin client computer systems, and turned over 240 arm chairs, among others. For instance, Hedcor Bukidnon turned over a fully furnished container van to serve as Sitio Sabangan's new daycare center. The repurposed facility came with new tables and chairs, books and other learning materials, all for the benefit of the young learners of the community. The addition of the new facility in the area will allow more children in the community to have access to education.

In 2017, APRI launched the Youth Development Summit program which aims to engage scholars, local government units, and its own team members in conceptualizing sustainable and feasible projects for the benefit of the communities of Makiling-Banahaw and Tiwi geothermal power plants. The program has provided a platform to engage APRI team members in mentoring and coaching scholars on how to create impactful community projects. Some of the projects presented in the summits were supported and funded by APRI. In 2019, a total of 180 scholars and 50 team members were involved in the summit, and a total of five projects were provided with initial funding by APRI.

Enterprise Development

The Company recognizes that to empower its host communities, there is a need to widen the livelihood options of the community members. With this, the Company implements various skills training programs and livelihood support under its enterprise development program.

In its thrust to build green and sustainable communities and create livelihood opportunities, TSI launched the Building Resilient Infrastructure and Communities through Kaibigans or BRICK project in 2018. The project aims to organize a community-based enterprise in Binugao, Toril, Davao City, which shall manufacture high-quality bricks and pervious pavers made of the TSI power plant's by-product, fly ash, as well as plastic wastes from the community. In 2019, TSI turned over the BRICK Facility to the community. TSI targets to train and organize a pool of brick producers and local bricklayers from the community in 2020.

Environment

The Aboitiz Group, driven by its passion for a better world, is committed to the highest standards of environmental management and performance. One of the notable greening initiatives of the Group is the A-Park program. As of 2019, the Group has already planted 7.5 million seedlings across the country under the program, of which the Company planted 4.27 million, well on track to its goal to plant 9 million trees by 2020.

Along with the A-Park program, the Company also has other environmental programs in place such as seedling nursery, watershed management, waste management, adopt-a-river, and coastal or river clean-up projects.

In its bid to offset carbon emissions, the Company has actively pushed for the establishment of the Carbon Sink Management Program (CSMP) since 2015. TSI and TVI are committed to planting 1 million trees in Davao and 1 million trees in Cebu, respectively, to act as a carbon sink. The Company has forged strategic partnerships with indigenous communities and farmers in support of the program. As of 2019, the Company and its partners in the community have planted 907,932 seedlings under CSMP.

The Company also features the Aboitiz Cleanergy Park as one of its environmental programs. Located in Davao City, the eight-hectare park showcases a mangrove reforestation site, nursery, and botanical garden for the propagation of 29 native tree species and is home to 90 species of birds. Aside from helping reduce carbon emissions, the Park is also actively promoting habitat conservation and biodiversity management in an urban setting. Most importantly, the Park serves as a sanctuary and safe nesting ground for the hawksbill sea turtles, commonly called pawikan. Since 2014, the park has already released more than 4,811 hawksbill hatchlings to the sea, planted 13,992 mangroves, and rescued 13 pawikans.

Other Initiatives

The Company is also committed to helping communities recover from typhoons and other disasters such as fire and earthquakes. In 2019, the Aboitiz Group and Aboitiz Foundation immediately extended assistance to affected communities nationwide by providing relief packs to 41,661 families and helped re-energize 18,597 customers of other electric cooperatives.

In 2013, the Company launched its Cleanergy Center at the Makiling-Banahaw Geothermal Complex of APRI to firm up its long-standing commitment to responsible energy development and education. The Cleanergy Center–taken from the words "clean energy" and named after AboitizPower's brand for renewables–is the country's first

renewable energy learning facility. Since it opened, the Cleanergy Center has welcomed close to 56,000 visitors from all over the country and even abroad.

The Company also opened the Energy Education Center (EEC) in 2016 located at Therma South's Davao baseload power plant. The center features interactive and informative displays on the Philippine energy sector and various power generating technologies. As of 2019, the center has accommodated a total of 3,453 visitors.

In 2019, the Aboitiz Group invested a total of ₱382 mn to assist its host communities and committed ₱76 mn for its environmental programs, consistent with its commitment to protecting and enriching our planet and uplifting the well-being of its communities. Through responsible operations and the implementation of various sustainability and CSR projects, the Company is constantly advancing business and communities by exploring opportunities to create shared value whenever possible.

PROPERTIES

The Company's head office is located at the 32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines. The office space occupied by the Company is leased from a third party. As a holding company, the Company does not utilize significant amounts of office space. As of the date of this Prospectus, and since the filing for the shelf registration, there has been no new material leased properties.

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

On a consolidated basis, AboitizPower's Property, Plant and Equipment were valued at ₱209.52 bn as of end-2019, as compared to ₱207.11 bn as of 31 December 2018. The breakdown of the Company's Property, Plant and Equipment as of 31 December 2019 and 31 December 2018 is as follows:

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

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

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

Subsidiary	Description	Location/Address	Condition
APRI	Geothermal power plants	Tiwi, Albay, Caluan, Laguna; and Sto. Tomas, Batangas	In use for operations
Aseagas	Raw land and improvements	Lian, Batangas	Ceased operations

Subsidiary	Description	Location/Address	Condition
Hedcor	Hydropower plants	Kivas, Banengneng, Benguet; Beckel, La Trinidad, Benguet, Bineng, La Trinidad, Benguet; Sal-angan, Ampucao, Itogon, Benguet; and Bakun, Benguet	In use for operations
Hedcor Bukidnon	Hydropower plant	Maluko, Manolo, Fortich, Bukdinon	In use for operations
Hedcor Sibulan	Hydropower plant	Santa Cruz, Sibulan, Davao del Sur	In use for operations
Hedcor Tudaya	Hydropower plant	Santa Cruz, Sibulan, Davao del Sur	In use for operations
Hedcor Sabangan	Hydropower plant	Namatec, Sabangan, Mountain Province	In use for operations
CPPC	Bunker-C thermal power plant	Cebu City, Cebu	In use for operations
EAUC	Bunker-C thermal power plant	Lapu-Lapu City, Cebu	In use for operations
TMI	Barge-mounted diesel power plants	Nasipit, Agusan del Norte and Barangay San Roque, Maco, Compostela Valley	In use for operations
TMO	Barge-mounted diesel power plants	Navotas Fishport, Manila	In use for operations
TSI	Coal-fired thermal power plants	Davao City and Davao del Sur	In use for operations
TVI	Land	Bato, Toledo, Cebu	For plant site
GMCP	Coal-fired thermal power plants	Mariveles, Bataan	In use for operations
Cotabato Light	Industrial land, buildings/ plants, equipment, and machineries	Sinsuat Avenue, Cotabato City	In use for operations
Davao Light	Industrial land, buildings/ plants, equipment, and machineries	P. Reyes Street, Davao City and Bajada, Davao City	In use for operations
Visayan Electric	Industrial land, buildings/ plants, equipment, and machineries	Jakosalem Street, Cebu City and J. Panis Street, Cebu City	In use for operations
LEZ	Industrial land, buildings/plants, equipment, and machineries	Lipa City and Malvar, Batangas	In use for operations
BEZ	Industrial land, buildings/plants, equipment, and machineries	Balamban, Cebu	In use for operations

As of date, the Company has not acquired any material properties other than as mentioned above.

MATERIAL CONTRACTS

AboitizPower ₱ 10 Billion Fixed Rate Bonds due 2021 and 2026

On 10 September 2014, AboitizPower issued fixed-rate bonds (the "2014 Bonds") in two series: (a) Series A Bonds, with a term of seven (7) years from issue date and in the aggregate amount of ₱6,600,000,000.00, and (b) Series B Bonds, with a term of twelve (12) years from issue date in the aggregate amount of ₱3,400,000,000.00. The Series A 2014 Bonds had an optional redemption on the fifth (5th) year and one (1) quarter from issue date, and on the sixth (6th) year from issue date. On the other hand, the Series B 2014 Bonds had an optional redemption on the seventh (7th) year from issue date, the eighth (8th) year from issue date, the ninth (9th) year from issue date, the tenth (10th) year from issue date, and the eleventh (11th) year from issue date. BPI Capital Corporation ("BPI Capital") acted as the Issue Manager and Lead Underwriter while Bank of the Philippine Islands – Asset Management Group was appointed as Trustee.

The 2014 Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of AboitizPower and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by AboitizPower pursuant to Section 5.2 (a) of the Trust Agreement for the 2014 Bonds or as may be allowed therein, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of the relevant issue date.

Transfers of the 2014 Bonds shall be coursed through the Philippine Depository & Trust Corporation ("PDTC") as Registrar. Transfer and/or settlement of the 2014 Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and Registrar.

AboitizPower is subject to the following negative covenants, among others:

1. Encumbrances - AboitizPower shall not permit any Indebtedness to be secured by or to benefit from any Lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Issuer or the right of the Issuer to receive income; *Provided*, however that this shall not prohibit the following:

    a. any Lien over any asset to secure: (i) payment of the purchase price or cost of leasehold rights of such asset; or (ii) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (iii) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;
    b. Liens or charges for current taxes, assessments, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings, and adequate reserves have been provided for payment thereof;
    c. any Lien constituted over the investment of the Issuer in any of its affiliates, for any obligation or credit facility incurred for the purpose of pursuing any power generation, distribution, or retailing project or investment therein, whether such power generation, distribution, or retailing project is undertaken by the Issuer itself, by its affiliates, and/or by the Issuer or its affiliates with third parties;
    d. any Lien to secure, in the normal course of the business of the Issuer or its affiliates: (x) statutory or regulatory obligations; or (y) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;
    e. any Lien to secure, in relation to a pending judicial, administrative, or arbitral proceeding, the Issuer or its affiliates' (x) surety or appeal bonds; or (y) bonds for release of attachment, stay of execution or injunction;
    f. any Lien constituted for the purpose of guaranteeing an affiliate's obligation in connection with any contract or agreement that has been assigned to such affiliate by the Issuer;

g. any Lien constituted for the purpose of guaranteeing an obligation in connection with any contract or agreement of sale of any asset by the Issuer, provided that the Lien is removed or discharged within twelve (12) months of the date of the sale of the asset;
h. any Lien created over (i) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency other than Philippine Pesos ("foreign currency"); or (ii) financial instruments denominated in foreign currency owned by the Issuer, in each case solely for the purposes of raising an equivalent amount of Peso denominated indebtedness
i. any Lien created over or affecting any asset acquired by any affiliate after the date of the Trust Agreement, if:
   (i) the Lien was not created in contemplation of the acquisition of that asset by such affiliate;
   (ii) the principal amount secured has not been increased in contemplation of, or since the acquisition of that asset by such affiliate; and
   (iii) the Lien is removed or discharged within twelve (12) months of the date of the acquisition of such asset;
j. any Lien on the properties and assets of the Issuer: (i) imposed by Law, such as carriers' Liens, warehousemen's Liens, mechanics' Liens, unpaid vendors' Liens, and other similar Liens arising in the ordinary course of business; (ii) arising out of pledges or deposits under workmen's compensation Laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation, or retirement benefit plans of the Issuer; or (iii) arising out of the set-off provision on other agreements of the Issuer relating to Indebtedness;
k. any Lien in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations of other juridical entities which secure a preferential financing obtained by the Issuer under a governmental program and the aggregate principal amount of such preferential financing does not exceed Thirty-Five percent (35%) of the Issuer's total assets;
l. any Lien over its cash deposits, short-term cash investments, and marketable investment securities in favor of banks and other financial institutions, which secure (i) any borrowed money in connection with a Treasury Transaction in the ordinary course of business of Issuer, provided that the aggregate amount of security does not at any time exceed United States Dollars: Ten Million (US$10,000,000.00) or its equivalent; and/or (ii) standby letters of credit to be used to guarantee additional equity infusions by the Issuer in its Subsidiaries or Affiliates and/or used in the ordinary course of business of Issuer, its Subsidiaries and/or Affiliates;
m. other Liens: (i) created solely by operation of law; and (ii) on such other assets, whether constituted before or after the Issue Date, as may be disclosed in writing by the Issuer to the Trustee on or before the execution of this Agreement; and
n. any Lien constituted over the investment of the Issuer in any of its affiliate, and whether such investment is in the form of shares, deposits or advances to guarantee or secure the obligations of the said affiliates;

   Provided that for purposes of "affiliate" as used in Section 5.2 (a) (c), (d), (e), (h), and (m) above, it shall refer to any Person in which the Issuer has investment, whether direct or indirect.

2. Declaration and Payment of Cash Dividends/Issuance of Share. AboitizPower shall not declare or pay any dividends to its stockholders (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the 2014 Bonds are current and updated;

3. Maintenance of Financial Ratios. AboitizPower shall not permit its Net Debt to Consolidated Equity Ratio to exceed 3:1 calculated based on the AboitizPower's year-end audited financial statements.

AboitizPower ₱ 3 Billion Fixed Rate Bonds due 2027

On 03 July 2017, AboitizPower issued fixed-rate bonds (the "2017 Bonds"), with a term of ten (10) years from issue date and in the aggregate amount of ₱3,000,000,000.00. The 2017 Bonds had an optional redemption on the seventh

(7th) year, eighth (8th), and ninth (9th) year from issue date. BPI Capital Corporation ("BPI Capital") acted as the Sole Issue Manager and Sole Underwriter while Bank of the Philippine Islands – Asset Management Group was appointed as Trustee.

The 2017 Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of AboitizPower and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by AboitizPower pursuant to Section 5.2 (a) of the Trust Agreement for the 2017 Bonds or as may be allowed therein, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of the relevant issue date.

Transfers of the 2017 Bonds shall be coursed through the Philippine Depository & Trust Corporation ("PDTC") as Registrar. Transfer and/or settlement of the 2017 Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and Registrar.

AboitizPower is subject to the following negative covenants, among others:

1. Encumbrances - AboitizPower shall not permit any Indebtedness to be secured by or to benefit from any Lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Issuer or the right of the Issuer to receive income; *Provided*, however that this shall not prohibit the following:

    a. any Lien over any asset to secure: (x) payment of the purchase price or cost of leasehold rights of such asset; or (y) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (z) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;

    b. Liens or charges for current taxes, assessments, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings, and adequate reserves have been provided for payment thereof;

    c. any Lien to secure, in the normal course of the business of the Issuer or its affiliates: (x) statutory or regulatory obligations; or (y) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;

    d. any Lien to secure, in relation to a pending judicial, administrative, or arbitral proceeding, the Issuer or its affiliates' (x) surety or appeal bonds; or (y) bonds for release of attachment, stay of execution or injunction;

    e. any Lien constituted for the purpose of guaranteeing an affiliate's obligation in connection with any contract or agreement that has been assigned to such affiliate by the Issuer;

    f. any Lien constituted for the purpose of guaranteeing an obligation in connection with any contract or agreement of sale of any asset by the Issuer, provided that the Lien is removed or discharged within twelve (12) months of the date of the sale of the asset;

    g. any Lien created over (x) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency other than Philippine Pesos ("foreign currency"); or (y) financial instruments denominated in foreign currency owned by the Issuer, in each case solely for the purposes of raising an equivalent amount of Peso denominated indebtedness;

    h. any Lien on the properties and assets of the Issuer: (x) imposed by Applicable Law, such as carriers' Liens, warehousemen's Liens, mechanics' Liens, unpaid vendors' Liens, and other similar Liens arising in the ordinary course of business; (y) arising out of pledges or deposits under workmen's

compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation, or retirement benefit plans of the Issuer; or (z) arising out of the set-off provision on other agreements of the Issuer relating to Indebtedness;

i. any Lien in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations of other juridical entities which secure a preferential financing obtained by the Issuer under a governmental program and the aggregate principal amount of such preferential financing does not exceed Thirty-Five percent (35%) of the Issuer's total assets;

j. any Lien over its cash deposits, short-term cash investments, and marketable investment securities in favor of banks and other financial institutions, which secure (i) any borrowed money in connection with a Treasury Transaction in the ordinary course of business of Issuer, provided that the aggregate amount of security does not at any time exceed United States Dollars: Forty Million (US$40,000,000.00) or its equivalent; and/or (ii) standby letters of credit to be used to guarantee additional equity infusions by the Issuer in its Subsidiaries or Affiliates and/or used in the ordinary course of business of Issuer, its Subsidiaries and/or Affiliates;

k. other Liens: (x) created solely by operation of law; and (y) on such other assets, whether constituted before or after the Issue Date, as may be disclosed in writing by the Issuer to the Trustee on or before the execution of this Agreement; and

l. any Lien constituted over the investment of the Issuer in any of its affiliate, and whether such investment is in the form of shares, deposits or advances to guarantee or secure the obligations of the said affiliates;

Provided that for purposes of "affiliate" as used in Section 5.2a (iii), (iv), (v), and (xii) of this Agreement, it shall refer to any Person in which the Issuer has investment, whether direct or indirect, in.

2. Declaration and Payment of Cash Dividends/Issuance of Share. AboitizPower shall not declare or pay any dividends to its stockholders (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the 2017 Bonds are current and updated; and

3. Maintenance of Financial Ratios. Under the 2017 Bonds, AboitizPower is not required to maintain any financial ratios. However, the Issuer shall not incur any loan obligation with a maturity of more than one (1) year, if on the Transaction Date, after giving effect to the incurrence of such loan obligation and any other such cumulative obligations, but not giving any effect to the receipt or application of proceeds therefrom, the Net Debt to Consolidated Equity Ratio, as at the last day of the Relevant Period immediately preceding the Transaction Date (and giving effect to the incurrence of such loan obligation and any other such cumulative obligations), will exceed 3:1. In compliance with this, the Net Debt to Consolidated Equity Ratio of AboitizPower, after giving effect to the Second Tranche Bonds, is 0.14 and is compliant with the covenant under the 2017 Bonds.

AboitizPower ₱ 10.2 Billion Fixed Rate Bonds due 2024 and 2028

On 12 October 2018, AboitizPower issued fixed-rate bonds (the "2018 Bonds"), Series "B" and Series "C" bonds, with an aggregate amount of ₱10 bn and an oversubscription option ₱5 bn of which ₱0.2 bn was exercised. The Series "B" bonds have an interest rate of 7.5095% per annum, and will mature in 2024, while the Series "C" bonds have an interest rate of 8.5091% per annum, and will mature in 2028. Interest is payable quarterly in arrears on January 25, April 25, July 25, and October 25 of each year, or the subsequent banking day without adjustment if such interest payment date is not a banking day.

AboitizPower appointed BDO Capital Corporation as Issue Manager, BDO Capital Corporation, BPI Capital, and United

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

The 2018 Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of AboitizPower and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by AboitizPower pursuant to Section 5.2 (a) of the Trust Agreement for the 2018 Bonds or as may be allowed therein, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of the relevant issue date.

Transfers of the 2018 Bonds shall be coursed through the Philippine Depository & Trust Corporation ("PDTC") as Registrar. Transfer and/or settlement of the 2018 Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and Registrar.

AboitizPower is subject to the following negative covenants, among others:

1. Encumbrances - AboitizPower shall not permit any Indebtedness to be secured by or to benefit from any Lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Issuer or the right of the Issuer to receive income; *Provided*, however that this shall not prohibit the following:

    a. any Lien over any asset to secure: (x) payment of the purchase price or cost of leasehold rights of such asset; or (y) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (z) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;

    b. Liens or charges for current taxes, assessments, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings, and adequate reserves have been provided for payment thereof;

    c. any Lien to secure, in the normal course of the business of the Issuer or its affiliates: (x) statutory or regulatory obligations; or (y) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;

    d. any Lien to secure, in relation to a pending judicial, administrative, or arbitral proceeding, the Issuer or its affiliates' (x) surety or appeal bonds; or (y) bonds for release of attachment, stay of execution or injunction;

    e. any Lien constituted for the purpose of guaranteeing an affiliate's obligation in connection with any contract or agreement that has been assigned to such affiliate by the Issuer;

    f. any Lien constituted for the purpose of guaranteeing an obligation in connection with any contract or agreement of sale of any asset by the Issuer, provided that the Lien is removed or discharged within twelve (12) months of the date of the sale of the asset;

    g. any Lien created over (x) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency other than Philippine Pesos ("foreign currency"); or (y) financial instruments denominated in foreign currency owned by the Issuer, in each case solely for the purposes of raising an equivalent amount of Peso denominated indebtedness;

    h. any Lien on the properties and assets of the Issuer: (x) imposed by Applicable Law, such as carriers' Liens, warehousemen's Liens, mechanics' Liens, unpaid vendors' Liens, and other similar Liens arising in the ordinary course of business; (y) arising out of pledges or deposits under workmen's

compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation, or retirement benefit plans of the Issuer; or (z) arising out of the set-off provision on other agreements of the Issuer relating to Indebtedness;

i. any Lien in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations of other juridical entities which secure a preferential financing obtained by the Issuer under a governmental program and the aggregate principal amount of such preferential financing does not exceed Thirty-Five percent (35%) of the Issuer's total assets;

j. any Lien over its cash deposits, short-term cash investments, and marketable investment securities in favor of banks and other financial institutions, which secure (i) any borrowed money in connection with a Treasury Transaction in the ordinary course of business of Issuer, provided that the aggregate amount of security does not at any time exceed United States Dollars: Forty Million (US$40,000,000.00) or its equivalent; and/or (ii) standby letters of credit to be used to guarantee additional equity infusions by the Issuer in its Subsidiaries or Affiliates and/or used in the ordinary course of business of Issuer, its Subsidiaries and/or Affiliates;

k. other Liens: (x) created solely by operation of law; and (y) on such other assets, whether constituted before or after the Issue Date, as may be disclosed in writing by the Issuer to the Trustee on or before the execution of this Agreement; and

l. any Lien constituted over the investment of the Issuer in any of its affiliate, and whether such investment is in the form of shares, deposits or advances to guarantee or secure the obligations of the said affiliates;

Provided that for purposes of "affiliate" as used in Section 5.2a (iii), (iv), (v), and (xii) of this Agreement, it shall refer to any Person in which the Issuer has investment, whether direct or indirect, in.

2. Declaration and Payment of Cash Dividends/Issuance of Share. AboitizPower shall not declare or pay any dividends to its stockholders (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the 2018 Bonds are current and updated; and

3. Maintenance of Financial Ratios. Under the 2018 Bonds, AboitizPower is not required to maintain any financial ratios. However, the Issuer shall not incur any loan obligation with a maturity of more than one (1) year, if on the Transaction Date, after giving effect to the incurrence of such loan obligation and any other such cumulative obligations, but not giving any effect to the receipt or application of proceeds therefrom, the Net Debt to Consolidated Equity Ratio, as at the last day of the Relevant Period immediately preceding the Transaction Date (and giving effect to the incurrence of such loan obligation and any other such cumulative obligations), will exceed 3:1. In compliance with this, the Net Debt to Consolidated Equity Ratio of AboitizPower, after giving effect to the Second Tranche Bonds, is 0.14 and is compliant with the covenant under the 2018 Bonds.

AboitizPower ₱ 7.25 Billion Fixed Rate Bonds due 2026

On 14 October 2019, AboitizPower issued fixed-rate bonds (the "2019 Bonds"), Series "D" bonds, with a principal amount of ₱7 bn and an oversubscription option ₱5 bn, of which ₱250 mn was exercised. The Series "D" bonds have an interest rate of 5.2757% per annum, and will mature in 2026. Interest is payable quarterly in arrears on January 14, April 14, July 14, and October 14 of each year, or the subsequent banking day without adjustment if such interest payment date is not a banking day.

AboitizPower appointed BDO Capital & Investment Corporation and First Metro Investment Corporation as Joint Issue Managers; BDO Capital & Investment Corporation, First Metro Investment Corporation, China Bank Capital

Corporation, PNB Capital and Investment Corporation, and SB Capital Investment Corporation as Joint Lead Underwriters; BDO Unibank, Inc. - Trust & Investments Group as Trustee, and PDTC as the Registry and Paying Agent for the transaction. The Series "D" bonds received the highest possible rating of PRS "Aaa" from PhilRatings and is listed with PDEx.

The 2019 Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of AboitizPower and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by AboitizPower pursuant to Section 5.2 (a) of the Trust Agreement for the 2019 Bonds or as may be allowed therein, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of the relevant issue date.

Transfers of the 2019 Bonds shall be coursed through the Philippine Depository & Trust Corporation ("PDTC") as Registrar. Transfer and/or settlement of the 2019 Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and Registrar.

AboitizPower is subject to the following negative covenants, among others:

1. Encumbrances - AboitizPower shall not permit any Indebtedness to be secured by or to benefit from any Lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Issuer or the right of the Issuer to receive income; *Provided*, however that this shall not prohibit the following:

    a. any Lien over any asset to secure: (x) payment of the purchase price or cost of leasehold rights of such asset; or (y) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (z) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;

    b. Liens or charges for current taxes, assessments, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings, and adequate reserves have been provided for payment thereof;

    c. any Lien to secure, in the normal course of the business of the Issuer or its affiliates: (x) statutory or regulatory obligations; or (y) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;

    d. any Lien to secure, in relation to a pending judicial, administrative, or arbitral proceeding, the Issuer or its affiliates' (x) surety or appeal bonds; or (y) bonds for release of attachment, stay of execution or injunction;

    e. any Lien constituted for the purpose of guaranteeing an affiliate's obligation in connection with any contract or agreement that has been assigned to such affiliate by the Issuer;

    f. any Lien constituted for the purpose of guaranteeing an obligation in connection with any contract or agreement of sale of any asset by the Issuer, provided that the Lien is removed or discharged within twelve (12) months of the date of the sale of the asset;

    g. any Lien created over (x) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency other than Philippine Pesos ("foreign currency"); or (y) financial instruments denominated in foreign currency owned by the Issuer, in each case solely for the purposes of raising an equivalent amount of Peso denominated indebtedness;

    h. any Lien on the properties and assets of the Issuer: (x) imposed by Applicable Law, such as carriers' Liens, warehousemen's Liens, mechanics' Liens, unpaid vendors' Liens, and other similar Liens

arising in the ordinary course of business; (y) arising out of pledges or deposits under workmen's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation, or retirement benefit plans of the Issuer; or (z) arising out of the set-off provision on other agreements of the Issuer relating to Indebtedness;

i. any Lien in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations of other juridical entities which secure a preferential financing obtained by the Issuer under a governmental program and the aggregate principal amount of such preferential financing does not exceed Thirty-Five percent (35%) of the Issuer's total assets;

j. any Lien over its cash deposits, short-term cash investments, and marketable investment securities in favor of banks and other financial institutions, which secure (i) any borrowed money in connection with a Treasury Transaction in the ordinary course of business of Issuer, provided that the aggregate amount of security does not at any time exceed United States Dollars: Forty Million (US$40,000,000.00) or its equivalent; and/or (ii) standby letters of credit to be used to guarantee additional equity infusions by the Issuer in its Subsidiaries or Affiliates and/or used in the ordinary course of business of Issuer, its Subsidiaries and/or Affiliates;

k. other Liens: (x) created solely by operation of law; and (y) on such other assets, whether constituted before or after the Issue Date, as may be disclosed in writing by the Issuer to the Trustee on or before the execution of this Agreement; and

l. any Lien constituted over the investment of the Issuer in any of its affiliate, and whether such investment is in the form of shares, deposits or advances to guarantee or secure the obligations of the said affiliates;

Provided that for purposes of "affiliate" as used in Section 5.2a (iii), (iv), (v), and (xii) of this Agreement, it shall refer to any Person in which the Issuer has investment, whether direct or indirect, in.

2. Declaration and Payment of Cash Dividends/Issuance of Share. AboitizPower shall not declare or pay any dividends to its stockholders (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the 2018 Bonds are current and updated; and

4. Maintenance of Financial Ratios. Under the 2019 Bonds, AboitizPower is not required to maintain any financial ratios. However, the Issuer shall not incur any loan obligation with a maturity of more than one (1) year, if on the Transaction Date, after giving effect to the incurrence of such loan obligation and any other such cumulative obligations, but not giving any effect to the receipt or application of proceeds therefrom, the Net Debt to Consolidated Equity Ratio, as at the last day of the Relevant Period immediately preceding the Transaction Date (and giving effect to the incurrence of such loan obligation and any other such cumulative obligations), will exceed 3:1.

CERTAIN LEGAL PROCEEDINGS

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

AboitizPower and its Subsidiaries are involved in various legal proceedings in the ordinary conduct of their businesses. The Company believes that none of these legal proceedings to which AboitizPower or its Subsidiaries, associates, and joint ventures are subject will have a material effect on the Company's financial position and results of operations.

Visayan Electric, for example, received several assessments of real property taxes (RPT) on its electric posts, transformers, wires, machineries, air-conditioning units, and water pumps. Visayan Electric consistently maintains that the electric posts, transformers, wires, machineries, air-conditioning units, water pumps and their appurtenances are not considered real properties under the Civil Code and therefore, are not lawful objects of RPT. Further, Section 270 of the Local Government Code of 1991 (LGC) provides that the collection of RPT is mandatory within five years from the date they become due, and that failure to collect the RPT within the said period will bar collection thereof.

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

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

GR No. 244450 and GR No. 244659 (formerly CTA En Banc Case No. 1020; CBAA Case No. L-57 and L-59) entitled "*National Power Corporation vs. Luzon Hydro Corporation (LHC), Banggay T. Alwis, Municipal Assessor, Manuel C. Bagayao, Municipal Treasurer of Bakun, Benguet, Erlinda Estepa, Provincial Assessor and Mauricio B. Ambanloc, Provincial Treasurer of the Province of Benguet*", 24 May 2013

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

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

On 03 July 2012, CBAA dismissed the appeals of LHC and NPC for lack of merit. LHC then filed its Motion for Reconsideration. The CBAA noted both LHC and NPC's motions, and gave the Province of Benguet ten days to file its comment/opposition.

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

On 02 September 2015, LHC received a Manifestation from the Province of Benguet stating that the: (i) Sangguniang Panlalawigan of Benguet's Resolution authorizing their Provincial Governor to enter into the 29 January 2004 Compromise Agreement; and (ii) Sangguniang Bayan of Bakun, Benguet's Resolution authorizing its Municipal Mayor Marcelo Contada to enter into the December 2007 Compromise Agreement and 18 January 2008 MOA, do not exist.

Despite close coordination with both the Province of Benguet and the Municipality of Bakun for the issuance of the necessary resolutions to ratify the actions previously taken by their respective Sanggunian, no such action has been taken by the Sangguniang Panlalawigan of Benguet and the Sangguniang Bayan of Bakun. Given the foregoing and in the interest of substantial justice, LHC filed a Motion to Resolve the Joint Motion for Judgment based on Compromise Agreement on 29 December 2015, attesting that the Province of Benguet and the Municipality of Bakun made representations that they were authorized to execute the Compromise Agreement and that they accepted the Compromise Payments made by LHC pursuant thereto. As a consequence, the Province of Benguet and the Municipality of Bakun are estopped from assailing the Compromise Agreement.

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

On 12 December 2016, LHC filed with the SC a Petition for Certiorari assailing the above resolutions of the CTA. On 07 June 2017, the SC dismissed LHC's Petition for Certiorari and in December 2019, issued the Entry of Judgment.

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

On 03 February 2020, LHC wrote to the Provincial Governor requesting for the amendment of the RPT Bills to align with the MOA dated 20 December 2012 by and between LHC and the Province of Benguet. In the same letter, LHC also cited EO No. 88, Series of 2019, which reduced the liability for RPT of IPPs such as LHC with BOT Agreements with Government Owned and Controlled Corporations (GOCCs) to an amount equivalent to the tax due if computed at 15% assessment level and condoned all interest and penalties for all years up to 2018.

Supreme Court GR No. 223403 and 223460-61 (formerly CTA En Banc Case Nos. 1024 and 1096; CBAA Case Nos. L-96 and L-99) "*Luzon Hydro Corporation and the National Power Corporation vs. The Local Board of Assessment Appeals of the Province of Ilocos Sur, Fatima Tenorio, in her official capacity as the Provincial Assessor of the Province of Ilocos Sur, Antonio A. Gundran, in his capacity as the Provincial Treasurer of the Province of Ilocos Sur*", 02 July 2003

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

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

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

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

The RTC of Tagudin, Ilocos Sur acting on both Petitions, issued two TROs enjoining the Municipality of Alilem from selling at public auction LHC's real properties for a period of 20 days. LHC, on its part, filed its Position Paper on 12 December 2019 and Supplemental Position Paper 19 December 2019, in compliance with the aforesaid court orders. On 11 February 2020, LHC filed its Memorandum. On 14 February 2020, the case was deemed submitted for resolution.

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

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

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

G.R. No. 210502 entitled "*Manila Electric Company, et al. v Philippine Electricity Market Corporation, et al.", Supreme Court;* 08 January 2014

On 19 December 2013, Bayan Muna representatives filed a Petition for Certiorari against ERC and Meralco with the SC, questioning the alleged substantial increase in Meralco's power rates for the billing period of November 2013. These cases raised, among others, the: (i) legality of Sections 6, 29 and 45 of the EPIRA, (ii) failure of ERC to protect consumers from high prices of electricity, and (iii) alleged market collusion by the generation companies. These cases were consolidated by the SC, which issued a TRO preventing Meralco from collecting the increase in power rates for the billing period of November 2013. The TRO was subsequently extended by the SC for another 60 days, or until 22 April 2014. On 22 April 2014, the SC extended the TRO indefinitely.

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

The SC set the consolidated cases for oral arguments on 21 January 2014, 04 and 11 February 2014. After oral arguments, all parties were ordered to file their comments and/or memoranda. Meralco has been prevented from collecting the differential increase of the price hike. Because of Meralco's counter-petition against the generation companies, PEMC withheld settlement of the power purchases during the covered period.

On 07 February 2019, petitioners in G.R. No. 210245 filed their Motion for Directions, Status Updates and Immediate Resolution. As of 31 March 2020, these cases before the SC are still pending resolution and the SC has not lifted the TRO.

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

SP Proc. No. 12790 entitled "*Therma Mobile Inc. vs. PEMC*", Regional Trial Court Branch 157-Pasig City
PEMC ECO-2014-0009 entitled "Therma Mobile, Inc. (*TMO Power Plants Units 1-4*) Possible Non-Compliance with Must-Offer-Rule, Investigation Summary Report, dated 04 August 2014"

The Enforcement and Compliance Office of the Philippines Electricity Market Corporation (PEMC-ECO) conducted an

investigation on TMO for possible non-compliance with the Must-Offer-Rule for the period 26 October 2013 to 25 December 2013. PEMC-ECO concluded that TMO was non-compliant with the Must-Offer-Rule for 3,578 intervals and recommended a penalty of ₱234.9 mn.

TMO filed its letter request for reconsideration on 05 September 2014, contending that it did not violate the Must-Offer Rule because its maximum available capacity was limited to 100 MW due to: (i) the thermal limitations of the old TMO 115-kV transmission line, and (ii) the technical and mechanical constraints of the old generating units and the component engines of the TMO power plants which were under various stages of rehabilitation after having been non-operational for five years. Although TMO's rated capacity is 234 MW (net), it could only safely and reliably deliver 100 MW during the November and December 2013 supply period because of limitations of its engines and the 115-kV transmission line. This temporary limitation of TMO's plant was confirmed during a dependable capacity testing conducted on 21 November 2013.

In its letter dated 30 January 2015, the PEMC Board of Directors denied TMO's request for reconsideration and confirmed its earlier findings. On 13 February 2015, TMO filed a Notice of Dispute with PEMC to refer the matter to dispute resolution under the WESM Rules, WESM Dispute Resolution Market Manual and the ERC-PEMC Protocol.

On 16 February 2015, TMO filed a petition for TRO before the Pasig City RTC. In its Order dated 24 February 2015, the RTC granted TMO a 20-day temporary order of protection and directed PEMC to: (i) refrain from demanding or collecting the amount of ₱234.9 mn as financial penalty; (ii) refrain from charging interest on the financial penalty and having the same accrue; and (iii) refrain from transmitting PEMC-ECO's investigation report to the ERC. TMO posted a bond in the amount of ₱234.9 mn to answer for any damage that PEMC may suffer as a result of the Order. On 01 April 2015, the RTC rendered a Decision in favor of TMO. PEMC appealed the RTC decision before the Court of Appeals (CA) and sought to reverse and set aside the decision of the RTC.

On 14 December 015, the CA rendered a Decision denying PEMC's Petition for Review and affirming the 01 April 2015 Decision of RTC in favor of TMO. On 06 June 2016, PEMC filed a Petition for Review on Certiorari with the SC to assail the 14 December 2015 CA Decision. TMO filed its Comment to PEMC's Petition for Review and PEMC filed a Reply. In its 29 March 2017 Resolution, the SC noted TMO's Comment and PEMC's Reply.

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

G.R. No. 24449 and 244455-56 entitled *"Energy Regulatory Commission vs. Therma Mobile, Inc., Manila Electric Company, and AP Renewables, Inc."*, SC, First Division;

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

ERC Case No. 2015-025 MC entitled "*Atty. Isabelo Joseph P. Tomas II, in his capacity as the Investigating Officer of the Investigatory Unit constituted by the Honorable Commission pursuant to its Office Order No. 38, Series of 2013 dated December 26, 2013 vs Meralco and Therma Mobile, Inc. [For Violation of Section 45 of RA 9136, otherwise known as EPIRA, Rule 11, Section 1 of IRR of the EPIRA (Commission of an Anti-Competitive Behavior, particularly Economic Withholding)]*", ERC Pasig City, 04 June 2015;

ERC Case No. 2015-027 MC entitled "*Atty. Isabelo Joseph P. Tomas II, in his capacity as the Investigating Officer of the Investigatory Unit constituted by the Honorable Commission pursuant to its Office Order No. 38, Series of 2013 dated 26 December 2013 vs Therma Mobile, Inc. [For Violation of Section 45 of RA 9136, otherwise known as EPIRA, Rule 11, Section 1 and 8(e) of IRR of the EPIRA (Commission of an Anti-Competitive Behavior, particularly Physical Withholding)]*", ERC, Pasig City, 04 June 2015;

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

On 24 January 2014, ERC issued a Subpoena Ad Testificandum and Duces Tecum directing TMO's representative to

give clarification on matters pertaining to offers per trading interval involving the November to December 2013 supply months and provisions on the PSA between Meralco and TMO. The representative was likewise directed to bring relevant documents.

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

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

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

In its Manifestation dated 07 October 2016, ERC-IU manifested the resignation of Atty. Isabelo Tomas as Investigating Officer (IO) and the appointment of Director Alfredo Vergara, Jr. and Engr. Nelson Canlas as new IOs. In a separate pleading, the new IOs filed their Reply to various motions filed by TMO.

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

In an Order dated 02 February 2017, ERC denied Meralco's and TMO's motions to dismiss for lack of jurisdiction. TMO filed its Motion for Reconsideration, which the ERC subsequently denied.

On 18 September 2017, TMO filed a Petition for Certiorari with the CA, praying that the CA: (i) issue a TRO commanding the ERC to desist from conducting further proceedings in ERC Case No. 2015-025MC and ERC Case No. 2015-027MC; (ii) after proceedings, issue a Writ of Preliminary Injunction; and (iii) annul and set aside the 02 February 2017 and 20 June 2017 ERC Orders.

In a Resolution dated 02 October 2017, the CA directed the respondents to file their comment on TMO's Petition for Certiorari and denied TMO's prayer for a TRO. TMO filed a Motion for Partial Reconsideration of the CA's 02 October 2017 Resolution, which the CA denied. In a Resolution dated 28 January 2019, the CA denied the motions for reconsideration filed by TMO, Meralco and APRI and the motion for partial reconsideration filed by the ERC.

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

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

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

G.R. No. 24449 and 244455-56 entitled "Energy Regulatory Commission vs. Therma Mobile, Inc., Manila Electric Company, and AP Renewables, Inc.", SC, First Division;

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

ERC Case No. 2015-038 MC entitled "*Energy Regulatory Commission vs. AP Renewables, Inc. ([Violation of Section 45 of EPIRA, Rule 11, Sec. 1 and 8 (E) of the Implementing Rules and Regulations (Commission of an Anti-Competitive Behavior, particularly, Physical Withholding)]*", ERC, Pasig City, 09 June 2015

ERC-IU conducted investigations on the alleged anti-competitive behavior and market abuse committed by some participants of the WESM, including APRI. On 20 May 2015, ERC-IU released its report holding that APRI's non-compliance with the Must-Offer Rule for four intervals is tantamount to Physical Withholding which, it alleged, is a form of anti-competitive behavior.

On 09 June 2015, complainant Atty. Isabelo Joseph Tomas, III, Investigating Officer of the IU, filed the complaint for Anti-Competitive Behavior against APRI. On 23 June 2015, ERC issued an Order directing APRI to file its answer within 15 days from notice.

On 01 July 2015, APRI received the summons and complaint. Subsequently, on 07 July 2015, APRI filed a Motion praying that: (a) the Complainant serve upon APRI the complete copy of the complaint and its annexes; (b) the Complainant clarify and put on record the answer to the following issues: (i) which of Makban Plants' generating units is the subject of the complaint; and (ii) the dates and times of the four intervals mentioned in the complaint during which APRI allegedly offered "less than its total registered capacity." Meanwhile, on 29 July 2015, APRI filed its Answer *ad cautelam*.

In its Manifestation dated 07 October 2016, ERC-IU manifested the resignation of Atty. Isabelo Tomas as IO and the appointment of new IOs. The new IOs filed their Reply to various motions filed by APRI.

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

On 19 September 2017, APRI filed a Petition for Certiorari (with application for TRO and Writ of Preliminary Injunction) with the CA (CA G.R. SP. No. 152613), praying for the CA to: (i) issue a TRO commanding ERC to desist from conducting further proceedings in ERC Case. No. 2015-038MC; (ii) after proceedings, issue a Writ of Preliminary Injunction; and (iii) annul and set aside the 02 February 2017 and 20 June 2017 ERC Orders, and dismiss the complaint and ERC proceedings with prejudice.

On 06 November 2017, the IOs filed a Motion for Consolidation seeking to consolidate CA G.R. SP. No. 152613 with TMO's Petition in CA GR. No. 152588. Therafter, the CA issued its Notice of Judgment and Decision dated 23 May 2018, which denied APRI's Petition. On 18 June 2018, APRI filed its Motion for Reconsideration of the CA's Decision dated 23 May 2018.

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

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

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

G.R. No. 246621-30, entitled *"Energy Regulatory Commission vs. AP Renewables, Inc.", "Energy Regulatory Commission vs. Therma Mobile, Inc."*, and *"Energy Regulatory Commission vs. Therma Luzon, Inc."* SC, First Division;

CA-G.R. Nos. 138120, 138223, 138272, entitled *"AP Renewables, Inc. vs. Energy Regulatory Commission", "Therma Luzon, Inc. vs. Energy Regulatory Commission"*, and *"Therma Mobile, Inc. vs. Energy Regulatory Commission"*, Petition for Review on Certiorari, Court of Appeals, Manila;

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

ERC conducted an investigation on the alleged collusion by the generation companies to raise the WESM prices. Subsequently, ERC issued an Order in ERC Case No. 2014-021 MC dated 03 March 2014 (the "ERC Order"), declaring as void the Luzon WESM prices during the November and December 2013 supply months. ERC also declared the imposition of regulated prices for such billing periods and directed PEMC to calculate the regulated prices and implement the same in the revised November and December 2013 WESM bills of the concerned distribution utilities in Luzon, except for Meralco whose November 2013 WESM bill was maintained in compliance with the TRO issued by the SC.

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

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

The Company's Affiliates and Subsidiaries, APRI, TLI, TMO, AESI, AdventEnergy, SNAP-Magat, SNAP-Benguet, CPPC, and EAUC filed their respective Motions for Reconsideration, questioning the validity of the ERC Order on the ground of lack of due process, among others. In its 27 March 2014 Order, ERC ordered deferral of PEMC's implementation of the adjusted billing statements for forty 45 days. This was subsequently extended with no clear timeline by ERC in its Order dated 06 June 2014.

ERC, in its Order dated 15 October 2014, denied said Motions for Reconsideration. SNAP-Benguet, SNAP-Magat, APRI, TLI, and TMO filed their Petitions for Review (the "Petitions") before the CA on 19 and 24 November, 01 and 04 December 2014, respectively. The CA ordered the consolidation of the Petitions on 09 October 2015.

On 07 November 2017, the CA granted the Petitions. ERC's 03 March 2014 Order, among other orders, were declared null and void, and the Luzon WESM market prices in November and December 2013 were declared valid and therefore reinstated.

Thereafter, ERC and Meralco filed their respective motions for reconsideration. Several entities also filed motions to intervene in the case. APRI, TLI, and TMO filed their oppositions to the motions for reconsideration and motions to intervene. The CA denied the motions to intervene filed by several entities, which thereafter filed their motions for reconsideration. In an Omnibus Resolution dated 29 March 2019, the CA denied the motions for reconsideration by ERC and Meralco, as well as the motions for reconsideration filed by several entities that wanted to intervene in the cae.

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

In September to October 2019, the SC issued Resolutions denying the Petitions for Review on Certiorari filed by several entities, including Calco Industries Inc., Paperland, Alyansa ng mga Grupong Haligi at Teknolohiya Para sa Mamamayan (AGHAM), Ateneo de Manila University, Citizenwatch, Riverbanks Dev't. Corp., Steel Angles Shapes & Sections Manufacturers, for failure to show any reversible error on the part of the CA in promulgating the Decision dated 07 November 2017 and Omnibus Resolution dated 29 March 2019.

In a Resolution dated 11 September 2019, the SC required respondents to file their Comments to ERC's Petition for Review on Certiorari. On 28 January 2020, TMO and TLI filed their Consolidated Comment (to the Petition for Review

on Certioriari dated 13 June 2019); whereas APRI filed its Comment (on the Petition for Review on Certiorari dated 13 June 2019) on 11 February 2020.

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

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

The petition was filed by Meralco pursuant to ERC Order dated 04 March 2013 and 01 July 2013 in ERC Case No. 2008- 083 MC where the SGCs were not parties to.

On 20 September 2013, APRI and TLI, together with the other SGCs, filed a Joint Motion to Dismiss arguing that Meralco's petition should be dismissed for failure to state a cause of action and ERC's lack of jurisdiction over the subject matter of the case. The motion argued that: (i) Meralco cannot base its cause of action against the SGCs on a decision issued by ERC in another case where none of the SGCs were made parties to the case; and (ii) Meralco's claim is in a nature of a claim for sum of money which is properly within the jurisdiction of regular courts. The Joint Motion to Dismiss has since then been submitted for resolution with ERC.

As of 31 March 2020, ERC has yet to render its decision on the Joint Motion to Dismiss.

MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

AboitizPower's common shares are traded on the PSE.

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

	Q1 2020		2019		2018		2017	
	High	Low	High	Low	High	Low	High	Low
First Quarter	₱35.00	₱23.45	₱39.20	₱33.70	₱41.80	₱37.50	₱44.25	₱41.55
Second Quarter	-	-	38.00	34.15	39.70	34.25	43.00	38.50
Third Quarter	-	-	40.35	34.10	38.20	33.45	42.85	38.80
Fourth Quarter	-	-	40.40	33.00	35.50	31.20	42.95	38.30

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

HOLDERS

As of 31 March 2020, AboitizPower has 587 stockholders of record, including PCD Nominee Corporation (Filipino) and PCD Nominee Corporation (Foreign). Common shares outstanding as of same date were 7,358,604,307 shares.

The top 20 stockholders of AboitizPower as of 31 March 2020 are as follows:

Name	Number of Shares	Percentage
1) Aboitiz Equity Ventures Inc.	5,657,530,774	76.88%
2) PCD Nominee Corporation (Filipino)	1,028,832,249	13.98%
3) PCD Nominee Corporation (Foreign)	389,177,197	5.29%
4) Bauhinia Management, Inc.	18,109,100	0.25%
5) Portola Investors Inc.	13,634,856	0.19%
6) Hawk View Capital, Inc.	13,633,657	0.19%
7) San Fernando Electric Light & Power Co., Inc.	7,931,034	0.11%
8) Parraz Development Corporation	7,827,522	0.11%
9) Dominus Capital Inc.	7,241,050	0.10%
10) FMK Capital Partners Inc.	6,538,000	0.09%
11) Sabin M. Aboitiz	5,667,406	0.08%
12) Iker M. Aboitiz	5,465,100	0.07%
13) Aboitiz & Company Inc.	5,360,000	0.07%
14) Daniele Management & Development Corporation	5,234,949	0.07%
15) Danel C. Aboitiz	4,528,696	0.06%
15) Arrayanes Corporation	4,146,243	0.06%
17) Ramon Aboitiz Foundation Inc.	3,900,000	0.05%
18) Tris Management Corporation	3,130,359	0.04%
19) Tinkerbell Management Corporation	3,042,454	0.04%
20) Cal Management Corporation	3,036,798	0.04%
SUBTOTAL	**7,193,967,444**	**97.76%**
Other Stockholders	**164,636,863**	**2.24%**

Name	Number of Shares	Percentage
TOTAL SHARES	**7,193,967,444**	**97.76%**
NET ISSUED AND OUTSTANDING SHARES	**7,358,604,307**	**100.00%**

DIVIDENDS

The cash dividends declared by AboitizPower to common stockholders from 2018 to the first quarter of 2020 are shown in the table below:

Year	Cash Dividend Per Share	Total Declared	Declaration Date	Record Date	Payment Date
2020 (regular)	₱1.18	₱8.68 bn	3/6/2020	3/20/2020	4/3/2020
2019 (regular)	₱1.47	₱10.82 bn	3/7/2019	3/21/2019	4/5/2019
2018 (regular)	₱1.39	₱10.23 bn	3/8/2018	3/22/2018	4/12/2018

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

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

The Philippine Corporation Code prohibits stock corporations from retaining surplus profits in excess of 100% of their paid-in capital stock, except when justified by definite corporate expansion projects or programs approved by the Board, or when the corporation is prohibited under any loan agreement with any financial institution or creditor from declaring dividend without its consent, and such consent has not yet been secured, or when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation.

As of the date of this Prospectus, the Company's Subsidiaries do not have a defined dividend policy. However, it has been the practice of the Company's Subsidiaries to declare excess cash as dividends to the Company.

RECENT SALES OF UNREGISTERED OR EXEMPT SECURITIES INCLUDING RECENT ISSUANCES OF SECURITIES CONSTITUTING AN EXEMPT TRANSACTION

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

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

The following discussion and analysis of the Company's consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying schedules and disclosures set forth elsewhere in this report. The discussion and analysis of the Company's results of operations is presented in three comparative sections: for for the year ended 31 December 2019 compared with the year ended 31 December 2018, for the year ended 31 December 2018 compared with the year ended 31 December 2017, and the year ended 31 December 2017 compared with the year ended 31 December 2016.

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

TOP FIVE KEY PERFORMANCE INDICATORS

Management uses the following indicators to evaluate the performance of the Company and its subsidiaries (the Company and its subsidiaries are hereinafter collectively referred to as the "Group"):

1. **Share in Net Earnings of Associates and Joint Ventures.** This represents the Group's share in the undistributed earnings or losses of its investees for each reporting period subsequent to acquisition of said investment, net of goodwill impairment cost, if any. It also indicates profitability of the investment and investees' contribution to the Group's net income.

   Goodwill is the difference between the purchase price of an investment and the investor's share in the value of the net identifiable assets of the investee at the date of acquisition.

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

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

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

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

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

Year Ended 31 December 2019 versus Year Ended 31 December 2018

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

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

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

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

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

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

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

Results of Operations

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

Power Generation and RES

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

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

Power Distribution

The Distribution Utilities' earnings contribution increased slightly by 1% YoY, from ₱4.05 bn in 2018 to ₱4.10 bn in 2019.

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

Consolidated Statements of Income

Consolidated net income attributable to equity holders of the parent decreased by 20% from ₱21.71 bn in 2018 to ₱17.32 bn in 2019. The various movements in line items are shown below to account for the increase:

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

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

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

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

Operating Expenses
(2% increase from ₱95.08 bn to ₱96.78 bn)

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

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

The increase in interest income during 2019 was primarily due to the Company's higher cash investments and higher interest income from TSI, TVI, Hedcor Bukidnon, and APRI.

Interest Expense and Other Financing Costs
(16% increase from ₱12.08 bn to ₱14.05 bn)

Interest expense increased in 2019 due to the full-year impact of the ₱10.20 bn in retail bonds issued by the Company in October 2018 and the interest arising from the new loan availaments in April and November 2019 amounting to US$300 mn and ₱5 bn, respectively, and on the Company's ₱7.25 bn retail bonds issued in October 2019. The proceeds from the bonds were used to pay for short-term borrowings and general corporate purposes.

Share in Net Earnings of Associates and Joint Ventures
(12% decrease from ₱4.36 bn to ₱3.81 bn)

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

Other Income (Expenses) – net
(Increase from ₱1.29 bn other expense to ₱3.48 bn other income)

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

Provision for Taxes
(10% increase from ₱2.93 bn to ₱3.2 bn)

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

Net Income Attributable to Non-controlling Interests
(23% decrease from ₱3.73 bn to ₱ 2.86 bn)

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

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

Assets

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

a) Cash and cash equivalents decreased by 19% during 2019. This was due to cash flows used for: (i) acquisition of AA Thermal, (ii) investment in GNPD for its on-going power plant construction, (iii) funding of the Group's capital expenditures, and (iv) debt service. The decrease in cash and cash equivalents was partially offset by operating cash flows and proceeds from the Company's retail bonds issuance in 2019.

b) Property held for sale of ₱676 mn as of 31 December 2018 pertains to transmission assets was sold to NGCP in February 2019.

c) Other current assets were lower by 16% (from ₱13.21 bn in 2018 to ₱11.08 bn in 2019) mainly driven by the decrease of TSI's restricted cash. The maintenance of a cash reserve forms part of TSI's compliance with the covenants on its project debt.

d) Investments and advances increased by ₱26.54 mainly as a result of capital infusions for the AA Thermal acquisition and GNPD plant construction.

e) Property, plant and equipment (PPE) slightly increased by 1% (from ₱207.11 bn in 2018 to ₱209.52 bn in 2019) mainly due to the recognition of right-of-use assets on the Group's leases resulting from the adoption of PFRS 16, *Leases*.

f) Derivatives assets were down by ₱211 mn in 2019, primarily due to fair value changes on GMCP's interest rate swaps.

g) Financial assets at fair value through profit or loss went down to ₱4 mn in 2019 from ₱101 mn. This was mainly due to the sale of Parent' Company's financial assets at Fair Value through Profit and Loss (FVPL).

h) Deferred income tax assets increased by 25% (from ₱2.23 bn in 2018 to ₱2.80 bn in 2019), driven by deferred tax benefits recognized by TMO on its net operating loss and TLI on its unrealized forex loss.

i) Other noncurrent assets increased by ₱2.86 bn or 27% YoY. The increase was due to restricted cash of a Subsidiary that arose from its receipt of proceeds from a damage claim against its contractors, which claim is currently under dispute. This was partly offset by decrease in input VAT and reversal of prepaid rent against lease liabilities upon adoption of PFRS 16, *Leases*.

Liabilities

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

a) Derivatives liabilities (current and non-current portions) increased by ₱2.31 bn in 2019, due to fair value changes on the Group's foreign currency forward contracts and commodity swap contracts.

b) Income tax payable increased by 16% YoY (from ₱439 mn in 2018 to ₱510 mn in 2019), mainly due to expiration of the income tax holidays enjoyed by certain Subsidiaries and a corresponding higher current income tax provision.

c) Long-term debt (current and non-current portions) increased by 13% YoY (from ₱158.06 bn in 2018 to ₱177.97 bn in 2019), primarily due to new loan availments in April and November 2019 amounting to US$300 mn and ₱5 bn, respectively, and the ₱7.25 bn bonds issuance in October 2019.

d) Lease liabilities (current and noncurrent portions) decreased by ₱2.10 bn, since TLI made timely payments on its obligation with PSALM.

e) Long-term obligation on power distribution system (PDS) decreased by 7% as regular annual payments were made.

f) Customers' deposits increased by ₱513 mn or 9% primarily, driven by growth in customer base of the Distribution Utilities.

g) Other noncurrent liabilities went up from ₱3.18 bn in 2018 to ₱6.81 bn in 2019, mainly due to receipt of proceeds from a damage claim against contractors, which claim is now under dispute.

Equity

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

a) Cumulative translation adjustments decreased by ₱1.52 bn due to downward effect of changes in the fair value of foreign currency forward and commodity swap contracts designed as cash flow hedges; and translation effect of GMCP and LHC for the current period.

b) Share in cumulative translation adjustments of associates and join ventures decreased by ₱475 mn, mainly due to translation effect of GNPD.

c) Acquisition of non-controlling interests for the period pertains to the difference between the purchase price and fair value of net assets acquired in the acquisition of additional partnership interest in GMCP.

Material Changes in Liquidity and Cash Reserves of the Company

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

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

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

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

Financial Ratios

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

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

OTHER RELEVANT INFORMATION

Events that may trigger material direct or contingent financial obligations

As mentioned in the section entitled "*Certain Legal Proceedings*" on page 144 of this Prospectus, AboitizPower and its Subsidiaries are involved in various legal proceedings in the ordinary conduct of their businesses. The Company believes that none of these legal proceedings to which AboitizPower or its Subsidiaries, associates, and joint ventures are subject will have a material effect on the Company's financial position and results of operations.

Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created

The Group did not enter into any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons during the fiscal year 2019.

Material commitments for capital expenditures

The Group, together with its partners, has allotted ₱41 bn for capital expenditures for the fiscal year 2020, almost 80% of which is allotted for new businesses such as GNPD. The remaining balance is allocated mainly for operating and expansion initiatives. This notwithstanding, the Group is continuously reviewing the schedule of its capital expenditures to keep abreast with the social and economic conditions.

Trends, events, or uncertainties that have had, or that are reasonably expected to have, a material impact on net sales or revenues

AS of the date of this Prospectus, there are no known trends, events, or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on the Group's net sales or revenues, other than the expected effects of the COVID-19 pandemic. As mentioned in the previous section entitled *"Risk Factors and Other Considerations"* on page 30 under the sub-section entitled "*Pandemic Risk*", the curtailed economic activity brought about by the quarantine measures resulted in significant drops in electricity demand and consumption which, in turn, have affected the revenue targets of the Distribution Companies, Generation Companies, and RES Business

Units. The Group is continuously reviewing its forecast, cash flows, and schedule of its capital expenditures to manage the impact of COVID-19.

Significant elements of income or loss not arising from the Company's continuing operations

There were no significant elements of income or loss that did not arise from the Company's continuing operations.

Seasonal aspects that had a material effect on the financial condition or results of operations

Operations of hydropower plants are generally affected by climatic seasonality. Seasonality and location have a direct effect on the level of precipitation. In the Luzon region, where rainy and summer seasons are more pronounced, higher rainfall is normally experienced in the months of June to September. As such, the hydropower plants located in Luzon operate at their maximum capacity during this period. In contrast, the hydropower plants in Mindanao experience a well-distributed rainfall throughout the year, with a slightly better precipitation during the months of December to April. This precipitation seasonality greatly affects the Hedcor Group and LHC, which operate 'run-of-river' hydropower plants since such plants do not have any means to impound water.

This notwithstanding, any unexpected change in the seasonal aspects will have no material effect on the Group's financial condition or results of operations.

Year Ended 31 December 2018 versus Year Ended 31 December 2017

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

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

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

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

- During 2018, cash and cash equivalents increased by ₱10.64 bn, due to higher operating cash flows, proceeds from debt-raising activities at parent, and proceeds of the long-term debts of GMCP and TVI.

In 2018, the Company also managed to return the same levels of cash dividends to its shareholders, and deploy financial resources to continue the construction of various greenfield projects.

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

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

Results of Operations

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

Power Generation and RES

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

Power Distribution

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

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

Consolidated Statements of Income

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

Net Income Attributable to Equity Holders of the Parent for 2017	**₱20,416,442**
Increase in operating revenues	12,180,781
Increase in operating expenses	(9,857,828)
Decrease in interest income	(46,927)
Increase in interest expense	(834,378)
Decrease in share in net earnings of associates and joint ventures	(341,039)
Decrease in other expense	411,689
Lower provision for taxes	932,775
Increase in income attributable to non-controlling interests	(1,153,912)
Total	1,291,161
Net Income Attributable to Equity Holders of the Parent for 2018	**₱21,707,603**

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

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

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

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

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

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

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

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

Interest expense increased in 2018 as the Company issued a total of ₱10.20 bn in retail bonds in October 2018. PEC also started to recognize interest on its project loans during 2018. These new interest charges were offset by the lower interest expense taken up at TPI as it fully paid its dollar-denominated loan in 2018.

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

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

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

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

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

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

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

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

Consolidated Statements of Comprehensive Income

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

Changes in the Company's Resources, Liabilities and Shareholders' Equity

Assets

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

(a) Cash and cash equivalents increased by 30% during 2018. Cash generated from operations increased supplemented by the lower cash used in financing activities due to loan proceeds. The consolidated cash position of the Company increased by ₱10.64 bn.

(b) Trade and other receivables increased by 25% (from ₱17.36 bn in 2017 to ₱21.72 bn in 2018) mainly due to advances to partners in GMCP and the take-up of the PSALM deferred adjustments at Davao Light and VECO. PSALM deferred adjustment pertains to Generation Rate Adjustment Mechanism and Incremental Currency Exchange Rate Adjustment to be recovered from customers or to be collected from PSALM.

(c) Net derivative assets went down by ₱161 mn during 2018 mainly due to mark-to-market losses on the Group's swap and forward contracts.

(d) Inventories increased by 19% (from ₱5.64 bn in 2017 to ₱6.69 bn in 2018) as the Group recognized inventories held at TPVI, which took over the Naga Power Plant Complex in 2018, and due to higher inventory balances at GMCP, TSI and TVI. This was offset by lower inventory balances at the Oil Group.

(e) Property held for sale of ₱676 mn as of December 31, 2018 pertains to transmission assets that will be transferred and sold to the NGCP. This account was nil in 2017.

(f) Other current assets were higher by 46% (from ₱9.03 bn in 2017 to ₱13.21 bn in 2018) mainly driven by the increase of restricted cash at TSI. The maintenance of a cash reserve forms part of TSI's compliance with the covenants on its project debt. TVI's recognition of a receivable from NGCP on the construction of transmission line also contributed to the increase in this account.

(g) Investments and advances increased mainly as a result of capital infusions into GNPD as it continues the construction of a 1x668 MW supercritical coal-fired power plant in Bataan. The account increased from ₱31.25 bn at the end of 2017 to ₱34.33 bn at the end of 2018.

(h) Property, plant and equipment (PPE) slightly increased by 2% (from ₱204.03 bn in 2017 to ₱207.11 bn in 2018) mainly due to new additions during 2018 for the on-going construction of hydropower facilities under Hedcor and Hedcor Bukidnon, and TVI's coal plant.

(i) AFS investments went from ₱103 mn in 2017 to nil at the end of 2018 as these were reclassified to Financial Assets at fair value through profit or loss.

(j) Financial assets at fair value through profit or loss went up to ₱101 mn in 2018 from nil as these were reclassified from Available-for-Sale investments.

(k) Net pension assets increased by ₱71 mn in 2018 due to the increase in the fair value of plan assets for contributions made during 2018.

(l) Deferred income tax assets increased by 59% (from ₱1.41 bn in 2017 to ₱2.23 bn in 2018). The increase was driven by the deferred tax benefits recognized by Davao Light in 2018 on the impairment of its assets and at TLI for unrealized forex losses.

Liabilities

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

(a) Short term loans were up 145%, or ₱6.83 bn, mainly due to new loans of the Company for working capital purposes.

(b) Trade and other payables increased by 10% (from ₱19.85 bn in 2017 to ₱21.80 bn in 2018), primarily due to the take-up of the PSALM deferred adjustment at Davao Light and VECO. PSALM deferred adjustment refers to the amounts to be remitted to PSALM or refunded to customers.

(c) Income tax payable decreased by 32% (from ₱646 mn in 2017 to ₱439 mn in 2018) primarily due to lower corporate taxes payable at the end of 2018.

(d) Long-term debt (current and non-current portions) increased by 4% (from ₱152.05 bn in 2017 to ₱158.06 bn in 2018). The increase was mainly attributable to the net effect of the following:

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

(e) Finance lease obligation (current and noncurrent portions) decreased by 5% from a total of ₱49.23 bn in 2017 to ₱46.89 bn at the end of 2018, as TLI made timely payments on its obligation to PSALM during 2018.

(f) Long term obligation on power distribution system (PDS) decreased by 7% as regular annual payments were made.

(g) Asset retirement obligation increased by 24% (₱2.96 bn in 2017 to ₱3.68 bn in 2018) due to an increase in the estimated future decommissioning costs on the Group's steam field assets.

(h) Deferred income tax liabilities (DTL) decreased by 6% ₱913 mn in 2017 to ₱858 mn in 2018), mainly due to unrealized gain on forward contract in 2017 that was reversed in 2018.

(i) Net pension liabilities decreased by 32% (₱361 mn in 2017 to ₱245 mn in 2018) on account of benefits paid to retired employees during the year.

(j) Other noncurrent liabilities went from ₱403 mn in 2017 to ₱3.18 bn at the end of 2018 due to the recognition of the PSALM deferred adjustment.

Equity

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

Material Changes in Liquidity and Cash Reserves of the Company

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

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

more capital to GNPD. The outflows were supported by dividends received during 2018.

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

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

Financial Ratios

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

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

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

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

Despite increased competition in the power generation market, the Company is confident that it has built the foundation to sustain long term growth, as seen in its pipeline of new projects. The Company is also currently on track with its target to reach 4,000 MW net attributable capacity. By the end of 2020, the Company will own 4,430 MW of attributable capacity.

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

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

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

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

Other known trends, events, uncertainties which may have material impact on the Registrant have been discussed in previous sections of this Prospectus.

YEAR ENDED 31 DECEMBER 2017 VERSUS YEAR ENDED 31 DECEMBER 2016

The table below shows the comparative figures of the top five (5) key performance indicators for 2017 and 2016.

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

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

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

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

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

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

Results of Operations

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

Power Generation

On a full year basis, the power generation group recorded a consolidated EBITDA share of ₱38.79 bn in 2017, up 27% YoY, and accounted for 81% of the EBITDA contributions from the Company's business segments. This was driven by the full-year fresh contribution from GMCP, and the higher EBITDA of the hydro group as power generation increased during 2017 due to higher water inflows. At the core net income level, the power generation group grew 18% YoY, from ₱17.16 bn in 2016 to ₱20.20 bn in 2017. Non-recurring charges relating to impairment costs, prepayment charges on GMCP's loan upon refinancing, and the one-off recognition of lower interest expense from the foregoing acquired loan, brought the power generation group's net income contribution in 2017 to ₱17.07 bn.

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

Power Distribution

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

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

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

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

Consolidated Statements of Income

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

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

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

Revenues of the power distribution group decreased by 2% YoY, while the power generation group saw a 61% YoY increase from ₱35.69 bn in 2016 to ₱57.42 bn in 2017. The full year consolidation of the operating revenues of GMCP accounted for 97% of the increase in the power generation group's revenue. The balance of this increase was attributed to higher operating revenues at the small HEPPs (increase of 14% YoY) due to better hydrology in 2017 and the full commercial operations of TSI two units during 2017. The higher operating revenues were partly offset by lower operating revenues at TMI during 2017 as a result of expiring contracts.

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

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

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

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

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

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

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

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

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

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

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

Other Income (Expenses) – net
(from ₱1.67 bn other income to ₱ 1.70 bn other expense)

The shift from an Other Income position in 2016 to an Other Expense position in 2017 was primarily due to an impairment loss on Property, Plant and Equipment (PPE) at Aseagas (₱ 3.13 bn) during 2017, as compared to a non-recurring gain in 2016 relating to supplier settlements.

Provision for Taxes
(10% increase from ₱3.50 bn to ₱3.86 bn)

The increase was due to the full year consolidation of tax provisions taken by GMCP.

Net Income Attributable to Non-controlling Interests
(71% increase from ₱1.50 bn to ₱2.57 bn)

The increase in this account during 2017 was mainly from the take-up of the minority shareholders' participation in the income of GMCP in 2017.

Consolidated Statements of Comprehensive Income

The movements in cumulative translation adjustments, the share of an associate's unrealized mark-to-market gains on its available-for-sale (AFS) investments, and the recognition of losses and gains on defined benefit plans led to higher comprehensive income recognized for 2017. Total consolidated comprehensive income attributable to equity holders of the Parent was ₱20.62 bn for 2017.

Changes in the Company's Resources, Liabilities and Shareholders' Equity

Assets

Total assets (as of 31 December 2017 vs. 31 December 2016 as restated) increased by ₱4.47 bn or by 1%. The major movements of the accounts leading to the increase were as follows:

a) Cash and cash equivalents decreased by 24%, or by ₱11.40 bn, during 2017. Cash generated from operations continue to provide significant liquidity for the Company. Long-term debt payments were made during 2017, including ₱16 bn on TPI's bridge financing obtained in 2016 to fund the acquisitions of GMCP and GNPD; and ₱2.43 bn as prepayment of Aseagas' project debt. During 2017, the Company also made timely payments on its other obligations as they became due, and also paid dividends to its shareholders.

b) Trade and other receivables increased by 12% (from ₱15.47 bn in 2016 to ₱17.36 bn in 2017), due to the increase in receivables as new contracts were signed by the Company's RES-licensed companies, AESI and AdventEnergy, as well as higher trade receivable balances of the Company's distribution utilities. The increases noted in the RES companies and distribution utilities constituted 73% of the increase, with the balance mainly coming from higher trade receivables at TLI and TSI.

c) Inventories increased by 27% (from ₱4.45 bn in 2016 to ₱5.64 bn in 2017) as higher inventory balances as of year-end 2017 were noted at the Company's thermal plants.

d) Other current assets increased by ₱40% during 2017, driven mainly by higher prepaid insurance and prepaid taxes of the Company's Subsidiaries.

e) At the end of 2017, PPE increased by 6% from ₱192.98 bn at end-2016 (as restated) to ₱204.03 bn at end-2017, as various projects entered the final stages of their construction activities, in particular, Hedcor Bukidnon's hydro project, and TVI and PEC's coal plants.

f) The increase in derivative assets (both current and non-current) of the Group by ₱50.08 mn as of end-2017 was driven by fair value changes during the course of 2017.

g) Net pension assets went up by ₱11 mn, or 24% during 2017, due to the increase in the fair value of plan assets as contributions were made during the year.

h) Due to the refinancing of GMCP's outstanding loan in 2017, previously recognized deferred tax assets relating to the loan were written down, resulting in a 22% decrease in the deferred income tax asset account as of end-2017.

i) Other non-current assets decreased by 7% as of end-2017, mainly from the Group's acquisition of Sacasun loan payable during 2017, which offset the Group's receivables from Sacasun.

Liabilities

Consolidated liabilities decreased by 3%, from ₱244.80 bn as of 31 December 2016 to ₱237.50 bn as of 31 December 2017.

a) Short term loans increased by 14% or ₱562 mn, mainly from an increase in the number of short-term debts incurred by the distribution utilities to meet working capital requirements.

b) Trade and other payables increased by 14% or ₱2.45 bn, as payables to suppliers and contractors increased as construction of various power plants continued.

c) Long-term debt (current and non-current) decreased by ₱7.32 bn (from ₱159.37 bn in 2016 to ₱152.05 bn in 2017). The decrease was mainly due to the ₱15.93 bn prepayment of TPI's bridge loan obtained in 2016 to fund the acquisition of GMCP and GNPD, and the ₱2.43 bn prepayment of Aseagas' project debt. The decrease was net of drawdowns on various project loans and the issuance of the first tranche of corporate retail bonds amounting to ₱3 bn during 2017.

d) Finance lease obligations (current and non-current) decreased by 6% (from ₱52.34 bn in 2016 to ₱49.23 bn in 2017), as TLI continues to make timely payments to the PSALM on its obligations as IPPA.

e) Asset retirement obligation account increased as a result of the revaluation of the future obligation on APRI's asset retirement obligations. The account increased by 62% (from ₱1.82 bn in 2016 to ₱2.96 bn in 2017).

f) Long term obligation on power distribution system (PDS) decreased by 6%, as regular annual payments were made in 2017.

g) Derivative liabilities (current and non-current) decreased by 87% (from ₱361 mn as of 31 December 2016 to ₱ 48 mn as of 31 December 2017) due to the de-recognition of the derivative liability related to the loan prepayment of GNPower Mariveles during 2017.

h) Customers' deposits decreased by 11% (from ₱6.83 bn in 2016 to ₱6.09 bn in 2017), as special deposits were refunded by distribution utilities to its customers during 2017.

i) Other non-current liabilities increased by 20%, driven by an increase of retention payables to suppliers during 2017.

j) Pension liability increased by 46% (from ₱247 mn in 2016 to ₱361 mn in 2017) on account of additional retirement costs, net of retirement contributions, made by certain Subsidiaries during 2017.

k) DTL decreased by 13% (from ₱1.04 bn in 2016 to ₱913 mn in 2017), mainly due to lower deferred tax provisions on unrealized foreign exchange gains and valuation changes recognized during 2017.

Equity

Equity attributable to equity shareholders of the Parent increased by 10% (from ₱105.11 bn at year-end 2016 to ₱115.40 bn at year-end 2017) driven mainly by the recognition of income totalling to ₱20.42 bn in 2017, net of dividends declared and paid to the Company's shareholders.

Material Changes in Liquidity and Cash Reserves of the Company

Cash generated from operations during 2017 were consistent with previous cash flows from operations, bringing in ₱30.24 bn in 2017 as compared to ₱29.89 bn in 2016.

During 2017, the Group's net cash used for investing activities of ₱9.45 bn was used primarily to continue the construction of various power projects. The Group received cash dividends from Associates amounting to ₱5.07 bn during 2017, which provided inflows from investing activities.

In 2017, cash outflows from the payment of long-term debt exceeded cash inflows from availment of long term debt, driven primarily by the Group's prepayment of ₱2.43 bn for the Aseagas project debt, and ₱16 bn payment on TPI's bridge loan. During 2017, the Company also raised ₱3.0 bn in corporate retail bonds. Various Subsidiaries also drew down on their project loans, as necessary to bring their respective on-going projects to completion. Net cash outflows for financing activities is ₱32.12 bn during 2017.

As of 31 December 2017, the Group's cash and cash equivalents decreased by 24%, or from ₱47.09 bn as of year-end 2016 to ₱35.70 bn as of year-end 2017.

Financial Ratios

Current assets decreased by 8% in 2017 as compared to 2016, accompanied by corresponding increase in current liabilities of 50%. The current ratio as of year-end of 2017 was 1.38x, compared to 2.25x at year-end 2016.

Consolidated debt to equity ratio at year-end 2017 was at 1.92:1, as compared to 2.18:1 as of year-end 2016, owing to the Group's growth in equity and substantial debt paid down during 2017.

MANAGEMENT

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

The overall management and supervision of the Company is undertaken by its Board. The Company's executive officers and management team cooperate with the Board by preparing appropriate information and documents concerning the Company's business operations, financial condition and results of operations for its review. The Company currently has nine directors, three of whom are Independent Directors. Below are the profiles of the directors and officers for 2020-2021 with their corresponding positions, offices, and business experience held for the past five years. Except for Mr. Emmanuel V. Rubio, who assumed his directorship on 01 January 2020, the directors were elected during AboitizPower's Annual Stockholders' Meeting held on 27 April 2020, to serve for a term of one year, and until their successors are duly elected and qualified.

ERRAMON I. ABOITIZ Chairman of the Board of Directors Age: 63 Citizenship: Filipino Committee Memberships: Member – Board Executive Committee (Chairman of the Committee since 21 May 2018 and Member since 01 January 2020) – Board Audit Committee (since 01 January 2020) – Board Corporate Governance Committee (since 17 May 2010)	***Mr. Erramon I. Aboitiz*** was appointed as Chairman of the Board of AboitizPower effective 01 January 2020. He has been a Director of the Company since 13 February 1998 and has served as Chief Executive Officer from 1998 to May 2018. He was Chairman of the Board from May 2018 to September 2018, and served as President and Chief Executive Officer until December 2019. Mr. Aboitiz is currently a Director of AEV, a publicly-listed company, a position he has held since 1994. He was AEV's Executive Vice President and Chief Operating Officer from 1994 to 2009, and President and Chief Executive Officer from 2009 to 2019. Mr. Aboitiz is also Chairman of the Board of Directors of the following companies: Manila-Oslo Renewable Enterprise, Inc. (MORE), San Fernando Electric Light and Power Co., Inc. (SFELAPCO), and CRH Aboitiz Holdings, Inc. (CRH Aboitiz). He is Vice Chairman of Republic Cement and Building Materials, Inc. (RCBM) and of Union Bank of the Philippines (UnionBank), a publicly-listed company. He is also Chairman of UnionBank's Executive Committee and Nominations Committee. He is Director of Aboitiz & Company, Inc. (ACO), AEV CRH Holdings, Inc. (AEV CRH), and the Philippine Disaster Recovery Foundation. Mr. Aboitiz was awarded the Management Association of the Philippines Management Man of the Year and Ernst & Young's Entrepreneur of the Year both in 2011. Mr. Aboitiz earned a Bachelor of Science degree in Business Administration, Major in Accounting and Finance from Gonzaga University in Spokane, Washington, U.S.A. He was also conferred an Honorary Doctorate Degree in Management by the Asian Institute of Management. He is not connected with any government agency or instrumentality.
MIKEL A. ABOITIZ Vice Chairman of the Board of Directors Age: 65 Citizenship: Filipino	***Mr. Mikel A. Aboitiz*** was appointed Vice Chairman of AboitizPower effective 1 January 2020. He has been a Director since 13 February 1998, and was the Company's Chairman of the Board from September 2018 to December 2019. Mr. Aboitiz was formerly Vice Chairman of City Savings Bank, Inc. from 2015 to 2016, and its President and Chief Executive Officer from 2001 to 2014. He is currently Chairman of the

Committee Memberships: Member – Board Corporate Governance Committee (since 11 December 2019) – Board Executive Committee (since 21 May 2018)	Board of ACO; Vice Chairman of AEV, a publicly-listed company, since December 2018; and Trustee and Chairman of Ramon Aboitiz Foundation, Inc. (RAFI). Mr. Aboitiz holds a degree in Bachelor of Science in Business Administration from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.
ENRIQUE M. ABOITIZ Director Age: 66 Citizenship: Filipino Committee Memberships: Chairman – Board Risk and Reputation Management Committee (since 16 May 2011) Member – Board Executive Committee (since 11 December 2018)	***Mr. Enrique M. Aboitiz*** has served as Director of the Company since 18 May 2009. He was Chairman of the Board of Directors from 2009 to May 2018, and Vice Chairman from December 2018 to December 2019. On 11 December 2018, Mr. Aboitiz was appointed the Chairman of the Board of AEV, a publicly-listed company. He is also the Vice Chairman of ACO. Mr. Aboitiz graduated with a degree in Bachelor of Science in Business Administration, Major in Economics from Gonzaga University, Spokane, Washington, U.S.A. Mr. Aboitiz is not connected with any government agency or instrumentality.
EMMANUEL V. RUBIO Director President and Chief Executive Officer Age: 55 Citizenship: Filipino Committee Memberships: Chairman – Board Executive Committee (since January 1, 2020) Member – Board Risk and Reputation Management Committee (since 01 January 2020)	***Mr. Emmanuel V. Rubio*** was appointed as President and Chief Executive Officer and Director of AboitizPower effective 01 January 2020. He previously served as the Company's Executive Vice President and Chief Operating Officer – Power Generation Group from 2014 to July 2018, and as Executive Vice President - Chief Operating Officer from June 2018 to December 2019. Mr. Rubio is currently Chairman of Aboitiz Renewables, Inc. (ARI) the SN AboitizPower Group, and Therma Power, Inc. (TPI); Director of the Hedcor Group, MORE, Cotabato Light and Power Company (Cotabato Light), Davao Light & Power Co., Inc. (Davao Light), Cebu Private Power Corporation (CPPC), and various companies under the Coal Business Units, including Cebu Energy Development Corporation (Cebu Energy), STEAG State Power, Inc. (STEAG Power), Therma South, Inc. (TSI), Therma Visayas, Inc. (TVI), and Redondo Peninsula Energy, Inc. (RP Energy). He holds directorship and management positions in GNPower Mariveles Coal Plant Ltd. Co. (GMCP) and GNPower Dinginin Ltd. Co. (GNPD) and their holding companies. He is also a member of the Board of Trustees and President of Philippine Electricity Market Corporation (PEMC) and Trustee of Aboitiz Foundation. Mr. Rubio is a graduate of Bachelor of Science in Industrial Management Engineering, with a minor in Mechanical Engineering, from De La Salle University, where he also completed his post-graduate studies. He is also a certificate course graduate of the University of Michigan Executive Education Program, the LEAD program of Columbia University, and the Strategic Management Course of the Nanyang Technological University in Singapore. He recently completed the Advanced Management Program of Columbia University. Mr. Rubio is a holder of the Executive Certificate in Directorship

	from the Singapore Management University-Singapore Institute of Directors (SMU-SID). He is not connected with any government agency or instrumentality. He is not a Director of any other publicly-listed company.
JAIME JOSE Y. ABOITIZ Director Executive Vice President – Chief Operating Officer Age: 58 Citizenship: Filipino Committee Memberships: Member – Board Risk and Reputation Management Committee (01 September 2018) – Board Executive Committee (21 May 2018)	***Mr. Jaime Jose Y. Aboitiz*** was Director of AboitizPower from 2004 to April 2007, and was re-elected as Director on 18 May 2009. He was appointed as the Company's Executive Vice President – Chief Operating Officer effective 01 January 2020. He was previously the Company's Executive Vice President and Chief Operating Officer-Power Distribution Group, a position which he held from August 2008 to December 2019. Mr. Aboitiz is a member of the Board of Advisers of ACO; Chairman of the Board of Aboitiz Construction, Inc. (ACI), AboitizPower Distributed Energy, Inc. (APX1), AboitizPower Distributed Renewables, Inc. (APX2), Abovant Holdings, Inc. (Abovant), Cebu Industrial Park Developers, Inc. (CIPDI), Hedcor Group; and Director of ARI, Cotabato Light, Davao Light, Enerzone Companies, SFELAPCO, Aboitiz Land, Inc. (AboitizLand), Tsuneishi Heavy Industries (Cebu), Inc. (THICI), Visayan Electric Company, Inc. (Visayan Electric), and Apo Agua Infrastructura, Inc. (Apo Agua). He holds Chairman and Director positions in various Oil Business Units, such as East Asia Utilities Corporation (EAUC), Therma Marine, Inc. (TMI), Therma Mobile, Inc. (TMO), Therma Power-Visayas, Inc. (TPVI); and Coal Business Units, such as AA Thermal, Inc. (AA Thermal), Pagbilao Energy Corporation (PEC), TSI, and TVI. He holds directorship and management positions in GMCP and its holding company. Mr. Aboitiz holds a degree in Mechanical Engineering from Loyola Marymount University in California, U.S.A., and a Master's Degree in Management from the Asian Institute of Management. He is not connected with any government agency or instrumentality. He is not a Director of any other publicly-listed company.
DANEL C. ABOITIZ Director Age: 38 Citizenship: Filipino Committee Memberships: Member – Board Audit Committee (since 28 January 2020)	***Mr. Danel C. Aboitiz*** was appointed as Director of AboitizPower on 11 December 2018, and as Senior Vice President – Government Relations and Regulatory Affairs of AboitizPower effective 01 January 2020. Mr. Aboitiz is also Director of PEC, Cebu Energy, STEAG Power, Abovant, and RP Energy. He holds directorship and management positions in GMCP and GNPD and their holding companies. Mr. Aboitiz is also Director of various companies under AboitizPower's Oil Business Units, such as Therma Mobile, Inc. (TMO), Therma Power-Visayas, Inc. (TPVI), East Asia Utilities Corporation (EAUC), and Therma Marine, Inc. (TMI), and Coal Business Units, such as AA Thermal, TLI, TSI, and TVI. He also serves as a Member of the Board of Advisers of ACO and is an Observer of CRH Aboitiz Holdings, Inc.

	Mr. Aboitiz obtained his Master of Arts (MA) in Philosophy and Politics degree from the University of Edinburgh, where he graduated with honors. He also studied the Chinese language at the Beijing Language and Culture University. He is not connected with any government agency or instrumentality. He is not a Director of any other publicly-listed company.
ROMEO L. BERNARDO Lead Independent Director Age: 65 Citizenship: Filipino Committee Memberships: Chairman – Board Corporate Governance Committee (11 December 2018) Member – Board Audit Committee (since 19 May 2008) – Board Risk and Reputation Management Committee (since 18 May 2015) – Board Related Party Transactions Committee (since 15 May 2017)	***Mr. Romeo L. Bernardo*** was elected Lead Independent Director of AboitizPower on 15 May 2017. He has been an Independent Director of the Company since 19 May 2008. He is the Managing Director of Lazaro Bernardo Tiu and Associates, a boutique financial advisory firm based in Manila. He is also an economist of GlobalSource in the Philippines. He is Chairman of ALFM Family of Funds and Philippine Stock Index Fund. He is a Director of the following publicly-listed corporations: Globe Telecom, Inc. (Globe Telecom) and Bank of the Philippine Islands (BPI), and Independent Director of RFM Corporation and PHINMA Corporation. He is also currently affiliated in various capacities with the Foundation for Economic Freedom and World Bank Philippine Advisory Group. Mr. Bernardo previously served as Undersecretary for International Finance of the Department of Finance, and as Alternate Executive Director of the Asian Development Bank. He has held various positions in government, including the National Power Corporation (NPC) and Philippine National Bank. He was a member of the Board of Trustees of the Philippine Institute for Development Studies from October 2005 until March 2016. He was an Advisor of the World Bank and the International Monetary Fund, and served as Deputy Chief of the Philippine Delegation to the General Agreement on Tariffs and Trade (World Trade Organization) in 1979. In the same year, he was Finance Attaché of the Philippine Mission to the United Nations in Geneva, Switzerland. He was formerly President of the Philippine Economics Society, Chairman of the Federation of ASEAN Economic Societies, and a faculty of the College of Business Administration of the University of the Philippines. Mr. Bernardo holds a Bachelor of Science degree in Business Economics from the University of the Philippines (magna cum laude) and a Master's degree in Development Economics from Williams College in Williamstown, Massachusetts, U.S.A. where he graduated top of the class. He is not connected with any government agency or instrumentality.
CARLOS C. EJERCITO Independent Director Age: 74 Citizenship: Filipino Committee Memberships:	***Mr. Carlos C. Ejercito,*** has been an Independent Director of AboitizPower since 19 May 2014. He is Independent Director and Chairman of the Board Audit Committee of Bloomberry Resorts Corporation and an Independent Director of Century Properties Group, Inc., both publicly-listed companies. He is also an Independent Director of Monte Oro Resources and Energy Corporation.

Chairman – Board Audit Committee (since 19 May 2014) Member – Board Risk and Reputation Management Committee (since 19 May 2014) – Board Corporate Governance Committee (since 19 May 2014) – Board Related Party Transactions Committee (since 15 May 2017)	Mr. Ejercito is President and Chief Executive Officer of Mount Grace Hospitals, Inc., Chairman and Chief Executive Officer of Forum Cebu Coal Corporation, and Chairman of Northern Access Mining, Inc. He is a Board Member of 16 hospitals, including Medical Center Manila, VR Potenciano Medical Center, Tagaytay Medical Center, Pinehurst Medical Services Inc., Grace General Hospital, Healthserv Medical Center, Lorma Medical Center, Mary Mediatrix Medical Center, and Silvermed Corporation, and Capitol Medical Center. He was formerly Chairman of the Board of United Coconut Planters Bank, and a former Director of National Grid Corporation of the Philippines (NGCP). He was also the President and Chief Executive Officer of United Laboratories, Inc., Unilab Group of Companies, Univet Agricultural Products, Inc., and Greenfield Development Corporation, as well as the Vice President and Senior Country Operation Officer of Citibank, NA. Prior to Citibank, Mr. Ejercito was a System Engineer in IBM Philippines, and Accounting Unit Head in Procter & Gamble Philippines, Inc. He was a member of the Board of Governors of Management Association of the Philippines. Mr. Ejercito graduated cum laude from the University of the East with a degree in Bachelor of Science in Business Administration. He also completed the Management Development Program of Harvard Business School in 1983, and has completed the coursework for Masters in Business Administration at Ateneo Graduate School of Business. Mr. Ejercito is a certified public accountant. He is not connected with any government agency or instrumentality.
ERIC RAMON O. RECTO Independent Director Age: 56 Citizenship: Filipino Committee Memberships: Chairman – Board Related Party Transaction Committee (since 21 May 2018) Member – Board Audit Committee (since 21 May 2018) – Board Corporate Governance Committee (since 21 May 2018) – Board Risk and Reputation Management Committee (since 21 May 2018)	***Mr. Eric Ramon O. Recto*** was elected as Independent Director of AboitizPower on 21 May 2018. He currently holds positions in the following publicly-listed companies: Chairman of the Philippine Bank of Communications; Vice Chairman and President of Atok-Big Wedge Co., Inc.; Director of ISM Communications Corporation; and Independent Director in PH Resorts Group Holdings, Inc. He is also the Chairman of the Board and President of Bedfordbury Development Corporation; Vice Chairman of Alphaland Corporation; President/Director of Q-Tech Alliance Holdings, Inc.; and Supervisory Board Member of Acentic Gmbh and Ltd. Mr. Recto held various positions in Philweb Corporation from 2005 to 2015. He was also the Vice Chairman of Alphaland Corporation from 2007 to 2014; Director of San Miguel Corporation from 2010 to 2014, and of Manila Electric Company (Meralco) from 2010 to 2013 and President of Top Frontier Investment Holdings, Inc. from 2010 to 2013. Mr. Recto was formerly the Undersecretary of the Philippine Department of Finance from 2002 to 2005. Mr. Recto earned his Bachelor of Science degree in Industrial Engineering from the University of the Philippines-Diliman. He

	completed his Masters in Business Administration, with concentration in Finance and Operation Management, from the Johnson Graduate School of Management at the Cornell University in Ithaca, New York, U.S.A. He is not connected with any government agency or instrumentality.
LUIS MIGUEL O. ABOITIZ* Executive Vice President – Chief Strategy Officer	***Mr. Luis Miguel O. Aboitiz***, 55 years old, Filipino, was appointed as Executive Vice President – Chief Strategy Officer of AboitizPower on 21 May 2018. He also previously served as Director of the Company from September 2018 to December 2019, as Executive Vice President and Chief Operating Officer – Corporate Business Group from 2016 to 2018, and as Senior Vice President-Power Marketing and Trading from 2009 to 2015. Mr. Aboitiz is also currently Senior Vice President of AEV, a publicly-listed company, a position which he held since 2015. He is also Director and First Vice President of ACO. He also serves as Director and President of MORE; and Director of Abovant, ARI, APX1, APX2, TPI, PANC, TSI, TLI, Aboitiz InfraCapital, Inc., Sacasun, STEAG Power, and UnionBank, a publicly-listed company. He is also Chairman of UnionBank's Technology Steering Committee and member of the Audit Committee and Operations Risk Management Committee, and alternate member of the Executive Committee. Mr. Aboitiz is also a member of the Board of Trustees of PIPPA. Mr. Aboitiz graduated from Santa Clara University, California, U.S.A. with a degree of Bachelor of Science in Computer Science and Engineering, and earned his Master's degree in Business Administration from the University of California in Berkeley, U.S.A. He is not connected with any government agency or instrumentality.
MARIA VERONICA C. SO Group Treasurer	***Ms. Maria Veronica C. So,*** 47 years old, Filipino, was appointed as AboitizPower's Group Treasurer effective 01 January 2020. She is also Group Treasurer and First Vice President – Group Treasurer of AEV, a publicly listed company. She joined the Aboitiz Group as AEV's Vice President – Treasury Services in 2017 and was promoted to First Vice President - Deputy Group Treasurer under AEV's Treasury Services Group on April 1, 2019. Prior to joining the Aboitiz Group, Ms. So held various treasury and finance positions at Globe Telecom from 2001 to 2017. Ms. So holds a Masters degree in Business Management from the Asian Institute of Management and a Bachelor of Science degree in Business Management from Ateneo de Manila University. She is not connected with any government agency or instrumentality. She is not a director of any publicly-listed company.

LIZA LUV T. MONTELIBANO Senior Vice President/Chief Financial Officer/Corporate Information Officer *Ex-Officio Member* – Board Risk and Reputation Management Committee *Ex-Officio Member* – Board Executive Committee	***Ms. Liza Luv T. Montelibano***, 44 years old, Filipino, was appointed as Senior Vice President/Chief Financial Officer/Corporate Information Officer on 16 May 2016. Ms. Montelibano joined the Company as Chief Financial Officer-Power Generation Group on 2 January 2014 until she was promoted as First Vice President/ Chief Financial Officer/ Corporate Information Officer on May 18, 2015. Ms. Montelibano is Director and Senior Vice President-Finance of ARI, and Director and Treasurer/Chief Financial Officer of AA Thermal, and Director of Cotabato Light, Davao Light, MORE, Visayan Electric, Hedcor Group, LHC, SEZ, AboitizPower International Pte. Ltd., and Archipelago Insurance Pte. Ltd. She holds a management position in GMCP and its holding company. Prior to joining AboitizPower, Ms. Montelibano was the Country Controller of NXP Semiconductors. Her background is in finance, risk assessment, and internal audit, arising from her previous experience with various multinational companies. She also served as Chief Financial Officer of SteelAsia Manufacturing Corporation from September 2012 to March 2013, and as General Manager for Finance and Administration at L'Oreal Philippines, Inc. from March 2006 to August 2012. Ms. Montelibano graduated cum laude from Ateneo de Manila University with a degree in Bachelor of Science in Management, Minor in Finance. She is also a Certified Internal Auditor under the Institute of Internal Auditors. She is not connected with any government agency or instrumentality. She is not a director of a publicly-listed company.
JOSEPH TRILLANA T. GONZALES First Vice President – General Counsel and Compliance Officer *Ex-Officio Member* – Board Corporate Governance Committee	***Mr. Joseph Trillana T. Gonzales,*** 53 years old, Filipino, was appointed General Counsel of AboitizPower on 01 January 2015. He was appointed as the Company's First Vice President – General Counsel and Compliance Officer and *Ex-officio* member of the Board Corporate Governance Committee on 01 March 2018. He previously served as Assistant Corporate Secretary of the Company from August 2007 to May 2016. He was Vice President for Legal and Corporate Services of AEV from 2008 to 2014. Mr. Gonzales was Special Counsel of SyCip Salazar Hernandez & Gatmaitan Law Offices until he joined the Aboitiz Group as Assistant Vice President of the Corporate and Legal Services of ACO in 2007. Mr. Gonzales is a graduate of Bachelor of Arts, Major in Economics, and Bachelor of Laws from the University of the Philippines. He has a Master of Laws degree from the University of Michigan in Ann Arbor, Michigan, U.S.A. He is a member of good standing of the Integrated Bar of the Philippines. He is not connected with any government agency

	or instrumentality. He is not a director of a publicly-listed company.
MANUEL ALBERTO R. COLAYCO Corporate Secretary	***Mr. Manuel Alberto R. Colayco,*** 50 years old, Filipino, has been Corporate Secretary of AboitizPower since 01 March 2018. Mr. Colayco is concurrently Senior Vice President - Chief Legal Officer/Chief Compliance Officer/Corporate Secretary of AEV, a publicly listed company. He first joined the Aboitiz Group as AEV's First Vice President and Chief Legal Officer on 11 July 2016 and was appointed as AEV's Corporate Secretary and Compliance Officer on 01 March 2018. Mr. Colayco has practiced in various areas of corporate law, including mergers and acquisitions, joint ventures, securities regulation, corporate and financial restructuring, and litigation. Prior to joining the Aboitiz Group, Mr. Colayco acted as independent legal consultant providing professional advice, representation, and transactional assistance to private companies and individuals. His previous work experience includes: General Counsel for AGP International Holdings Ltd. and Atlantic, Gulf & Pacific Company of Manila, Inc. from August 2013 to December 2014; Executive Director and Assistant General Counsel of J.P. Morgan Chase Bank N.A. from July 2010 to August 2013; and Vice President and Legal Counsel of DKR Oasis (Hong Kong) LLC, a private investment management firm, from August 2007 until March 2010. He was an Associate at Skadden, Arps, Slate, Meagher & Flom, LLP from 2000 to 2007, and at Romulo Mabanta Buenaventura Sayoc & de los Angeles from 1996 to 2000. Mr. Colayco earned his undergraduate and Juris Doctor degrees from Ateneo de Manila University, and a Master of Laws degree from New York University School of Law in New York, U.S.A. He is a member of good standing of the Integrated Bar of the Philippines. He is not connected with any government agency or instrumentality. He is not a director of any publicly-listed company.
MAILENE M. DE LA TORRE Assistant Corporate Secretary	***Ms. Mailene M. de la Torre,*** 38 years old, Filipino, was appointed Assistant Corporate Secretary of AboitizPower on 24 November 2016. She is concurrently Assistant Vice President - Governance and Compliance and Assistant Corporate Secretary of AEV, a publicly-listed company. She was previously Senior Associate General Counsel for Governance and Compliance of AEV until November 2016, and was Associate General Counsel for Legal and Corporate Services from May 2010 to October 2014. Ms. de la Torre is also the Corporate Secretary and Assistant Corporate Secretary of various Subsidiaries of the Aboitiz Group. Ms. de la Torre has practice in the areas of corporate structuring, acquisitions, joint ventures, compliance and corporate governance, corporate law, securities law, and litigation. Prior to joining the Aboitiz Group, she was an Associate at Esguerra & Blanco Law Office from 2007 to 2010.

	She graduated cum laude with a Bachelor of Arts Degree in Political Science from the University of the Philippines Diliman and earned her Bachelor of Laws degree from the same university. She is a graduate member of the Institute of Corporate Directors, after completing the Professional Director's Program. She is a member of good standing of the Integrated Bar of the Philippines. She is not connected with any government agency or instrumentality. She is not a director of a publicly-listed company.
SAMMY DAVE A. SANTOS Assistant Corporate Secretary	***Mr. Sammy Dave A. Santos,*** 35 years old, Filipino, was appointed Assistant Corporate Secretary of AboitizPower on 05 November 5 2019. He is currently an Associate General Counsel for Governance and Compliance Team of AEV since July 2017. Mr. Santos currently serves as Corporate Secretary of various Subsidiaries of the Aboitiz Group, and Assistant Corporate Secretary of the Good Governance Advocates and Practitioners of the Philippines (GGAPP). Mr. Santos has experience in practice areas of corporate law, corporate structuring, special projects, corporate housekeeping, corporate governance, and compliance for non-listed and publicly-listed companies. Prior to joining the Aboitiz Group, he was Legal Counsel for Alliance Select Foods International, Inc. from 2016 to 2017. He was also Counsel for the Privatization Group and Office of Special Concerns of the Department of Finance in 2016. He was a Junior Associate at the Law Firm of Quiason Makalinta Barot Torres Ibarra Sison & Damaso from 2014 to 2016. Mr. Santos earned his Juris Doctor degree from the Ateneo Law School in 2013 and was admitted to the Philippine Roll of Attorneys in 2014. He also holds a degree of Master of Science in Industrial Economics from the University of Asia and the Pacific. He is a member of good standing of the Integrated Bar of the Philippines. He is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.
MARNIE F. MAÑALAC Data Privacy Officer *Ex-Officio Member* – Board Risk and Reputation Management Committee	***Ms. Marnie F. Mañalac,*** 53 years old, Filipino, was appointed as Data Privacy Officer effective 01 January 2020. She is concurrently Vice President for Risk and Organizational Performance Management of the Company. Ms. Mañalac also assumed the position of *Ex-officio* member of the Company's Board Risk and Reputation Management Committee. Prior to her appointment, Ms. Mañalac was Assistant Vice President for Organizational Performance and Portfolio Management. Prior to joining the Aboitiz Group, she was an Independent Consultant and Trainer on Advanced Cost and Performance Management from 2008 to 2015, and served as Head of Activity-Based Costing & Management under the President and Chief Operating Officer of Meralco, where she also held various positions from 1990 to 2008.

	Ms. Mañalac obtained her Bachelor of Science Degree in Industrial Engineering from the University of the Philippines. She is a Professional Industrial Engineer and a Certified Management Accountant. She is not connected with any government agency or instrumentality. She is not a director of any publicly-listed company.
SATURNINO E. NICANOR, JR. Group Internal Audit Head	***Mr. Saturnino E. Nicanor, Jr.,*** 57 years old, Filipino, was appointed as Group Internal Audit Head of AboitizPower on 26 July 2018. He is concurrently the Company's Assistant Vice President for Internal Audit, a position which he has held since July 2017. He has extensive experience in internal audit and controllership in various industries. He also served as Internal Audit Head for the Company's Generation Group from August 2012 to July 2018, and held various audit-related positions in the Aboitiz Group from 1983 to 2005. Mr. Nicanor earned his Bachelor of Science in Commerce, Major in Accounting (magna cum laude) degree from the University of San Jose Recoletos, Cebu City. He is an Accredited Training Facilitator of the Institute of Internal Auditors Philippines. He is not connected with any government agency or instrumentality. He is not a director of any publicly-listed company.

**Mr. Luis Miguel O. Aboitiz retired on 30 April 2020.*

Period in which the Directors Should Serve

The directors shall serve for a period of one year.

Term of Office of a Director

Pursuant to the Amended By-Laws of AboitizPower, the directors are elected at each annual stockholders' meeting by stockholders entitled to vote. Each director holds office until the next annual election or for a term of one year and until his successor is duly elected, unless he resigns, dies or is removed prior to such election.

Any vacancy in the Board, other than by removal or expiration of term, may be filled by a majority vote of the remaining members thereof at a meeting called for that purpose, if they still constitute a quorum. The director so chosen shall serve for the unexpired term of his predecessor in office.

Significant Employees

AboitizPower considers the contribution of every employee important to the fulfillment of its goals.

Family Relationships

Messrs. Erramon and Enrique Aboitiz are brothers. Mr. Enrique Aboitiz is the father of Mr. Danel Aboitiz. Other than these, no other officers or directors are related within the fourth degree of consanguinity.

Involvement in Certain Legal Proceedings as of 31 March 2020

To the knowledge and/or information of AboitizPower, none of its nominees for election as directors, its present members of the Board, or its executive officers, is presently involved in any legal proceeding or bankruptcy petition or has been convicted by final judgment, or being subject to any order, judgment or decree, or has violated the securities or commodities law in any court or government agency in the Philippines or elsewhere, for the past five

years until 31 March 2020, which would put to question his/her ability and integrity to serve AboitizPower and its stockholders.

Parent Company

AboitizPower's parent company is AEV. As of 31 March 2020, AEV owns 76.88% of the voting shares of AboitizPower. In turn, ACO owns, as of 31 January 2020, 48.59% of the voting shares of AEV.

Resignation or Refusal to Stand for Re-election by Members of the Board of Directors

No director has resigned or declined to stand for re-election to the Board since the date of AboitizPower's last Annual Stockholders' Meeting because of a disagreement with AboitizPower on matters relating to its operations, policies and practices.

CORPORATE GOVERNANCE

AboitizPower's commitment to corporate governance is deeply imbedded in the way it runs its business. With new investors and stakeholders both domestic and international involved in the business, the Company seeks to uphold the highest standards in the conduct of its business. The Company intends to continue to maintain and develop its generational corporate reputation by further committing to its "triple bottom line" focus of "People, Profit and Planet."

At the helm of corporate governance in AboitizPower is the Board of Directors, who are mindful of their role of providing leadership and stewardship to the Company, with the intent of ensuring sustainability and longevity as an enterprise. The role of each the Board is to represent and protect the interests of the owners of the business and other key external stakeholders, regardless of category, within the boundaries of each Company's its corporate charter, and all relevant statutes and legal regulations and rules.

The Company has been consistently recognized locally and within the ASEAN Region as among the Philippines' best managed companies and has also been cited by, among others, the Philippines' Institute of Corporate Directors and the ASEAN Capital Markets Forum for its commitment to good corporate governance, being one of the region's top performers in the ASEAN Corporate Governance Scorecard.

In 2019, the Company's leadership team continues its efforts to create long-term value for all stakeholders, and to drive change for a better world by advancing business and communities. It adopted new protocols and improved existing systems and policies to protect the rights of its shareholders, safeguarded shareholders' equitable treatment, continuously recognized the value and participatory role of all stakeholders, and practiced the appropriate level of transparency and improved corporate disclosures.

Shareholder Rights and Equitable Treatment

The rights of shareholders are of paramount importance to the Company. The goal is to ensure the protection of shareholder interests and concerns through the free exercise of shareholder rights. Among the rights of these shareholders, regardless of the number of shares they own, are to receive notices of and to attend shareholders' meetings; to participate and vote on the basis of the one-share, one-vote policy; nominate and elect Board members (including via cumulative voting); inspect corporate books and records; vote in person or in absentia through proxy; receive dividends; and ratify corporate action.

In the conduct of its annual shareholder meetings, all shareholders receive notices not less than 28 days from the date of the meeting, and all agenda items to be discussed and decided upon during the said meeting are set out in the notices and no new agenda items are taken up during the conduct of the meeting. The rationale of agenda items which are submitted to the stockholders for their approval are included in the notices to shareholders' meetings.

In addition, AboitizPower ensures timely disclosure to shareholders regarding their respective businesses, and that shareholders receive dividends in accordance with established dividend policies.

Lastly, the Board Secretariat has adopted certified Board protocols and procedures under the ISO 9001:2015 Management Board and System to ensure the effectiveness of Board and shareholders' commitments. This includes coordination with stock transfer agents to ensure appropriate responses to and timely resolution of shareholders' queries and requests.

Compliance with Governance Policies

AboitizPower has a Revised Manual of Corporate Governance (Revised Manual) and a Code of Ethics and Business Conduct (Code of Ethics) to guide the attainment of its corporate goals and the implementation of its strategies. The Revised Manual is generally aligned to the principles and recommendations laid down by SEC under the Corporate Governance Code for Publicly-Listed Companies (CG Code) to further strengthen the Company's corporate governance practices. The Board of Directors regularly reviews the Revised Manual to ensure that the same remains

relevant and responsive to the needs of the organization. Any amendments to the Revised Manual are promptly submitted to SEC for confirmation and approval.

The Revised Manual is supported by various company policies that are regularly reviewed and issued by the Board of Directors including the Code of Ethics. Both companies ensure that their respective Code of Ethics is cascaded to new team members as part of their onboarding processes. Team members are also required to review the Code sign an affirmation that they have read and understood the Code of Ethics. In order to support this annual exercise, an e-learning module on the Group's Code of Ethics was developed and rolled out every year. As part of the Group's commitments in the Code of Ethics, all team members are expected to act professionally, fairly, and with integrity in all of their business dealings, and to comply with all applicable laws and regulations, including those against bribery and corruption.

The Compliance Officer, together with the Human Resources Department, regularly monitors and evaluates compliance by the Board of Directors, management and employees to the Revised Manual, the Code of Ethics, other company policies, and existing laws and regulations. The Compliance Officer also ensures the implementation of AEV's policy against conflicts of interests and the misuse of confidential and proprietary information throughout the organization.

The Compliance Officer regularly reports to the Board Corporate Governance Committee the Company's compliance status with existing laws and regulations, as well as the Board's, management's and employees' compliance with internal governance policies.

In addition, to support the implementation of their respective Manual and Code of Ethics, the Company has a Whistleblowing Policy. Through this policy, allegations of violations of the Manual, the Code of Ethics, or of other illegal conduct can be reported through an independent whistleblowing portal. Matters reported through the whistleblowing platform are discussed by the Board Corporate Governance Committee and, if necessary, escalated to the entire Board of Directors.

There are no incidents of non-compliance from the Revised Manual as of the date of this report. There were also no corruption-related incidents reported in 2019.

Board of Directors

The AboitizPower and AEV Boards of Directors are at the helm of the Group's corporate governance framework. Independent from management, they are committed to serve and promote long-term success, and to secure each company's sustained growth, competitiveness and sustainability. They perform the crucial role of articulating and assessing each company's purpose, vision and mission, and strategies to carry out its objectives. They ensure that the strategic business direction of each company's businesses are soundly established and are in line with the overall Group's goals and strategy. In line with best practices, the Board of Directors are responsible in establishing and monitoring the Group's commitment to the principles embodied in environment, social and governance matters (ESG). And in performing these functions, the members of the AEV and AboitizPower Boards, individually and collectively, are expected to act consistently with the Aboitiz core values. During In 2019, the Chairmen of AEV and AboitizPower, Messrs. Enrique M. Aboitiz and Mikel A. Aboitiz were both Non-Executive Directors.

Board's Participation

The Board's primary objectives are to improve shareholder returns, to develop responsible long-term investments, and to achieve disciplined and sustainable growth. To this end, board attendance and active participation during board and committee meetings are encouraged from the directors. Attendance during board meetings are closely monitored and reported by the Compliance Officer to SEC and PSE, as well as in the Company's IACGR.

In 2019, the Board of Directors held 7 meetings (Board and Annual Stockholders Meeting). Board and Board Committees also met in various occasions in the performance of their mandate as indicated in the Revised Manual and relevant Board Charters. Below is a summary of the attendance of the Directors:

Aboitiz Power Corporation							
	ASM	BOD/ ORG	Board Executive Committee	Board CG Committee	Board Risk & Reputation Mngt. Committee	Board Audit Committee	Board RPT Committee
Number of Meetings	**1**	**6**	**4**	**2**	**2**	**5**	**2**
MIKEL A. ABOITIZ	C 0/1	C 5/6	–	M 2/2	M 2/2	M 5/5	–
ENRIQUE M. ABOITIZ	VC 1/1	VC 6/6	M ¾	–	C 1/2	M 2/5	–
ERRAMON I. ABOITIZ	M 1/1	M 6/6	C 4/4	M 2/2	–	–	–
LUIS MIGUEL O. ABOITIZ	M 1/1	M 5/6	M ¾	–	–	–	–
JAIME JOSE Y. ABOITIZ	M 1/1	M 6/6	M 4/4	–	M 2/2	–	–
DANEL C. ABOITIZ	M 1/1	M 5/6	–	–	–	–	–
CARLOS C. EJERCITO	M 1/1	M 6/6	–	M 2/2	M 2/2	C 5/5	C 2/2
ROMEO L. BERNARDO	M 1/1	M 6/6	–	C 2/2	M 2/2	M 5/5	M 2/2
ERIC RAMON O. RECTO	M 1/1	M 5/5		M 2/2	M 2/2	M 4/5	M 2/2
MANUEL ALBERTO R. COLAYCO	CS 1/1	CS 5/5	CS 4/4	CS 2/2	–	–	CS 2/2
SUSAN V. VALDEZ	–	–	–	EO 2/2	EO 1/2	–	–
JOSEPH TRILLANA T. GONZALES	–	–	–	CO/ EO 2/2	–	–	–
LIZA LUV T. MONTELIBANO	–	–	EO 4/4	–	EO 2/2	–	–
EMMANUEL V. RUBIO	–	–	EO 4/4	–	–	–	–
FELINO M. BERNARDO[23]	–	–	EO ¾	–	–	–	–
SATURNINO N. NICANOR	–	–	–	–	–	CAE 5/5	–

Legend:
C – Chairman, VC - Vice Chairman, M – Member, CS - Corporate Secretary, CCO - Chief Compliance Officer, CAE - Chief Audit Executive, EO - Ex-Officio

Board Committees

The different Board committees - Audit, Corporate Governance, Risk and Reputation Management, Related Party Transactions, and Executive Committee - report regularly to the Board and are crucial in maintaining Board oversight in key management areas.

The mandate of each Board committee, including key accomplishments in 2019, are described below:

a. The **Board Corporate Governance Committee** represents the Board in discharging its responsibility relating to issues around the Group's governance principles and guidelines, nomination of persons into Board and Group senior leadership roles, and the various compensation matters. Independent Directors comprise majority of the voting members of the Board Corporate Governance Committee.

   In 2019, the Board Corporate Governance Committee has continued to (i) review and monitor the Company's compliance with new laws and regulations (the Revised Corporation Code, various SEC issuances, among others), (ii) reviewed and updated the Manual to align with the best practices in the Integrated Annual Corporate Governance Report and the ASEAN Corporate Governance Scorecard, (iii) ensured that the nomination, selection, election, remuneration, and assessment of each Company's Directors and Officers are aligned with the Manual, and (iv) established a Board oversight and management framework in addressing the environmental, social, and governance issues material to the Group.

[23] Mr. Felino M. Bernardo was Ex-Officio member of the Board Executive Committee for the year 2019.

b. The **Board Audit Committee** represents the Board in discharging its responsibility related to audit matters for the Group. Independent Directors comprise majority of the members of the Board Audit Committee, including its Chairman. In 2019, the Board Audit Committee continued to provide oversight over each company's financial reporting policies, practices and controls, and over the internal and external audit functions necessary for making good audit-related decisions.

c. The **Board Risk and Reputation Management Committee** represents the Board in discharging its responsibility relating to risk management related matters for the Group. In 2019, the Board Risk and Reputation Committee has continued to identify, monitor, and manage the Group's top risks.

d. The **Board Related Party Transaction Committee** represents the Board in discharging its responsibility relating to transactions entered into between or among the Company or any of its subsidiaries, affiliated, directors and officers. In 2019, the Board RPT Committees has approved the Revised RPT Policy of each Company in compliance with the SEC memorandum circular on Material RPTs. In addition, the Board RPT Committee continued to (i) review and approve each company's CFO Guidelines on the Implementation of the RPT Policy, which require all directors and officers to execute a certification to identify their related parties to be able to identify potential conflicts of interest, (ii) ensured that related-party transactions are taken on an arm's-length basis and within market rates, with sufficient documentation, and coursed through the appropriate levels of approval. Except for the presence of the AEV and AboitizPower CFOs as resource persons, management is not invited to and has no participation in the RPT Committee.

e. The **Executive Committee** assists the Board in overseeing the Company's day-to-day operations of the Company. The Committee ensures agility in the management of the Company and in strategic decision-making, as well as compliance with the Company's governance policies, during the intervening period between Board meetings.

For a full discussion on the Company's corporate governance initiatives, please refer to the 2019 IACGR and Integrated Annual Report, which will be available at www.aboitiz.com.

Disclosure and Transparency

Pursuant to its commitment to transparency and accountability, AEV's website, www.aboitiz.com has its own dedicated corporate governance webpage which serves as a resource center and library for its stakeholders. The Company also submitted an Integrated Annual Corporate Governance Report (IACGR) to the SEC the PSE. A copy of the Company's 2019 IACGR will be available for download at the Company's website www.aboitiz.com

SUSTAINABILITY AND ENVIRONMENT, SOCIAL, AND GOVERNANCE PRACTICES

Sustainable business practices have enabled the Aboitiz Group to operate commercially for 100 years. A key component of AboitizPower's environment, social, and governance ("ESG") strategy is to find a balance between business expansion with sustainability initiatives. It looks at a triple-bottom line to measure the impact of its activities not only on profit but also on people and the planet. In line with this, the Company continues to strengthen its commitment to ESG practices.

Indices and Ratings

FTSE International Limited and Frank Russell Company has independently assessed AboitizPower based on the FTSE4Good criteria. The Company satisfied the requirements to become a constituent of the FTSE4Good Index Series. The FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong ESG practices, and is used by a wide variety of market participants to create and assess responsible investment funds and other products.

In 2019, AboitizPower received an ESG Rating of "BB" from MSCI ESG Research LLC, an ESG-ratings company. The MSCI ESG Ratings ranks global public and private companies on a scale of "AAA" (leader) to "CCC" (laggard), based on exposure to industry-specific ESG risks and the ability to manage such risks in relation to its peers. ESG Rating companies should have an MSCI ESG Rating of "BB" or above.

AboitizPower is also ESG-rated by RobecoSAM, Sustainalytics, and CDP.

Focus Areas

AboitizPower's goal is to grow profitably, while partnering with its stakeholders to create shared value, and minimizing its environmental impact. The Company conducts a report in compliance with the sustainability reporting initiatives of its parent company, AEV.

The Company's focus areas on its ESG reports are team member engagement, talent development, Occupational Health and Safety (OHS), diversity and inclusion, Corporate Social Responsibility (CSR), customer focus, disaster resilience, carbon emissions reduction, resource efficiency, renewable energy, waste management, biodiversity and conservation, financial growth, financial returns, and ISO certification.

Currently, AboitizPower is in compliant with the sustainability reporting initiatives of its parent company. Its report has been prepared in accordance with GRI Standards: Core Option, and its key performance indicators are aligned with the United Nations' 17 Sustainable Development Goals (UN SDG).

United Nations Sustainable Development Goals

The Aboitiz Group is one of the first Philippine businesses to support the UN SDG. AboitizPower, has, or expects to have, direct, significant, and profitable contributions to UN SDG or Affordable and Clean Energy, through its total net sellable capacity of 1,316 MW as of 31 March 2020.

AboitizPower submits its sustainability report through the consolidated report that its parent company, AEV, publishes annually. AEV began publishing its first sustainability report in 2009, being one of the few Philippine publicly-listed companies to publish and submit a report on its sustainability impacts and performances to the SEC.

Sustainable Finance

In February 2016, Asian Development Bank ("ADB") provided a credit enhancement to its Subsidiary, APRI, for its Tiwi-MakBan geothermal energy facilities. The issuance by APRI of the ₱10.7 bn (U.S.$225 million) local currency bond was in addition to a direct loan from ADB of ₱1.8 bn (U.S.$37.7 million). ADB's credit enhancement was in the form of a guarantee of 75% of the principal and interest on the bond. The Climate Bond, which was certified by the Climate Bonds Initiative, was the first issuance of its kind in Asia.

Corporate Social Responsibility

AboitizPower and its Business Units contribute to social development programs in education, enterprise development, and environment implemented by the Aboitiz Group through its social development arm, Aboitiz Foundation. These CSR program projects are also aligned with the Aboitiz Group's core competencies and are made scalable nationwide in order to deliver long-term benefits to targeted communities and beneficiaries. In 2019, Aboitiz Foundation spent ₱382 mn on projects that impacted 747,582 beneficiaries, including over ₱164 mn on education, over ₱85 mn on environmental projects, over ₱52 mn on enterprise development and over ₱81 mn on other projects.

Beyond Compliance

The Aboitiz Group's brand promise of advancing business and communities extends beyond compliance to government laws and regulations. The Aboitiz Group is committed to stakeholder-focused environmental management projects like the A-Park nationwide reforestation partnership with the Department of Environment and Natural Resources (DENR), Philippine Business for Social Progress (PBSP), and RAFI; the Race to Reduce (R2R) resource efficiency initiative with the National Youth Commission, Globe Telecoms, and the active participation of Aboitiz team members (employees); the Aboitiz Cleanergy Park with DENR and local government in Davao City; and the Cleanergy Center in Laguna.

On resource efficiency, the Company continuously monitors its consumption of power, water, and paper together with its Business Units. To bring the resource efficiency mindset to the Team Members, the Company ran its

version of the No Impact Project global initiative titled Aboitiz No Impact Challenge, which displaced a total of 205 mn grams of carbon equivalent by voluntarily participating in simple lifestyle choices that promote wellness while reducing carbon footprint.

In 2018, AEV launched the Wealth Out of Waste Framework. The developed waste management framework aims to increase efficiency, engagement and revenue. The framework allows us to identify gaps and consolidate our existing efforts in a single direction, thus maximizing our positive impact both internally and externally.

On Biodiversity programs, the Aboitiz Cleanergy Park known as an urban-based biodiversity conservation site is now home to critically endangered Hawksbill Turtle (Eretmochelys imbricata), endemic and migratory birds and other marine species. Since the park's public launch in 2015, it has released 4,811 pawikan hatchlings. The Aboitiz Cleanergy Park is an eight-hectare ecological preserve located in Sitio Punta Dumalag, Matina Aplaya, Davao City.

Lastly, on Sustainability Education program, the Cleanergy Center located in the compound of the Tiwi-Makban geothermal power plant in Laguna and Batangas has welcomed more than 45,808 visitors who discovered how AboitizPower contributes to the Philippines' renewable energy program. Visitors, mostly students, government executives, and representatives of foreign institutions, enjoy interactive displays and learning materials devoted to sustainable ways of generating and consuming energy.

The 650-square meter Cleanergy Center is the first energy education facility of AboitizPower, which is focused on environmental awareness and renewable energy education through the use of audio-visual presentations, interactive displays, and a tour of a working geothermal power plant. Through AboitizPower, the Aboitiz Group aims to provide energy solutions that leave a lighter impact on Earth's climate and its limited resources.

EXECUTIVE COMPENSATION

Information as to the aggregate compensation paid or accrued to AboitizPower's Chief Executive Officer and other highly compensated executive officers, as well as other officers and directors during the last two completed fiscal years and the ensuing fiscal year, is as follows:

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

* The most highly compensated officers in 2018 were Messrs. Erramon I. Aboitiz, Antonio Moraza (retired on 31 August 2018), Juan Antonio E. Bernad (retired on 31 December 2018), Emmanuel V. Rubio, Jaime Jose Y. Aboitiz, and Christopher B. Sangster (separated on 05 November 2019).
** *Mr. Luis Miguel O. Aboitiz retired on 30 April 2020.*

The 2014 Amended By-Laws of the Company, as approved by SEC on 16 May 2014, defined corporate officers as follows: Chairman of the Board, the Vice Chairman, the Chief Executive Officers, President, Chief Operating Officer(s), the Treasurer, the Corporate Secretary, the Assistant Corporate Secretary and such other officers as may be appointed by the Board of Directors. For the year 2020, the Company's Summary of Compensation covers the compensation of officers as reported under Item 5 (a) (1) of the Information Statement.

Except for the regular Company retirement plan, which by its very nature will be received by the officers concerned only upon retirement from the Company, the above-mentioned officers do not receive any other compensation in the form of warrants, options, and/or profit-sharing.

There is no compensatory plan or arrangement between the Company and any executive in case of resignation or any other termination of employment or from a change-in-control of the Company.

COMPENSATION OF DIRECTORS

Standard Arrangements

Following the 22 April 2019 ASM, the directors receive a monthly allowance of ₱150,000.00, while the Chairman of the Board receives a monthly allowance of ₱200,000.00. In addition, each director/members and the Chairmen of the Board and the Board Committees receive a per diem for every Board or Board Committee meeting attended as follows:

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

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

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

Name of Director	Total Compensation Received as a Director[24]
MIKEL A. ABOITIZ[25] *Chairman of the Board of the Board*	₱4,520,000.00
ENRIQUE M. ABOITIZ[26] *Vice Chairman of the Board of the Board*	₱2,950,000.00
ERRAMON I. ABOITIZ[27] *President and Chief Executive Officer*	₱2,620,000.00
LUIS MIGUEL O. ABOITIZ[28] *Director* *Executive Vice President – Chief Strategy Officer*	₱2,330,000.00
JAIME JOSE Y. ABOITIZ *Director* *Executive Vice President and Chief Operating Officer – Power Distribution Group*	₱2,710,000.00
DANEL C. ABOITIZ[29] *Director*	₱1,830,000.00
ROMEO L. BERNARDO *Lead Independent Director*	₱4,100,000.00
CARLOS C. EJERCITO *Independent Director*	₱4,140,000.00
ERIC RAMON O. RECTO *Independent Director*	₱3,820,000.00

[24] Consisting of the monthly allowance and per diem. Per diem is based on the directors' attendance in the Board and Board Committee meetings, and their Committee memberships for the period 01 January to 31 December 2019.

[25] Mr. Mikel A. Aboitiz was Chairman of the Board until 31 December 2019. He was appointed Vice Chairman on 01 January 2020. He became a member of the Board Governance Committee on 11 December 2019 only. He was a member of the Board Audit Committee and Board Risk and Reputation Management Committees until 31 December 2019.

[26] Mr. Enrique M. Aboitiz was Vice Chairman of the Board until 31 December 2019. Effective 01 January 2020, he is Director of AboitizPower. He was a member of the Board Audit Committee until 31 December 2019.

[27] Mr. Erramon I. Aboitiz was President and Chief Executive Officer of AboitizPower, until his appointment as Chairman of the Board on 01 January 2020. He was Chairman of the Board Executive Committee until 31 December 2019, until his replacement by Mr. Emmanuel V. Rubio. Mr. Aboitiz currently sits as member of the Board Executive Committee and Board

[28] Mr. Luis Miguel O. Aboitiz was Director of AboitizPower and Member of the Executive Committee until 31 December 2019, until his replacement by Mr. Emmanuel V. Rubio on 01 January 2020. He held the position of Executive Vice President-Chief Strategy Officer of AboitizPower until his retirement effective on 30 April 2020, and is no longer a director or Board Committee member of the Company.

[29] Mr. Danel C. Aboitiz was appointed as a Member of the Board Audit Committee, effective 28 January 2020. He was also appointed Senior Vice President – Government Relations and Regulatory Affairs beginning 01 January 2020.

Other Arrangements

Other than payment of the directors' per diem and monthly allowance as stated, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There is no compensatory plan or arrangement between AboitizPower and any executive officer in case of resignation or any other termination of employment or from a change in the management or control of AboitizPower.

Warrants and Options Outstanding

To date, AboitizPower has not granted any stock options to its directors or officers.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of 31 March 2020

Title of Class of Shares	Name and Address of Record Owner, and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held and Nature of Ownership (Record and/or Beneficial)	Percentage of Ownership
Common	**1. Aboitiz Equity Ventures Inc. (AEV)**[30] Street, Bonifacio Global City, Taguig City holder)	Aboitiz Equity Ventures Inc.[31]	Filipino	5,657,530,774 (Record and Beneficial)	76.88%
Common	**2. PCD Nominee Corporation (Filipino)**[32] Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue, corner Paseo de Roxas, Makati City, 1226 Metro Manila holder)	PCD participants acting for themselves or for their customers[33]	Filipino	1,028,832,249 (Record)	13.98%
Common	**3. PCD Nominee Corporation (Foreign)**[34] 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue, corner Paseo de Roxas, Makati City, 1226 Metro Manila (Stockholder)	PCD participants acting for themselves or for their customers[35]	Non-Filipino	389,177,197 (Record)	5.29%

As of 31 March 2020, the following entities own five per centum (5%) or more of AEV:

Title of Class of Shares	Name and Address of Stockholder and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares and Nature of Ownership (Record and/ or Beneficial)	Percentage of Ownership
Common	**1. Aboitiz & Company, Inc.** Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City (Stockholder)	Aboitiz & Company, Inc.	Filipino	2,735,600,915 (Record and Beneficial)	48.59%
Common	**2. PCD Nominee Corporation (Filipino)** 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue, corner Paseo	PCD participants acting for themselves or for their customers	Filipino	899,514,597 (Record)	15.98%

[30] AEV is the parent company of AboitizPower.

[31] Mr. Sabin M. Aboitiz, President and Chief Executive Officer of AEV, will vote the shares of AEV in AboitizPower in accordance with the directive of the AEV Board of Directors.

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

[33] Each beneficial owner of shares, through a PCD participant, is the beneficial owner of such number of shares he owns in his account with the PCD participant. AboitizPower has no record relating to the power to decide how the shares held by PCD are to be voted. As advised to the Company, none of the beneficial owners under a PCD participant owns more than 5% of the Company's common shares.

[34] *Supra* note 3.

[35] *Supra* note 4.

Title of Class of Shares	Name and Address of Stockholder and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares and Nature of Ownership (Record and/ or Beneficial)	Percentage of Ownership
	de Roxas, Makati City, 1226 Metro Manila (Stockholder)				
Common	**3. Ramon Aboitiz Foundation, Inc.** 35 Lopez Jaena St., Cebu City (Stockholder)	Ramon Aboitiz Foundation, Inc.	Filipino	426,804,093 (Record and Beneficial)	7.58%
Common	**4. PCD Nominee Corporation (Foreign)** 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue, corner Paseo de Roxas, Makati City, 1226 Metro Manila (Stockholder)	PCD participants acting for themselves or for their customers	Non-Filipino	413,033,108 (Record)	7.34%

Security Ownership of Management as of 31 March 2020 (Record and Beneficial)

Title of Class of Shares	Name of Owner and Position	No. of Shares and Nature of Ownership (Direct and/or Indirect)		Citizenship	Percentage of Ownership
Common	**Erramon I. Aboitiz** Chairman of the Board	1,300,001	Direct	Filipino	0.02%
		85,527,514	Indirect		1.16%
Common	**Mikel A. Aboitiz** Vice Chairman of the Board	1	Direct	Filipino	0.00%
		23,844,159	Indirect		0.32%
Common	**Enrique M. Aboitiz** Director	1,138,658	Direct	Filipino	0.02%
		0	Indirect		0.00%
Common	**Emmanuel V. Rubio** Director/President and Chief Executive Officer	89,130	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Jaime Jose Y. Aboitiz** Director/Executive Vice President – Chief Operating Officer	5,367,397	Direct	Filipino	0.07%
		4,719,302	Indirect		0.06%
Common	**Danel C. Aboitiz** Director/Senior Vice President – Government Relations and Regulatory Affairs	4,081,636	Direct	Filipino	0.06%
		458,760	Indirect		0.01%
Common	**Romeo L. Bernardo** Lead Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Carlos C. Ejercito** Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Eric Ramon O. Recto** Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Alexander B. Coo** Chief Operating Officer – Renewable Power Generation Group	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Luis Miguel O. Aboitiz** Executive Vice President – Chief Strategy Officer	11,167,081	Direct	Filipino	0.15%
		3,437,362	Indirect		0.04%

Title of Class of Shares	Name of Owner and Position	No. of Shares and Nature of Ownership (Direct and/or Indirect)		Citizenship	Percentage of Ownership
Common	**Anton Mari G. Perdices** Senior Vice President and Chief Operating Officer – Power Distribution Group	1,787,364	Direct	Filipino	0.02%
		103,899	Indirect		0.00%
Common	**Veronica C. So** Group Treasurer	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Liza Luv T. Montelibano** Senior Vice President/Chief Financial Officer/Corporate Information Officer	500	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Robert McGregor** Executive Director – Chief Investment Officer	0	Direct	British	0.00%
		5,000	Indirect		0.00%
Common	**Joseph Trillana T. Gonzales** First Vice President - General Counsel and Compliance Officer	62,527	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Manuel Alberto R. Colayco** Corporate Secretary	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Mailene M. de la Torre** Assistant Corporate Secretary	0	Direct	Filipino	0.00%
		5,000	Indirect		0.00%
Common	**Sammy Dave A. Santos** Assistant Corporate Secretary	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Marnie F. Mañalac** Data Privacy Officer and Vice President for Risk and Organizational Performance Management	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	**Saturnino E. Nicanor, Jr** Group Internal Audit Head	26,896	Direct	Filipino	0.00%
		0	Indirect		0.00%
	TOTAL	**143,193,887**			**1.95%**

Voting Trust Holders of Five Per Centum (5%) or More of Common Equity

No person holds under a voting trust or similar agreement more than five per centum (5%) of AboitizPower's common equity.

Changes in Control

There are no arrangements that may result in a change in control of AboitizPower during the period covered by this report.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

AboitizPower and its Subsidiaries (the "Group"), in their regular conduct of business, have entered into related party transactions consisting of professional fees, advances, various guarantees, construction contracts, and rental fees. These are made on an arm's length basis as of the time of the transactions.

AboitizPower ("Parent") has provided support services to its Business Units, such as marketing, trading, billing and other technical services, necessary for the effective and efficient management and operations among and between the Subsidiaries and Associates.

The Group has existing Service Level Agreements (SLAs) with its parent company, AEV, for corporate center services, such as human resources, internal audit, legal, information technology, treasury and corporate finance, among others. These services are obtained from AEV to enable the Group to realize cost synergies and optimize expertise at the corporate center. AEV maintains a pool of highly qualified professionals with business expertise specific to the businesses of the Group. Transaction costs are always benchmarked on third party rates to ensure competitive pricing and consistency with prevailing industry standards. SLAs are in place to ensure quality of service.

Material and significant related party transactions are reviewed and approved by the Related Party Transactions Committee of the Board.

No other transactions, without proper disclosure, were undertaken by the Company in which any director or executive officer, any nominee for election as director, any beneficial owner (direct or indirect) or any member of his immediate family was involved or had a direct or indirect material interest.

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

For detailed discussion on related party transactions, please refer to Note 32 or page 98 of the Consolidated Financial Statements.

DESCRIPTION OF DEBT

As of the date of this Prospectus, AboitizPower has the following outstanding indebtedness:

AboitizPower ₱ 10 Billion Fixed Rate Bonds due 2021 and 2026

On 10 September 2014, AboitizPower issued fixed-rate bonds (the "2014 Bonds") in two series: (a) Series A 2013 Bonds, with a term of seven (7) years from issue date and in the aggregate amount of ₱6,600,000,000.00, and (b) Series B Bonds, with a term of twelve (12) years from issue date in the aggregate amount of ₱3,400,000,000.00. The Series A 2014 Bonds had an optional redemption on the fifth (5th) year and one (1) quarter from issue date, and on the sixth (6th) year from issue date. On the other hand, the Series B 2014 Bonds had an optional redemption on the seventh (7th) year from issue date, the eighth (8th) year from issue date, the ninth (9th) year from issue date, the tenth (10th) year from issue date, and the eleventh (11th) year from issue date. BPI Capital Corporation ("BPI Capital") acted as the Issue Manager and Lead Underwriter while Bank of the Philippine Islands – Asset Management Group was appointed as Trustee.

The 2014 Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of AboitizPower and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by AboitizPower pursuant to Section 5.2 (a) of the Trust Agreement for the 2014 Bonds or as may be allowed therein, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of the relevant issue date.

Transfers of the 2014 Bonds shall be coursed through the Philippine Depository & Trust Corporation ("PDTC") as Registrar. Transfer and/or settlement of the 2014 Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and Registrar.

AboitizPower is subject to the following negative covenants, among others:

1. Encumbrances - AboitizPower shall not permit any Indebtedness to be secured by or to benefit from any Lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Issuer or the right of the Issuer to receive income; *Provided*, however that this shall not prohibit the following:

    a. any Lien over any asset to secure: (i) payment of the purchase price or cost of leasehold rights of such asset; or (ii) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (iii) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;

    b. Liens or charges for current taxes, assessments, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings, and adequate reserves have been provided for payment thereof;

    c. any Lien constituted over the investment of the Issuer in any of its affiliates, for any obligation or credit facility incurred for the purpose of pursuing any power generation, distribution, or retailing project or investment therein, whether such power generation, distribution, or retailing project is undertaken by the Issuer itself, by its affiliates, and/or by the Issuer or its affiliates with third parties;

    d. any Lien to secure, in the normal course of the business of the Issuer or its affiliates: (x) statutory or regulatory obligations; or (y) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;

e. any Lien to secure, in relation to a pending judicial, administrative, or arbitral proceeding, the Issuer or its affiliates' (x) surety or appeal bonds; or (y) bonds for release of attachment, stay of execution or injunction;

f. any Lien constituted for the purpose of guaranteeing an affiliate's obligation in connection with any contract or agreement that has been assigned to such affiliate by the Issuer;

g. any Lien constituted for the purpose of guaranteeing an obligation in connection with any contract or agreement of sale of any asset by the Issuer, provided that the Lien is removed or discharged within twelve (12) months of the date of the sale of the asset;

h. any Lien created over (i) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency other than Philippine Pesos ("foreign currency"); or (ii) financial instruments denominated in foreign currency owned by the Issuer, in each case solely for the purposes of raising an equivalent amount of Peso denominated indebtedness

i. any Lien created over or affecting any asset acquired by any affiliate after the date of the Trust Agreement, if:

j. the Lien was not created in contemplation of the acquisition of that asset by such affiliate;

k. the principal amount secured has not been increased in contemplation of, or since the acquisition of that asset by such affiliate; and

l. the Lien is removed or discharged within twelve (12) months of the date of the acquisition of such asset;

m. any Lien on the properties and assets of the Issuer: (i) imposed by Law, such as carriers' Liens, warehousemen's Liens, mechanics' Liens, unpaid vendors' Liens, and other similar Liens arising in the ordinary course of business; (ii) arising out of pledges or deposits under workmen's compensation Laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation, or retirement benefit plans of the Issuer; or (iii) arising out of the set-off provision on other agreements of the Issuer relating to Indebtedness;

n. any Lien in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations of other juridical entities which secure a preferential financing obtained by the Issuer under a governmental program and the aggregate principal amount of such preferential financing does not exceed Thirty-Five percent (35%) of the Issuer's total assets;

o. any Lien over its cash deposits, short-term cash investments, and marketable investment securities in favor of banks and other financial institutions, which secure (i) any borrowed money in connection with a Treasury Transaction in the ordinary course of business of Issuer, provided that the aggregate amount of security does not at any time exceed United States Dollars: Ten Million (US$10,000,000.00) or its equivalent; and/or (ii) standby letters of credit to be used to guarantee additional equity infusions by the Issuer in its Subsidiaries or Affiliates and/or used in the ordinary course of business of Issuer, its Subsidiaries and/or Affiliates;

p. other Liens: (i) created solely by operation of law; and (ii) on such other assets, whether constituted before or after the Issue Date, as may be disclosed in writing by the Issuer to the Trustee on or before the execution of this Agreement; and

q. any Lien constituted over the investment of the Issuer in any of its affiliate, and whether such investment is in the form of shares, deposits or advances to guarantee or secure the obligations of the said affiliates;

Provided that for purposes of "affiliate" as used in Section 5.2 (a) (c), (d), (e), (h), and (m) above, it shall refer to any Person in which the Issuer has investment, whether direct or indirect.

2. Declaration and Payment of Cash Dividends/Issuance of Share. AboitizPower shall not declare or pay any dividends to its stockholders (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the 2014 Bonds are current and updated; and

3. Maintenance of Financial Ratios. AboitizPower shall not permit its Net Debt to Consolidated Equity Ratio to exceed 3:1 calculated based on the AboitizPower's year-end audited financial statements. As of 31 December 2017, the Net Debt to Consolidated Equity Ratio of AboitizPower is 0.04 and is compliant with the covenant under the 2014 Bonds.

AboitizPower ₱ 3 Billion Fixed Rate Bonds due 2027

On 3 July 2017, AboitizPower issued fixed-rate bonds (the "2017 Bonds"), with a term of ten (10) years from issue date and in the aggregate amount of ₱3,000,000,000.00. The 2017 Bonds had an optional redemption on the seventh (7th) year, eighth (8th), and ninth (9th) year from issue date. BPI Capital Corporation ("BPI Capital") acted as the Sole Issue Manager and Sole Underwriter while Bank of the Philippine Islands – Asset Management Group was appointed as Trustee.

The 2017 Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of AboitizPower and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by AboitizPower pursuant to Section 5.2 (a) of the Trust Agreement for the 2017 Bonds or as may be allowed therein, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of the relevant issue date.

Transfers of the 2017 Bonds shall be coursed through the Philippine Depository & Trust Corporation ("PDTC") as Registrar. Transfer and/or settlement of the 2017 Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and Registrar.

AboitizPower is subject to the following negative covenants, among others:

1. Encumbrances - AboitizPower shall not permit any Indebtedness to be secured by or to benefit from any Lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Issuer or the right of the Issuer to receive income; *Provided*, however that this shall not prohibit the following:

    a. any Lien over any asset to secure: (x) payment of the purchase price or cost of leasehold rights of such asset; or (y) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (z) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;

    b. Liens or charges for current taxes, assessments, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings, and adequate reserves have been provided for payment thereof;

    c. any Lien to secure, in the normal course of the business of the Issuer or its affiliates: (x) statutory or regulatory obligations; or (y) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;

    d. any Lien to secure, in relation to a pending judicial, administrative, or arbitral proceeding, the Issuer or its affiliates' (x) surety or appeal bonds; or (y) bonds for release of attachment, stay of execution or injunction;

e. any Lien constituted for the purpose of guaranteeing an affiliate's obligation in connection with any contract or agreement that has been assigned to such affiliate by the Issuer;

f. any Lien constituted for the purpose of guaranteeing an obligation in connection with any contract or agreement of sale of any asset by the Issuer, provided that the Lien is removed or discharged within twelve (12) months of the date of the sale of the asset;

g. any Lien created over (x) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency other than Philippine Pesos ("foreign currency"); or (y) financial instruments denominated in foreign currency owned by the Issuer, in each case solely for the purposes of raising an equivalent amount of Peso denominated indebtedness;

h. any Lien on the properties and assets of the Issuer: (x) imposed by Applicable Law, such as carriers' Liens, warehousemen's Liens, mechanics' Liens, unpaid vendors' Liens, and other similar Liens arising in the ordinary course of business; (y) arising out of pledges or deposits under workmen's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation, or retirement benefit plans of the Issuer; or (z) arising out of the set-off provision on other agreements of the Issuer relating to Indebtedness;

i. any Lien in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations of other juridical entities which secure a preferential financing obtained by the Issuer under a governmental program and the aggregate principal amount of such preferential financing does not exceed Thirty-Five percent (35%) of the Issuer's total assets;

j. any Lien over its cash deposits, short-term cash investments, and marketable investment securities in favor of banks and other financial institutions, which secure (i) any borrowed money in connection with a Treasury Transaction in the ordinary course of business of Issuer, provided that the aggregate amount of security does not at any time exceed United States Dollars: Forty Million (US$40,000,000.00) or its equivalent; and/or (ii) standby letters of credit to be used to guarantee additional equity infusions by the Issuer in its Subsidiaries or Affiliates and/or used in the ordinary course of business of Issuer, its Subsidiaries and/or Affiliates;

k. other Liens: (x) created solely by operation of law; and (y) on such other assets, whether constituted before or after the Issue Date, as may be disclosed in writing by the Issuer to the Trustee on or before the execution of this Agreement; and

l. any Lien constituted over the investment of the Issuer in any of its affiliate, and whether such investment is in the form of shares, deposits or advances to guarantee or secure the obligations of the said affiliates;

Provided that for purposes of "affiliate" as used in Section 5.2a (iii), (iv), (v), and (xii) of this Agreement, it shall refer to any Person in which the Issuer has investment, whether direct or indirect, in.

2. Declaration and Payment of Cash Dividends/Issuance of Share. AboitizPower shall not declare or pay any dividends to its stockholders (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the 2017 Bonds are current and updated; and

3. Maintenance of Financial Ratios. Under the 2017 Bonds, AboitizPower is not required to maintain any financial ratios. However, the Issuer shall not incur any loan obligation with a maturity of more than one (1) year, if on the Transaction Date, after giving effect to the incurrence of such loan obligation and any other such cumulative obligations, but not giving any effect to the receipt or application of proceeds therefrom,

the Net Debt to Consolidated Equity Ratio, as at the last day of the Relevant Period immediately preceding the Transaction Date (and giving effect to the incurrence of such loan obligation and any other such cumulative obligations), will exceed 3:1. In compliance with this, the Net Debt to Consolidated Equity Ratio of AboitizPower, after giving effect to the Second Tranche Bonds, is 0.14 and is compliant with the covenant under the 2017 Bonds.

AboitizPower ₱ 10.2 Billion Fixed Rate Bonds due 2024 and 2028

On October 12, 2018, AboitizPower issued fixed-rate bonds (the "2018 Bonds"), Series B and Series C bonds, with an aggregate amount of ₱10 bn and an oversubscription option ₱5 bn of which ₱0.2 bn was exercised. The Series B bonds have an interest rate of 7.5095% per annum, and will mature in 2024, while the Series C bonds have an interest rate of 8.5091% per annum, and will mature in 2028. Interest is payable quarterly in arrears on January 25, April 25, July 25, and October 25 of each year, or the subsequent banking day without adjustment if such interest payment date is not a banking day.

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

The 2018 Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of AboitizPower and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by AboitizPower pursuant to Section 5.2 (a) of the Trust Agreement for the 2018 Bonds or as may be allowed therein, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of the relevant issue date.

Transfers of the 2018 Bonds shall be coursed through the Philippine Depository & Trust Corporation ("PDTC") as Registrar. Transfer and/or settlement of the 2018 Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and Registrar.

AboitizPower is subject to the following negative covenants, among others:

1. Encumbrances - AboitizPower shall not permit any Indebtedness to be secured by or to benefit from any Lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Issuer or the right of the Issuer to receive income; *Provided*, however that this shall not prohibit the following:

    a. any Lien over any asset to secure: (x) payment of the purchase price or cost of leasehold rights of such asset; or (y) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (z) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;

    b. Liens or charges for current taxes, assessments, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings, and adequate reserves have been provided for payment thereof;

    c. any Lien to secure, in the normal course of the business of the Issuer or its affiliates: (x) statutory or regulatory obligations; or (y) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;

    d. any Lien to secure, in relation to a pending judicial, administrative, or arbitral proceeding, the Issuer or its affiliates' (x) surety or appeal bonds; or (y) bonds for release of attachment, stay of execution or injunction;

e. any Lien constituted for the purpose of guaranteeing an affiliate's obligation in connection with any contract or agreement that has been assigned to such affiliate by the Issuer;

f. any Lien constituted for the purpose of guaranteeing an obligation in connection with any contract or agreement of sale of any asset by the Issuer, provided that the Lien is removed or discharged within twelve (12) months of the date of the sale of the asset;

g. any Lien created over (x) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency other than Philippine Pesos ("foreign currency"); or (y) financial instruments denominated in foreign currency owned by the Issuer, in each case solely for the purposes of raising an equivalent amount of Peso denominated indebtedness;

h. any Lien on the properties and assets of the Issuer: (x) imposed by Applicable Law, such as carriers' Liens, warehousemen's Liens, mechanics' Liens, unpaid vendors' Liens, and other similar Liens arising in the ordinary course of business; (y) arising out of pledges or deposits under workmen's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation, or retirement benefit plans of the Issuer; or (z) arising out of the set-off provision on other agreements of the Issuer relating to Indebtedness;

i. any Lien in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations of other juridical entities which secure a preferential financing obtained by the Issuer under a governmental program and the aggregate principal amount of such preferential financing does not exceed Thirty-Five percent (35%) of the Issuer's total assets;

j. any Lien over its cash deposits, short-term cash investments, and marketable investment securities in favor of banks and other financial institutions, which secure (i) any borrowed money in connection with a Treasury Transaction in the ordinary course of business of Issuer, provided that the aggregate amount of security does not at any time exceed United States Dollars: Forty Million (US$40,000,000.00) or its equivalent; and/or (ii) standby letters of credit to be used to guarantee additional equity infusions by the Issuer in its Subsidiaries or Affiliates and/or used in the ordinary course of business of Issuer, its Subsidiaries and/or Affiliates;

k. other Liens: (x) created solely by operation of law; and (y) on such other assets, whether constituted before or after the Issue Date, as may be disclosed in writing by the Issuer to the Trustee on or before the execution of this Agreement; and

l. any Lien constituted over the investment of the Issuer in any of its affiliate, and whether such investment is in the form of shares, deposits or advances to guarantee or secure the obligations of the said affiliates;

Provided that for purposes of "affiliate" as used in Section 5.2aiiiiii), (iv), (v), and (xii) of this Agreement, it shall refer to any Person in which the Issuer has investment, whether direct or indirect, in.

2. Declaration and Payment of Cash Dividends/Issuance of Share. AboitizPower shall not declare or pay any dividends to its stockholders (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the 2018 Bonds are current and updated; and

3. Maintenance of Financial Ratios. Under the 2018 Bonds, AboitizPower is not required to maintain any financial ratios. However, the Issuer shall not incur any loan obligation with a maturity of more than one (1) year, if on the Transaction Date, after giving effect to the incurrence of such loan obligation and any other such cumulative obligations, but not giving any effect to the receipt or application of proceeds therefrom,

the Net Debt to Consolidated Equity Ratio, as at the last day of the Relevant Period immediately preceding the Transaction Date (and giving effect to the incurrence of such loan obligation and any other such cumulative obligations), will exceed 3:1. In compliance with this, the Net Debt to Consolidated Equity Ratio of AboitizPower, after giving effect to the Second Tranche Bonds, is 0.14 and is compliant with the covenant under the 2018 Bonds.

AboitizPower ₱ 7.25 Billion Fixed Rate Bonds due 2026

On 14 October 2019, AboitizPower issued fixed-rate bonds (the "2019 Bonds"), Series D bonds, with a principal amount of ₱7 bn and an oversubscription option ₱5 bn, of which ₱250 mn was exercised. The Series D bonds have an interest rate of 5.2757% per annum, and will mature in 2026. Interest is payable quarterly in arrears on January 14, April 14, July 14, and October 14 of each year, or the subsequent banking day without adjustment if such interest payment date is not a banking day.

AboitizPower appointed BDO Capital & Investment Corporation as and First Metro Investment Corporation as Joint Issue Managers; BDO Capital & Investment Corporation, First Metro Investment Corporation, China Bank Capital Corporation, PNB Capital and Investment Corporation, and SB Capital Investment Corporation as Joint Lead Underwriters; BDO Unibank, Inc. - Trust & Investments Group as Trustee, and PDTC as the Registry and Paying Agent for the transaction. The Series "D" bonds received the highest possible rating of PRS "Aaa" from PhilRatings and is listed with PDEx.

The 2019 Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of AboitizPower and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by AboitizPower pursuant to Section 5.2 (a) of the Trust Agreement for the 2019 Bonds or as may be allowed therein, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of the relevant issue date.

Transfers of the 2019 Bonds shall be coursed through the Philippine Depository & Trust Corporation ("PDTC") as Registrar. Transfer and/or settlement of the 2019 Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and Registrar.

AboitizPower is subject to the following negative covenants, among others:

1. Encumbrances - AboitizPower shall not permit any Indebtedness to be secured by or to benefit from any Lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Issuer or the right of the Issuer to receive income; *Provided*, however that this shall not prohibit the following:

    a. any Lien over any asset to secure: (x) payment of the purchase price or cost of leasehold rights of such asset; or (y) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (z) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;

    b. Liens or charges for current taxes, assessments, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings, and adequate reserves have been provided for payment thereof;

    c. any Lien to secure, in the normal course of the business of the Issuer or its affiliates: (x) statutory or regulatory obligations; or (y) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;

d. any Lien to secure, in relation to a pending judicial, administrative, or arbitral proceeding, the Issuer or its affiliates' (x) surety or appeal bonds; or (y) bonds for release of attachment, stay of execution or injunction;

e. any Lien constituted for the purpose of guaranteeing an affiliate's obligation in connection with any contract or agreement that has been assigned to such affiliate by the Issuer;

f. any Lien constituted for the purpose of guaranteeing an obligation in connection with any contract or agreement of sale of any asset by the Issuer, provided that the Lien is removed or discharged within twelve (12) months of the date of the sale of the asset;

g. any Lien created over (x) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency other than Philippine Pesos ("foreign currency"); or (y) financial instruments denominated in foreign currency owned by the Issuer, in each case solely for the purposes of raising an equivalent amount of Peso denominated indebtedness;

h. any Lien on the properties and assets of the Issuer: (x) imposed by Applicable Law, such as carriers' Liens, warehousemen's Liens, mechanics' Liens, unpaid vendors' Liens, and other similar Liens arising in the ordinary course of business; (y) arising out of pledges or deposits under workmen's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation, or retirement benefit plans of the Issuer; or (z) arising out of the set-off provision on other agreements of the Issuer relating to Indebtedness;

i. any Lien in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations of other juridical entities which secure a preferential financing obtained by the Issuer under a governmental program and the aggregate principal amount of such preferential financing does not exceed Thirty-Five percent (35%) of the Issuer's total assets;

j. any Lien over its cash deposits, short-term cash investments, and marketable investment securities in favor of banks and other financial institutions, which secure (i) any borrowed money in connection with a Treasury Transaction in the ordinary course of business of Issuer, provided that the aggregate amount of security does not at any time exceed United States Dollars: Forty Million (US$40,000,000.00) or its equivalent; and/or (ii) standby letters of credit to be used to guarantee additional equity infusions by the Issuer in its Subsidiaries or Affiliates and/or used in the ordinary course of business of Issuer, its Subsidiaries and/or Affiliates;

k. other Liens: (x) created solely by operation of law; and (y) on such other assets, whether constituted before or after the Issue Date, as may be disclosed in writing by the Issuer to the Trustee on or before the execution of this Agreement; and

l. any Lien constituted over the investment of the Issuer in any of its affiliate, and whether such investment is in the form of shares, deposits or advances to guarantee or secure the obligations of the said affiliates;

Provided that for purposes of "affiliate" as used in Section 5.2aiiiiii), (iv), (v), and (xii) of this Agreement, it shall refer to any Person in which the Issuer has investment, whether direct or indirect, in.

2. Declaration and Payment of Cash Dividends/Issuance of Share. AboitizPower shall not declare or pay any dividends to its stockholders (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the 2018 Bonds are current and updated; and

3. Maintenance of Financial Ratios. Under the 2019 Bonds, AboitizPower is not required to maintain any financial ratios. However, the Issuer shall not incur any loan obligation with a maturity of more than one (1) year, if on the Transaction Date, after giving effect to the incurrence of such loan obligation and any other such cumulative obligations, but not giving any effect to the receipt or application of proceeds therefrom, the Net Debt to Consolidated Equity Ratio, as at the last day of the Relevant Period immediately preceding the Transaction Date (and giving effect to the incurrence of such loan obligation and any other such cumulative obligations), will exceed 3:1.

INDEPENDENT AUDITORS AND COUNSEL

LEGAL MATTERS

All legal opinions/matters in connection with the issuance of the Fourth Tranche Bonds will be passed upon by the Legal Management Services of Aboitiz Equity Ventures Inc., the parent company of the Company, for the Company and Picazo Buyco Tan Fider & Santos ("Picazo"), for the Joint Issue Managers and Joint Lead Underwriters. Picazo has no direct interest in the Company.

Picazo may from time to time be engaged to advise in the transactions of the Company and perform legal services on the basis that Picazo provides such services to its other clients.

INDEPENDENT AUDITORS

The consolidated financial statements of the Company as at 31 December 2019 and 2018 and for each of the three years in the period ended 31 December 2019 have been audited by SyCip Gorres Velayo & Co., a member firm of Ernst & Young, independent auditors, in accordance with Philippine Standards on Auditing as set forth in their report thereon appearing elsewhere in this Prospectus.

The partner-in-charge is Maria Veronica Andresa R. Pore.

EXTERNAL AUDIT FEES AND NON-AUDIT RELATED SERVICES

The following table sets out the aggregate fees billed for each of the last two (2) fiscal years for the professional services rendered by the Company's external auditors:

Fee Type	2019	2018
Audit Related		
Audit Fees	₱502,000.00	₱456,680.00
Audit Related Fees	50,000.00	45,668.00
Total	₱552,000.00	**502,348.00**
Non-Audit Related		
Financial and Tax Due Diligence Fees	4,000,000.00	4,465,779.00
Bond Related Fees	6,600,000.00	6,600,000.00
Total	10,600,000.00	**11,065,779.00**
Total Audit and Non-Audit Fees	**₱11,152,000.00**	**₱11,568,127.00**

SGV was engaged by the Company to audit its annual financial statements. In 2019, the Company also engaged SGV to conduct post reviews and other procedures for the purpose of issuing a comfort letter in connection with the issuance of the ₱12 bn Series D 2019 Bonds. The Company also engaged SGV to provide financial and tax due diligence in 2019 in relation to the Company's participation in biddings, acquisitions, and other projects.

As a policy, the Board Audit Committee makes recommendations to the Board of Directors concerning the choice of external auditor and pre-approves audit plans, scope, and frequency before the audit is conducted.

Audit services of SGV for 2019 and 2018 were pre-approved by the Board Audit Committee. The Board Audit Committee also reviewed the extent and nature of these services to ensure that the independence of the external auditors was preserved. SGV does not have any direct or indirect interest in the Company.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company has engaged the services of SGV during the two most recent fiscal years. There are no disagreements with SGV on accounting and financial disclosure.

BOARD AUDIT COMMITTEE

In giving effect to its duly approved charter, he Board Audit Committee of the Company provides assistance to the Board of Directors in fulfilling its oversight responsibility to the Company and its stakeholders by providing guidance relating to:

1. the adequacy and efficiency of the Company's system of internal controls, governance and risk management processes;
2. the quality and integrity of the Company's accounting, auditing, legal, ethical and regulatory compliances;
3. the annual independent audit of the Company's financial statements and the external auditors' qualifications and independence;
4. due observance of applicable laws and regulations that may have financial and other material exposure to the Company; and
5. providing an avenue of communication among the independent auditors, the management, the internal audit and the Company.

The chairperson of the Board Audit Committee is Mr. Carlos C. Ejercito. The members are Romeo L. Bernardo, Eric Ramon O. Recto, Danel C. Aboitiz and Erramon I. Aboitiz.

As part of this process, SyCip Gorres Velayo & Co. reports to the Board Audit Committee. The Board Auditing Committee is required to ensure that corporate accounting and reporting practices of the Company are in accordance with all legal requirements and are of the highest quality.

TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Fourth Tranche Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Fourth Tranche Bonds are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Fourth Tranche Bonds.

As used in this section, the term "non-resident alien" means an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non- resident alien engaged in trade or business in the Philippines"; however, a non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year may be considered a "non- resident alien not engaged in trade or business within the Philippines". A "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines.

TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and resident alien individuals from the Fourth Tranche Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Fourth Tranche Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Fourth Tranche Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Fourth Tranche Bonds is subject to a 30% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE

Bondholders who are exempt from or are not subject to final withholding tax on interest income or entitled to be taxed at a preferential rate may claim such exemption or avail of such preferential rate by submitting the necessary documents. Said Bondholder shall submit the following requirements:

1. Proof of Tax Exemption or Entitlement to Preferential Tax Rates

    ii. For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed "valid, current and subsisting" if it has not been more than 3 years since the date of issuance thereof, and has not been revoked, amended or modified;

iii. For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;

iv. For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax; and

v. For entities claiming tax treaty relief – (i) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief ("CORTT") Form prescribed under Revenue Memorandum Order No. 8-2017), and (ii) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)).

In addition, upon the request of the Issuer, the Bondholder shall submit an updated Part II (A), (B), (C) and (D) of the CORTT Form.

Only the originals should be submitted to the Issuer.

2. A duly notarized declaration (in the prescribed form) warranting that the Bondholder's tax-exemption certificate or ruling has not been revoked or cancelled and that there are no material changes in character, purpose or method of operation of the Bondholder which are inconsistent with the basis of its income tax exemption, or the warranting the Bondholder's entitlement to preferential treaty rates, and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities arising from the non-withholding or reduced withholding of the required tax; and

3. Such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

Failure to submit any of the documents provided under (1), (2) and (3) above, as may be applicable, will result in the application of the normal income tax rate provided under the Tax Code.

The foregoing notwithstanding, the Issuer, the Registrar and the Paying Agent shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar.

The foregoing requirements shall be submitted, (i) in respect of an initial issuance of Fourth Tranche Bonds, to the underwriters or selling agents who shall then forward the same with the Application to Purchase to the Registrar; or (ii) in respect of a transfer from a Bondholder to a purchaser, to the Registrar within three days from settlement date.

VALUE-ADDED TAX

Gross receipts arising from the sale of the Fourth Tranche Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less acquisition cost of the Fourth Tranche Bonds sold.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less: 5%
Maturity period is more than five years: 1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less: 5%
Maturity period is more than five years: 1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Fourth Tranche Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Fourth Tranche Bonds, at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

TAXATION ON SALE OR OTHER DISPOSITION OF THE FOURTH TRANCHE BONDS

Income Tax

Any gain realized from the sale, exchange or retirement of Fourth Tranche Bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to the regular rates of 32%, 25%, or 30%, as the case may be. If the Fourth Tranche Bonds are sold by a seller, who is an individual and who is not a dealer in securities, who has held the Fourth Tranche Bonds for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds with an original maturity date of more than five years (as measured from the date of issuance of such bonds) shall not be subject to income tax. As the Fourth Tranche Bonds have a maturity of 7 years, any gains realized by a holder on the trading of the Fourth Tranche Bonds shall be exempt from income tax. However, any gains realized by a holder through redemption of the Fourth Tranche Bonds prior to the lapse of 5 years may be subject to income tax. This is in view of the BIR's ruling that one of the conditions for the exemption is that the maturity period must be more than 5 years.

Moreover, any gain arising from such sale, regardless of the original maturity date of the bonds, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the BIR for the availment of tax treaty benefits.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Fourth Tranche Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at 6%. A Bondholder shall be subject to donor's tax of 6% computed on the basis of the total gifts in excess of P250,000.00 exempt gift.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor's tax, in respect of the Fourth Tranche Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Fourth Tranche Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Fourth Tranche Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the Fourth Tranche Bonds, trading the Fourth Tranche Bonds in a secondary market or through an exchange, provided that such sale or disposition does not constitute a renewal or extension of maturity of the Fourth Tranche Bonds or carried with it a renewal or issuance of new instruments in the name of the transferee to replace the old ones. However, if the transfer constitutes a renewal or extension of the maturity of the Fourth Tranche Bonds, documentary stamp tax is payable anew.

REGULATORY FRAMEWORK

The information in this section has been derived from various government and private publications or obtained from communications with various government agencies unless otherwise indicated and has not been prepared or independently verified by the Company or the Joint Issue Managers and Joint Lead Underwriters or any of their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the Philippines.

EPIRA

Since the enactment of the Electric Power Industry Reform Act ("**EPIRA**") in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Through the EPIRA, the Government began to institute major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

1. to ensure and accelerate the total electrification of the country;
2. to ensure the quality, reliability, security and affordability of the supply of electric power;
3. to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
4. to enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors;
5. to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
6. to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
7. to assure socially and environmentally compatible energy sources and infrastructure;
8. to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
9. to provide for an orderly and transparent privatization of the assets and liabilities of **NPC**;
10. to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and
11. to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the Department of Energy ("**DOE**"), in consultation with the relevant government agencies, electric power industry participants, non-government organizations, and electricity consumers, promulgated the law's Implementing Rules and Regulations ("**IRR**") outlining its policy on 27 February 2002.

The policy governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular governmental authorities involved in implementing the structural reforms in the industry, namely, the DOE, NPC, the National Electrification Administration ("**NEA**"), Energy Regulatory Commission ("**ERC**") and Power Sector Assets and Liabilities Management Corporation ("**PSALM**").

Reorganization of the Electric Power Industry

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (1) the generation sector; (2) the transmission sector; (3) the distribution sector; and (4) the supply sector. The goal is for the generation and supply sectors to be fully competitive, while the transmission and distribution sectors will remain regulated as public utilities. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

The Generation Sector

The EPIRA provides that power generation is not a public utility operation. Thus, generation companies are not required to secure legislative franchises. However, generation companies must obtain a Certificate of Compliance

("**COC**") from the ERC, as well as health, safety and environmental clearances from the appropriate government agencies under existing laws.

Generation companies are also subject to the ERC's rules and regulations on abuse of market power and anti-competitive behavior. Generation companies are required to submit financial statements to determine abuse of market power and anti-competitive behavior. The ERC may impose fines and penalties for violation of the EPIRA and the Implementing Rules and Regulations policy on market power abuse, cross-ownership and anti-competitive behavior.

The goal of the EPIRA is for the generation sector to be open and competitive, with the private sector expected to take the lead in introducing additional generation capacity. Generation companies will compete either for contracts with various suppliers, electric cooperatives and private distribution utilities, or through spot sale transactions in the Wholesale Electricity Spot Market ("**WESM**"). Competition will be based largely on pricing, subject to availability of transmission lines to wheel electricity to the Grid and/or buyers. Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine the reasonableness of the cost and to ensure that the distribution utilities do not earn any revenue therefrom. While generation charges are intended to be passed through to customers by distribution utilities, the process is not automatic. Upon commencement of Retail Competition and Open Access, generation rates, except those intended for the Captive Markets, will cease to be regulated.

Open Access is defined as the system of allowing any qualified person the use of electric power transmission and distribution system and associated facilities. On the other hand, Retail Competition refers to the provision of electricity to contestable market by licensed suppliers through Open Access. Lastly, Captive Markets are electricity end-users who do not have the choice of a supplier of electricity.

In line with the Government's policy to promote competition within the generation sector, and additionally, to lessen the debt of NPC, the EPIRA required the privatization of all generation assets of the NPC. The EPIRA created PSALM, which is charged with the privatization of the assets of NPC.

Currently, PSALM has already privatized thirty-one (31) generating plants with a total rated capacity of 4,601.43MW and has successfully transferred a total contracted capacity of 3,607.52MW to Independent Power Producer Administrators ("**IPPAs**")

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP contracts that have not been disposed of by PSALM.

The Transmission Sector

With the turn-over of the control, operation and management of the grid to the private concessionaire on 14 January 2009, the National Grid Corporation of the Philippines ("**NGCP**") together with the National Transmission Corporation ("**TransCo**") (which, under law, remains the owner of the transmission assets), comprise the transmission sector. The principal function of TransCo is to ensure and maintain reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code. TransCo is also mandated to provide open and non-discriminatory access to its transmission system to all electricity users.

The transmission of electricity is subject to transmission wheeling charges. Inasmuch as the transmission of electric power is a regulated public utility business, transmission wheeling charges, even under the concessionaire arrangement, are subject to regulation and approval by the ERC.

The Distribution Sector

The distribution of electric power to end-users may be undertaken by private distribution utilities, electric cooperatives, local government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from Congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the

end of 2006. All distribution utilities are also required to obtain a Certificate of Public Convenience and Necessity ("**CPCN**") from the ERC to operate as a public utility.

All distribution utilities are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Distribution Code (which provides the rules and regulations for the operation and maintenance of distribution systems), the Distribution Services and Open Access Rules and the performance standards set out in the IRR of the EPIRA, which took effect on 22 March 2002.

The distribution sector is and will continue to be regulated by the ERC, with distribution wheeling charges, as well as connection fees from its consumers, subject to ERC approval. Likewise, the retail rate imposed by distribution utilities for the supply of electricity to its captive customers is subject to ERC approval. In addition, as a result of the Government's policy to promote free competition and Open Access, distribution utilities are required to provide universal and non-discriminatory access into their systems within their respective franchise areas following commencement of retail Open Access.

The Supply Sector

The supply of electricity refers to the sale of electricity directly to end-users or Contestable Customers. The supply of electricity to the Contestable Market is not considered a public utility operation and will not require a legislative franchise, although it is considered a business affected with public interest. As such, the EPIRA requires all suppliers of electricity to the Contestable Market to obtain a license from the ERC in accordance with the ERC's rules and regulations.

Retail Competition and Open Access ("**RCOA**") started on 26 June 2013. Since then, Contestable Customers (end-users with demand above the 1MW threshold) may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. By June 2017, the threshold was intended to be dropped to 750kW per hour to allow more establishments to benefit from competition among power producers. However, as discussed in further detail below, by virtue of a Temporary Restraining Order ("**TRO**") issued by the Supreme Court, the lowering of the threshold to 750kW is suspended pending resolution of the case filed before the said court.

Role of the ERC

With a view towards the establishment of a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market, the ERC was created pursuant to the EPIRA as an independent quasi-judicial body charged with regulating the electric power industry. The ERC replaced the former Energy Regulatory Board, and plays a critical role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

Among the primary powers and functions of the ERC are:

1. to determine, fix and approve, after conducting public hearings, transmission and distribution and wheeling charges, and retail rates, and to fix and regulate the rates and charges to be imposed by distribution utilities and their captive End-users, including self-generating entities;
2. to grant, revoke, review or modify the CPCNs, COCs required of generation companies and the licenses required of suppliers of electricity in the Contestable Market;
3. to enforce a Grid Code and a Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;
4. to enforce the rules and regulations governing the operations of the WESM, the activities of the WESM operator and other WESM participants to ensure a greater supply and rational pricing of electricity;
5. to ensure that the electric power industry participants and NPC functionally and structurally unbundle their respective business activities and rates and to determine the levels of cross-subsidies in the existing retail rates until the same is removed in accordance with the different sectors;
6. to set a lifeline rate for marginalized end-users;

7. to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;
8. to determine the electricity end-users comprising the Contestable and Captive Markets;
9. to fix user fees to be charged by Transco for ancillary services to all electric power industry participants or self-generating entities connected to the Grid;
10. to monitor and adopt measures to discourage/penalize abuse of market power, cartelization and any anti-competitive or discriminatory behavior by any electric power industry participant;
11. to review and approve the terms and conditions of service of Transco or any distribution utility or any changes therein;
12. perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry;
13. have the original and exclusive jurisdiction over all cases contesting rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy sector relating to the foregoing powers, functions and responsibilities;
14. act on applications for cost recovery and return on Demand-Side Management projects;
15. verify the reasonable amounts and determine the manner and duration for the full recovery of stranded debts and stranded contract costs of NPC and the distribution utilities; and
16. handle consumer complaints and ensure promotion of consumer interests.

Role of the DOE

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

1. Prepare and update annually the Philippine Energy Plan and the Philippine Power Development Program, and thereafter, integrate the latter into the former;
2. ensure the reliability, quality and security of supply of electric power;
3. exercise supervision and control over all government activities pertaining to energy projects;
4. encourage private investments in the electricity sector and promote the development of indigenous and renewable energy sources for power generation;
5. facilitate reforms in the structure and operations of distribution utilities for greater efficiency and lower costs;
6. promote incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
7. educate the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
8. establish the WESM in cooperation with electric power industry participants, and to formulate rules governing its operations.

Role of the Joint Congressional Power Commission

The Joint Congressional Power Commission created pursuant to the EPIRA consists of fourteen (14) members selected from the members of the Philippine Senate and the House of Representatives. Its responsibilities and functions include, among others, the following:

1. Set the guidelines and overall framework to monitor and ensure the proper implementation of the EPIRA;
2. Endorse the PSALM initial privatization plan for approval by the President of the Philippines;
3. Ensure transparency, require the submission of reports from government agencies concerned on the conduct of public bidding procedures regarding privatization of NPC's generation and transmission assets;
4. Review and evaluate the adherence of industry participants to the objectives and timelines under the EPIRA;
5. Submit periodic reports to the President of the Philippines and Congress; and
6. Recommend necessary remedial legislation or executive measures to correct the inherent weaknesses in the EPIRA.

Role of PEZA

The PEZA was created under Section 11 of RA No. 7916, otherwise known as "The Special Economic Zone Act of 1995" (the "PEZA Act"). "Ecozones" or "Special Economic Zones" refer to selected areas with highly developed or which have the potential to be developed into agro-industrial, industrial, tourist, recreational, commercial, banking, investment and financial centers whose metes and bounds are fixed or delimited by Presidential Proclamations. An Ecozone may contain any or all of the following: industrial estates, export processing zones, free trade zones and tourist/recreational centers. PEZA has authority over "Ecozone Utilities Enterprises" which refers to business entities within an Ecozone that is duly registered with and/or franchised/licensed by PEZA to act as contractors/operators of light and power systems, water supply and distribution systems, communications and transportation systems within an Ecozone and other similar or ancillary activities as may be determined by PEZA's board of directors. Ecozone Utilities Enterprises are entitled to the following incentives: (a) exemption from national and local taxes and in lieu thereof payment of a special tax rate of 5.0% on gross income; (b) additional deductions for training expenses; (c) incentives provided under R.A. 6957 as amended by R.A. 7718, otherwise known as the Build Operate and Transfer Law, subject to such conditions as may be prescribed by PEZA's board; and (d) other incentives available under the Omnibus Investments Code of 1987.

Section 12 (c) of the PEZA Act grants PEZA's board the power to regulate and undertake the establishment, operation and maintenance of utilities in an Ecozone and to fix just, reasonable and competitive rates therefor. With the subsequent enactment of the EPIRA, the ERC was vested with the power to regulate the distribution of electricity and to oversee generation companies.

On 11 March 2004, the ERC and PEZA entered into a Memorandum of Agreement and agreed to cooperate and coordinate efforts to oversee the operations of power generation and distribution utilities within Ecozones. The agreement provides that PEZA must register all new generation utilities enterprises for power to be supplied exclusively to economic zone locator enterprises operating within Ecozones as well as self-generation facilities of economic zone locator enterprises, and endorse the same to the ERC for the issuance of the required COC. Existing power generation utilities, including entities with self-generation facilities, must apply for the issuance of a COC with the ERC. PEZA-registered power generation utilities enterprises and economic zone locator enterprises that own generation facilities are required to comply with the same technical, financial and environmental requirements and/or standards of the Philippine Grid Code and the Philippine Distribution Code.

In a memorandum by the Department of Justice to the Office of the President dated 5 February 2007, the Secretary of Justice opined that the repealing clause of the EPIRA did not repeal Section 12 (c) of the PEZA Act, which grants PEZA the power to regulate and undertake the establishment, operation and maintenance of utilities, other services and infrastructure in Ecozones and to fix rates therefor. However, it has been opined that the repealing clause clearly refers to Section 12 (c) considering that the provision repealed by the EPIRA does not have a paragraph (c). However, the EPIRA did expressly repeal Section 5(f) of RA No. 7227, the Bases Conversion and Development Act of 1992, which provides that the Bases Conversion and Development Authority (whose operating and implementing arm is the SBMA) is vested with the power to construct, own, lease, operate and maintain public utilities as well as infrastructure facilities within former U.S. military bases in the Philippines which includes the SBFZ.

COMPETITIVE MARKET DEVICES

Wholesale Electricity Spot Market

A significant change introduced by the EPIRA is the organization and establishment of the WESM. The WESM shall provide a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. The WESM will also provide a venue for establishing merit order dispatch for generation companies whether or not they have bilateral contracts.

The EPIRA mandates the DOE to establish the WESM within one (1) year from its effectivity and directs the DOE and the electric power industry participants to formulate detailed rules therefor. In June 2002, the DOE, in cooperation with electric power industry participants, promulgated detailed rules for the WESM. These rules provide a mechanism to set electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

On 18 November 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising of an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM. The PEMC was tasked to undertake the preparatory work for the establishment of the WESM pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules.

WESM in Luzon, Visayas, and Mindanao

The WESM in Luzon started its commercial operations on 26 June 2006, while WESM in Visayas started on 26 December 2010. The WESM has been operating ever since with the following framework:

1. Bid-based
2. Gross pool
3. Net settlements
4. One-hour intervals
5. Locational marginal price
6. Mandatory market

Under DOE's draft Department Circular, "Declaring the Launch of the WESM in Mindanao and Providing for Transition Arrangements," the initial target launch of the WESM in Mindanao was 26 June 2017, subject to the fulfillment of the following criteria:

1. All systems and procedures including all interfaces with the participants and service providers necessary for the operation of the WESM in the Mindanao grid are in place and pursuant with the requirements set under the WESM Rules;
2. The Trial Operations Program was implemented successfully commencing on 26 February 2017 with the System Operator and on 26 March 2017 with the Market Participants;
3. The forecasting, scheduling, dispatch, pricing, metering, and settlement processes of the WESM are fully operational in the Mindanao grid;
4. Training programs shall have been conducted for the WESM Mindanao Trading Participants;
5. The price determination methodology for the enhanced WESM design has been approved by the ERC and duly published; and
6. The Market Dispatch Optimization Model has been certified as compliant with the WESM Rules by an independent auditor.

The DOE conducted consultations until March 2017 with WESM in Mindanao for its initial launch on 26 June 2017. However, the DOE encountered difficulties and was scheduled to launch the WESM in Mindanao on 26 January 2020. On 11 January 2020, the DOE announced that the commencement in operations of the WESM will be delayed due to the pending rules in pricing.

The WESM is guided by the WESM Rules and Manuals, where any change is duly approved by the DOE. The Price Determination Methodology, meanwhile, goes through the ERC approval process.

Interim Mindanao Electricity Market (IMEM)

The DOE issued Department Circular No. 2013-05-0008 "Promulgating the Interim Mindanao Electricity Market Implementing Rules". Correspondingly, DOE also issued DC No. 2013-09-0020 approving pertinent IMEM Manuals.

The IMEM has the following features:

1. Day-ahead pricing and scheduling;
2. Zonal pricing
3. IMEM is for available resource capacity after taking out bilateral contract quantities
4. In-Day Market is for imbalances or deviation from day-ahead schedules only
5. Deviations from day-ahead schedule will be subject to penalties and incentives

The IMEM started on 03 December 2013 and the first IMEM billing period ended on 25 December 2013. The first IMEM billing period has not been fully settled and succeeding billing periods were still not billed by PEMC.

The implementation of IMEM was suspended in early 2014.

Open Access and Retail Competition

Under the EPIRA, the conditions for the commencement of the Open Access and Retail Competition are as follows:

1. Establishment of the WESM;
2. Approval of unbundled transmission and distribution wheeling charges;
3. Initial implementation of the cross subsidy removal scheme;
4. Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
5. Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP administrators.

Under the Open Access and Retail Competition provision, an eligible contestable customer, which is defined as an end-user with a monthly average peak demand of at least 1 MW for the preceding 12 months, will have the option to source their electricity from eligible suppliers that have secured a RES license from the ERC.

Commencement of Open Access

In June 2011, ERC declared 26 December 2011 as the Open Access Date to mark the commencement of the full operations of the competitive retail electricity market in Luzon and Visayas. However, after careful deliberation, the ERC acknowledged that not all the necessary rules, systems and infrastructures required for the implementation of the Open Access and Retail Competition have been put in place to meet the contemplated timetable for implementation. In October 2011, the ERC announced the deferment of the Open Access Date. In September 2012, the ERC declared the start of Open Access on 26 December 2012. Open Access commercial operations under an interim development system have been implemented starting 26 June 2013.

The implementation of Open Access enabled Aboitiz Power to increase its contracted capacity through the delivery of power to affiliate and non-affiliate RES companies. Aboitiz Power has two wholly-owned Subsidiaries, AESI and AdventEnergy, that are RES entities. Open Access allowed AESI and AdventEnergy to enter into contracts with eligible contestable customers. Moreover, Open Access facilitated Aboitiz Power to contract with other RES companies.

ERC Resolution No. 22 Series of 2013

ERC issued revised licensing regulation for RES companies operating in the Retail Supply Segment on 25 November 2013. Items amended include the following:

1. Restriction for Generator, IPP administrators and distribution utilities affiliates in securing license as a RES Company;
2. Transfer of live Retail Supply Contracts (RSCs) for RES with expired license to another licensed RES;
3. Determination of full retail competition to be made by ERC not later than 25 June 2015;
4. Contracted capacities of RES affiliates to be included in the grid limitations imposed on Generation Companies;
5. End-user affiliate RES limited to supplying up to fifty percent (50%) of its total contestable customer affiliates;
6. RES companies are limited to procuring up to fifty (50%) of its generation requirements from affiliate Generation Companies;
7. Annual submission of five-year Business Plan; and
8. Submission of live Retail Supply Contracts for review by the ERC.

Since Resolution 22 Series of 2013 limits the retail suppliers and creates non-assurance of renewal of RES license for existing retailers, the Retail Electricity Suppliers Association challenged its legality at the Pasig RTC. The Supreme Court, however, enjoined the hearing of the case and allowed the DOE and ERC to implement the Resolution. On 29 November 2017, the DOE issued Department Circular No. DC 2017-12-0014 which provides for policies on the implementation of RCOA for RES in the Philippine Electric Power Industry.

The ERC subsequently mandated Contestable Customers to enter into a RES supply contract with a RES by 26 December 2016 or be meted a penalty of either disconnection or payment of a 10% premium on their contract price or the WESM price, whichever is higher. The deadline was later extended to 27 February 2017.

On 21 February 2017, or six (6) days before the extended deadline, the Supreme Court issued a TRO which in effect suspended the deadline for the mandatory migration. On 29 November 2017, the DOE issued Department Circular No. DC 2017-12-0013 which provides for policies on the implementation of RCOA for Contestable Consumers in the Philippine Electric Power Industry. Bayan Muna has filed an intervention in the Supreme Court, seeking to clarify whether the TRO covered portions of Department Circular No. DC 2017-12-0013.

Reserve Market

The DOE issued Department Circular No. DC2013-12-0027, "Declaring the Commercial Launch for the Trading of Ancillary Service in Luzon and Visayas under the Philippine Wholesale Electricity Spot Market" dated 02 December 2013. The said Department Circular sets the responsibility of the Philippine Electricity Market Corporation (PEMC), NGCP, NEA and all WESM Members with regard to the operation of the Reserve Market.

The trial operations started on 26 February 2014, and PEMC is still reviewing its results before certifying market readiness. The Pricing and Cost Recovery Mechanism of the Reserve Market is still under review by the ERC under ERC Case # 2007-004RC.

On 26 March 2014, the DOE declared the commercial launch date of the Reserve Market on 26 May 2014, subject to the approval by the ERC. It also directed the implementation of the Central Scheduling and Dispatch of Energy and Contracted Reserves which aims to provide better monitoring of all available generation capacity in both energy and reserve and provide more preparations to the participants for the eventual commercial operation of the Reserve Market. The launch was deferred pending regulatory approval.

On 02 December 2014, the DOE approved the adoption of the Protocol for the Central Scheduling and Dispatch of Energy and Contracted Reserves as well as the WESM Market Manual on the Protocol. The implementation of the Protocol shall immediately cease upon the commercial operation of the Reserve Market or upon declaration of its cessation by the DOE.

On 12 November 2015, the DOE declared the commercial operation of the Central Scheduling and Dispatch of Energy and Contracted Reserves in the WESM.

Unbundling of Rates and Removal of Subsidies

The EPIRA mandates that generation, distribution and wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross-subsidies shall be phased out within a period not exceeding three (3) years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one (1) year if it determines there will be material adverse effect upon the public interest or an immediate, irreparable, and adverse financial effect on a distribution utility.

These arrangements are now in place, in satisfaction of the conditions for open access and retail competition.

The EPIRA likewise provides for a socialized pricing mechanism called a lifeline rate to be set by the ERC for low-income, captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users will be exempt from the cross-subsidy removal for a period of ten years, unless extended by law.

Implementation of PBR

On 13 December 2006, the ERC issued the Rules for Setting Distribution Wheeling Rates for privately-owned distribution utilities entering PBR for the second and later entry points, setting out the manner in which this new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR replaces the RORB

mechanism which has historically determined the distribution charges paid by customers. Under PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period is set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine the distribution utility's efficiency factor. For each year during the regulatory period, the distribution utility's distribution-related charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor as against changes in overall consumer prices in the Philippines.

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

Cotabato Light's 2nd Regulatory Period ended on 31 March 2013. A reset process should have been initiated eighteen (18) months prior to the start of the 3rd Regulatory Period covering 01 April 2013 to 31 March 2017. The reset process, however, has been delayed due to the issuance of an Issues Paper on the Implementation of PBR for Distribution Utilities under the RDWR by the ERC in 2013. This paper aims to revisit various matters relating to the reset process. The ERC has solicited comments from industry participants and has been holding public consultations on the Issues Paper.

In March 2013, Visayan Electric and Davao Light filed their rate translation application for the fourth regulatory year from 01 July 2013 to 30 June 2014. The ERC set the distribution, supply and metering charges of Davao Light and Visayan Electric in its Decisions dated 24 June 2013. In the case of Visayan Electric, since its implementation of the rate translation in the third regulatory year was delayed by five months, recovery for the under-recovery was included in its MAP recalculation for the fourth regulatory year. A motion for reconsideration was filed by Visayan Electric on 26 July 2013 for the ERC to amend its rate design to fully achieve the correct Annual Revenue Requirement for the fourth regulatory year. The said motion was decided upon by the ERC in an Order dated 09 December 2013 (docketed 16 January 2014) modifying the approved rates in the previous Decision. The under-recoveries arising therefrom may be recovered in the next rate filing under the K-factor (correction factor) of the Maximum Average Price formula.

For SEZ's and SFELAPCO's second regulatory year covering 01 October 2012 to 30 September 2013, SEZ was able to implement the new rate schedule in January 2013 while SFELAPCO's implementation began in April 2013. Consequently, the resulting under-recoveries from the lag starting from 01 October 2012 were included by SFELAPCO and SEZC as under-recoveries in its rate filings in the third regulatory year. The said applications are under the ERC's review as of year-end 2013. SEZC and SFELAPCO entered its fourth regulatory year on 01 October 2014.

Competitive Selection Process

On 11 June 2015, DOE issued Department Circular No. DC2015-06-008 (the "2015 DOE Circular") which mandated all distribution utilities to undergo a competitive selection process ("CSP") in securing Power Supply Agreements ("PSA**")** after the effectivity of the said circular**.** The 2015 DOE Circular also authorized ERC to adopt a set of guidelines for the implementation of the CSP. The 2015 DOE Circular took immediate effect following its publication on 30 June 2015.

On 20 October 2015, the ERC issued ERC Resolution No. 13, Series of 2015 ("ERC CSP Rules") as the guidelines for the implementation of the 2015 DOE Circular. Under the ERC CSP Rules, a PSA may only be entered into by direct negotiation if the CSP fails twice. The CSP requirement would not apply to PSAs already filed with the ERC for approval as of the effectivity of the ERC CSP Rules. For PSAs which were already executed but were not yet filed with the ERC, and those that were still in the process of negotiation during the time of the effectivity of the ERC CSP Rules, the relevant distribution utility already had to comply with the CSP requirement before its PSA application would be accepted by the ERC. The ERC CSP Rules took immediate effect following its publication on 07 November 2015.

Subsequently, the ERC issued ERC Resolution No. 1, Series of 2016 which, restated extended the date of the effectivity of the CSP requirement from 07 November 2015 to April 30, 2016. It further stated that all PSAs executed on or after said date would be required, without exception, to comply with the provisions of the ERC CSP Rules.

The validity of ERC CSP Rules and ERC Resolution No. 1 was challenged before the Supreme Court on the ground that the ERC, in issuing the said resolutions, amended the 2015 DOE Circular and effectively postponed the date of effectivity of the CSP requirement. On 03 May 2019, the Supreme Court issued a ruling declaring a section in the ERC CSP Rules and ERC Resolution No. 1 as void ab initio. As a consequence, all PSAs submitted to the ERC after the effectivity of the CSP on or after 30 June 2015 shall undergo the CSP.

During the pendency of the said case, on 01 February 2018, the DOE issued Department Circular No. DC2018-02-003 ("2018 DOE Circular") entitled "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreements for the Captive Market." The 2018 DOE Circular revoked the authority of ERC to issue supplemental guidelines to implement the CSP and instead issued its own set of guidelines ("DOE CSP Rules"). Under the DOE CSP Rules, all PSAs shall be procured through CSP, except for the following instances: (1) generation project owned by the distribution utility funded by grants or donations; (2) negotiated procurement of emergency power supply; (3) provision of power supply by any mandated Government Owned and Controlled Corporation (GOCC) for off-grid areas prior to, and until the entry of New Power Providers (NPP); and (4) provision of power supply by the PSALM Corporation through bilateral contracts. A PSA may also be entered into by direct negotiation if the CSP fails twice. The DOE CSP Rules took effect upon its publication on 09 February 2018.

On 09 September 2019, Bayan Muna party-list filed a petition for certiorari and prohibition with application for the issuance of a writ of preliminary injunction and/or temporary restraining order in the SC alleging that DOE Circular No. DC2018-02-003, which amended DOE Circular No. DC2015-06-0008 and allowed power distribution utilities to appoint a third party to conduct CSP on PSAs, is void for violating certain provision in EPIRA and the Consitution. SC has directed DOE, ERC, and the respondent power distribution utilities to file their respective comments. As of the date of this Prospectus, SC has yet to issue a decision on the Bayan Muna petition.

REDUCTION OF TAXES AND ROYALTIES ON INDIGENOUS ENERGY RESOURCES

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the implementing rules and regulations, President Arroyo enacted Executive Order No. 100 to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

GOVERNMENT APPROVAL PROCESS

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not being required to secure a franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a COC from the ERC to operate facilities used in the generation of electricity. A COC is valid for a period of five years from the date of issuance.

In addition to the COC requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued "Guidelines for the Financial Standards of Generation Companies," which sets the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. For COC applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements, a schedule of liabilities, and a five-year financial plan. For the duration of the COC, the guidelines also require a generation company to submit to the ERC audited financial statements and forecast financial statements for the next two fiscal years, among other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local government authorities, relating to, among others, site acquisition,

construction, operation, including environmental licenses and permits. See the section entitled "*Environmental Laws*" below.

Retail rates charged by Retail Suppliers to Contestable Customers will not require ERC approval, only the retail rates charged by Distribution Utilities to their Captive Customers will be subject to the approval of ERC.

ENVIRONMENTAL LAWS

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an ECC prior to commencement. The Department of Environment and Natural Resources, through its regional offices or through the Environmental Management Bureau, determines whether a project is environmentally critical or located in an environmentally critical area. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an Environmental Impact Statement ("EIS") to the Environmental Management Bureau while a project in an environmentally critical area are generally required to submit an Initial Environmental Examination to the proper Department of Environment and Natural Resources regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EISs and ECCs are mandatory.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the direct and indirect consequences to human welfare and ecological as well as environmental integrity. The Initial Environmental Examination refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an Initial Environmental Examination may vary from project to project, as a minimum, it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the EIS or, if an Initial Environmental Examination was required, that it shall comply with the mitigation measures provided therein.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the Department of Environment and Natural Resources to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not be later than the initial construction phase of the project. The Environmental Monitoring Fund shall be used to support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

RENEWABLE ENERGY ACT OF 2008

RA No. 9513, otherwise known as the Renewable Energy Act of 2008 (the "RE Law") was approved in 2008. The RE Law provides for the acceleration and development of renewable resources. It aims to increase the utilization of renewable energy which will provide enhanced market and business opportunities for the renewable energy generation subsidiaries of Aboitiz Power.

The RE Law became effective on 31 January 2009. The RE Law stipulates the acceleration and development of renewable resources. Its policy is to increase the utilization of renewable energy which will provide enhanced market and business opportunities for the renewable energy generation subsidiaries of AbotizPower.

DOE Department Circular No. 2009-05-0008, or the Rules and Regulations Implementing RA No. 9513, was issued on 25 May 2009. However, to fully implement the RE Law, the Renewable Portfolio Standards, the RE Market and the changes in the WESM Rules for intermittent generation should still be implemented.

In 2017 and 2018, DOE issued Department Circular Nos. DC2017-12-0015 and DC2018-08-0024, which prescribed the rules and guidelines governing the establishment of the RPS for On-Grid and Off-Grid Areas ("RPS Rules"), respectively. On 4 December 2019, DOE promulgated Department Circular No. DC2019-12-0016 or the "Renewable Energy Market Rules."

FINANCIAL AND OTHER INFORMATION

1. Audited Financial Statements for the fiscal year ended 31 December 2019 of AboitizPower, **Annex A**
2. Audited Financial Statements for the fiscal year ended 31 December 2019 of Malvez, **Annex B**
3. Audited Financial Statements for the fiscal year ended 31 December 2019 of Hedcor, **Annex C**
4. Audited Financial Statements for the fiscal year ended 31 December 2019 of Hedcor Bukidnon, **Annex D**

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Aboitiz Power Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2019 and 2018
and Years Ended December 31, 2019, 2018 and 2017

and

Independent Auditor's Report

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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
Aboitiz Power Corporation

Opinion

We have audited the consolidated financial statements of Aboitiz Power Corporation and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Recoverability of Goodwill

As of December 31, 2019, the goodwill amounted to ₱40.88 billion, which is attributable to several cash-generating units, which is considered significant to the consolidated financial statements. We consider the recoverability of goodwill as a key audit matter due to the materiality of the amount involved and the significant management assumptions and judgment involved, which includes cash-generating unit identification, discount and growth rate, revenue assumptions and material price inflation.

The Group's disclosures about goodwill are included in Note 13 to the consolidated financial statements.

Audit Response
We involved our internal specialist in assessing the methodology and assumptions used by the Group in estimating value-in-use. We compared significant assumptions, such as growth rate, revenue assumptions and material price inflation, against historical data and industry outlook. Our internal specialist reviewed the discount rates by performing an independent testing on the derivation of the discount rates using market-based parameters. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment testing is most sensitive.

Revenue Recognition of Distribution Utilities

The Group's revenue from the sale of electricity accounts for 37% of the Group's consolidated revenue and is material to the Group. This matter is significant to the audit because the revenue recognized depends on the electric consumption captured, the rates applied across different customers, and the systems involved in the billing process. Electric consumption captured is based on the meter readings taken on various dates for the different types of customers (i.e., industrial, commercial, and residential customers) within the franchise areas of operations of the distribution utilities.

The Group's disclosures related to this matter are provided in Notes 3 and 21 to the consolidated financial statements.

Audit Response
We obtained an understanding and evaluated the design and tested the controls over the billing and revenue process which includes the capture and accumulation of meter data in the billing system and calculation of billed amounts, and uploading of billed amounts from the billing system to the financial reporting system. We performed a test calculation of the rates using the Energy Regulatory Commission-approved rates and formulae, then compared them with the rates used in billing statements.

Recoverability of Certain Segments of Property, Plant and Equipment

Based on the assessment of the Group as of December 31, 2019, certain segments of property, plant and equipment totaling ₱3.55 billion, may be impaired. We considered the recoverability of certain segments of property, plant and equipment as a key audit matter because of the amount involved and significant management assumptions and judgment involved which include future electricity generation levels and costs as well as external inputs such as fuel prices, electricity prices and discount rates.

The disclosure about the recoverability of certain segments of property, plant and equipment are included in Note 12 to the consolidated financial statements.

Audit Response
We involved our internal specialist in assessing the methodology and the assumptions used by the Group in estimating value-in-use. We compared the significant assumptions, such as future electricity generation levels and costs, fuel prices and electricity prices against historical data and industry outlook. Our internal specialist reviewed the discount rates by performing an independent testing on the derivation of the discount rates using market-based parameters. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment testing is most sensitive.

Consolidation Process

Aboitiz Power Corporation owns a significant number of domestic and foreign entities at varying equity interests. We considered the consolidation process as a key audit matter because it required significant auditor attention, particularly on the following areas: (a) fair value adjustments arising from business combinations, (b) numerous intercompany transactions, (c) alignment of accounting policies of the investees with the Group's policy on property, plant and equipment and investment properties, (d) translation of investees' foreign-currency-denominated financial information to the Group's functional currency and (e) other equity adjustments.

The Group's disclosure on the basis of consolidation is in Note 3 to the consolidated financial statements.

Audit Response
We obtained an understanding of the consolidation process and the related controls, the Group's process for identifying related parties and related party transactions, as well as the reconciliation of intercompany balances. We also checked the entities included in the consolidation. We reviewed the eliminating entries recorded, including fair value adjustments. In addition, we reviewed the currency translation adjustments, as well as the alignment of accounting policies on property, plant and equipment and investment properties.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is
Maria Veronica Andresa R. Pore

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-4 (Group A),
November 21, 2019, valid until November 20, 2022
Tax Identification No. 164-533-282
BIR Accreditation No. 08-001998-71-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125281, January 7, 2020, Makati City

March 6, 2020

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱37,433,929**	₱46,343,041
Trade and other receivables (Note 6)	**21,747,422**	21,721,776
Derivative assets (Note 34)	**–**	71,583
Inventories (Note 7)	**6,632,029**	6,690,453
Property held for sale (Note 12)	**–**	675,819
Other current assets (Note 8)	**11,083,405**	13,205,935
Total Current Assets	**76,896,785**	88,708,607
Noncurrent Assets		
Investments and advances (Note 10)	**60,878,541**	34,334,126
Property, plant and equipment (Notes 12 and 35)	**209,521,466**	207,110,412
Intangible assets (Note 13)	**46,712,501**	46,165,494
Derivative assets - net of current portion (Note 34)	**82,327**	221,245
Financial assets at fair value through profit or loss (FVTPL)	**3,906**	101,441
Net pension assets (Note 27)	**68,209**	126,977
Deferred income tax assets (Note 29)	**2,786,310**	2,233,695
Other noncurrent assets (Note 14)	**13,519,312**	10,660,179
Total Noncurrent Assets	**333,572,572**	300,953,569
TOTAL ASSETS	**₱410,469,357**	₱389,662,176
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans (Note 16)	**₱10,335,420**	₱11,546,560
Current portions of:		
Long-term debts (Note 17)	**10,386,311**	8,697,404
Lease liabilities (Note 35)	**5,486,745**	4,131,059
Long-term obligation on power distribution system (Note 13)	**40,000**	40,000
Derivative liabilities (Note 34)	**2,255,736**	159,926
Trade and other payables (Note 15)	**22,376,120**	21,801,288
Income tax payable (Note 29)	**510,137**	438,783
Total Current Liabilities	**51,390,469**	46,815,020

(Forward)

	December 31	
	2019	2018
Noncurrent Liabilities		
Noncurrent portions of:		
Long-term debts (Note 17)	**₱167,585,311**	₱149,360,287
Lease liabilities (Note 35)	**39,302,899**	42,763,296
Long-term obligation on power distribution system (Note 13)	**159,350**	173,496
Derivative liabilities - net of current portion (Note 34)	**212,588**	–
Customers' deposits (Note 18)	**6,521,469**	6,008,364
Decommissioning liability (Note 19)	**3,567,492**	3,678,810
Deferred income tax liabilities (Note 29)	**848,471**	858,290
Net pension liabilities (Note 27)	**426,047**	244,857
Other noncurrent liabilities (Notes 40k)	**6,812,250**	3,183,089
Total Noncurrent Liabilities	**225,435,877**	206,270,489
Total Liabilities	**276,826,346**	253,085,509
Equity Attributable to Equity Holders of the Parent		
Paid-in capital (Note 20a)	**19,947,498**	19,947,498
Share in net unrealized valuation gain on fair value through other comprehensive income (FVOCI) of an associate (Note 10)	**101,727**	101,727
Cumulative translation adjustments (Note 34)	**(994,253)**	525,916
Share in cumulative translation adjustments of associates and joint ventures (Note 10)	**(153,485)**	321,139
Actuarial losses on defined benefit plans (Note 27)	**(923,833)**	(587,267)
Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures (Note 10)	**(14,299)**	29,729
Acquisition of non-controlling interests (Note 10)	**(6,321,325)**	(259,147)
Excess of cost of investments over net assets (Note 9)	**(421,260)**	(421,260)
Loss on dilution (Note 2)	**(433,157)**	(433,157)
Retained earnings (Note 20b)		
Appropriated	**33,660,000**	34,060,000
Unappropriated (Notes 10 and 20c)	**81,095,377**	74,427,738
	125,542,990	127,712,916
Non-controlling Interests	**8,100,021**	8,863,751
Total Equity (Note 20c)	**133,643,011**	136,576,667
TOTAL LIABILITIES AND EQUITY	**₱410,469,357**	₱389,662,176

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share Amounts)

	Years Ended December 31		
	2019	2018	2017
OPERATING REVENUES			
Sale of power (Notes 21 and 32):			
Generation	**₱55,895,587**	₱61,854,685	₱57,418,126
Distribution	**46,120,403**	44,880,546	43,532,403
Retail electricity supply	**22,805,450**	24,216,767	18,065,832
Technical, management and other fees (Note 32)	**813,717**	620,086	374,942
OPERATING REVENUES	**125,635,157**	131,572,084	119,391,303
OPERATING EXPENSES			
Cost of purchased power (Notes 22 and 32)	**35,835,144**	36,006,080	35,392,094
Cost of generated power (Note 23)	**35,526,706**	35,674,218	28,557,756
Depreciation and amortization (Notes 12, 13 and 35)	**9,895,695**	8,681,403	7,596,268
General and administrative (Note 24)	**8,155,366**	8,188,512	7,222,268
Operations and maintenance (Note 25)	**7,366,372**	6,525,189	6,449,188
	96,779,283	95,075,402	85,217,574
FINANCIAL INCOME (EXPENSES)			
Interest income (Notes 5 and 32)	**1,291,703**	880,085	927,012
Interest expense and other financing costs (Notes 16, 17, 33 and 35	**(14,047,646)**	(12,082,158)	(11,247,780)
	(12,755,943)	(11,202,073)	(10,320,768)
OTHER INCOME (EXPENSES)			
Share in net earnings of associates and joint ventures (Note 10)	**3,813,962**	4,356,825	4,697,864
Other income (expenses) - net (Note 28)	**3,483,387**	(1,292,311)	(1,704,000)
	7,297,349	3,064,514	2,993,864
INCOME BEFORE INCOME TAX	**23,397,280**	28,359,123	26,846,825
PROVISION FOR INCOME TAX (Note 29)	**3,215,498**	2,925,623	3,858,398
NET INCOME	**₱20,181,782**	₱25,433,500	₱22,988,427
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱17,322,677**	₱21,707,603	₱20,416,442
Non-controlling interests	**2,859,105**	3,725,897	2,571,985
	₱20,181,782	₱25,433,500	₱22,988,427
EARNINGS PER COMMON SHARE (Note 30)			
Basic and diluted, income for the period attributable to ordinary equity holders of the parent	**₱2.35**	₱2.95	₱2.77

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the parent	**₱17,322,677**	₱21,707,603	₱20,416,442
Non-controlling interests	**2,859,105**	3,725,897	2,571,985
	20,181,782	25,433,500	22,988,427
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:			
Movement in cumulative translation adjustments	**(1,767,498)**	584,087	389,254
Share in movement in cumulative translation adjustment of associates and joint ventures	**(474,624)**	465,646	(16,304)
Share in net unrealized valuation gains (losses) on AFS investments of an associate (Note 10)	**–**	(22,394)	9,201
Movement in unrealized gain on AFS investments	**–**	–	2,686
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	**(2,242,122)**	1,027,339	384,837
Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:			
Actuarial gain (loss) on defined benefit plans, net of tax (Note 27)	**(329,029)**	8,893	(13,186)
Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures, net of tax	**(44,028)**	24,766	6,841
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	**(373,057)**	33,659	(6,345)
Total other comprehensive income (loss) for the year, net of tax	**(2,615,179)**	1,060,998	378,492
TOTAL COMPREHENSIVE INCOME	**₱17,566,603**	₱26,494,498	₱23,366,919
ATTRIBUTABLE TO:			
Equity holders of the parent	**₱14,947,290**	₱22,602,094	₱20,617,187
Non-controlling interests	**2,619,313**	3,892,404	2,749,732
	₱17,566,603	₱26,494,498	₱23,366,919

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(Amounts in Thousands, Except Dividends Per Share Amounts)

	Attributable to Equity Holders of the Parent												
										Retained Earnings			
	Paid-in Capital (Note 20a)	Share in Net Unrealized Valuation Gain on FVOCI/AFS Investments of an Associate (Note 10)	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 10)	Actuarial Gains (Losses) on Defined Benefit Plans (Note 27)	Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures (Note 10)	Acquisition of Non-controlling Interests (Note 10)	Excess of cost of investments over net assets (Note 9)	Loss on Dilution	Appropriated (Note 20b)	Unappropriated (Note 20b)	Non-controlling Interests	Total
Balances at January 1, 2019, as previously reported	₱19,947,498	₱101,727	₱525,916	₱321,139	(₱587,267)	₱29,729	(₱259,147)	(₱421,260)	(₱433,157)	₱34,060,000	₱74,427,738	₱8,863,751	₱136,576,667
Effect of adoption - PFRS 16 (Note 3)	–	–	–	–	–	–	–	–	–	–	(237,890)	(40,070)	(277,960)
Balances at January 1, 2019, as restated	19,947,498	101,727	525,916	321,139	(587,267)	29,729	(259,147)	(421,260)	(433,157)	34,060,000	74,189,848	8,823,681	136,298,707
Net income for the year	–	–	–	–	–	–	–	–	–	–	17,322,677	2,859,105	20,181,782
Other comprehensive income (loss)													
Movement in cumulative translation adjustments	–	–	(1,520,169)	–	–	–	–	–	–	–	–	(247,329)	(1,767,498)
Share in movement in cumulative translation adjustment of associates and joint ventures	–	–	–	(474,624)	–	–	–	–	–	–	–	–	(474,624)
Actuarial gains (losses) on defined benefit plans, net of tax	–	–	–	–	(336,566)	–	–	–	–	–	–	7,537	(329,029)
Share in actuarial gains on defined benefit plans of associates and joint ventures	–	–	–	–	–	(44,028)	–	–	–	–	–	–	(44,028)
Total comprehensive income (loss) for the year	–	–	(1,520,169)	(474,624)	(336,566)	(44,028)	–	–	–	–	17,322,677	2,619,313	17,566,603
Reversal of appropriation	–	–	–	–	–	–	–	–	–	(12,300,000)	12,300,000	–	–
Appropriations during the year	–	–	–	–	–	–	–	–	–	11,900,000	(11,900,000)	–	–
Acquisition of non-controlling interest (Note 10)	–	–	–	–	–	–	(6,062,178)	–	–	–	–	(710,830)	(6,773,008)
Cash dividends - ₱1.47 per share (Note 20b)	–	–	–	–	–	–	–	–	–	–	(10,817,148)	–	(10,817,148)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(2,580,724)	(2,580,724)
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(51,419)	(51,419)
Balances at December 31, 2019	₱19,947,498	₱101,727	(₱994,253)	(₱153,485)	(₱923,833)	(₱14,299)	(₱6,321,325)	(₱421,260)	(₱433,157)	₱33,660,000	₱81,095,377	₱8,100,021	₱ 133,643,011

	Attributable to Equity Holders of the Parent													
											Retained Earnings			
	Paid-in Capital (Note 20a)	Net Unrealized Loss on AFS Investments	Share in Net Unrealized Valuation Gain on FVOCI/AFS Investments of an Associate (Note 10)	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 10)	Actuarial Gains (Losses) on Defined Benefit Plans (Note 27)	Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures (Note 10)	Acquisition of Non-controlling Interests	Excess of cost of investments over net assets (Note 9)	Loss on Dilution	Appropriated (Note 20b)	Unappropriated (Note 20b)	Non-controlling Interests	Total
Balances at January 1, 2018, as previously reported	₱19,947,498	(₱625)	₱124,121	₱113,637	(₱144,507)	(₱601,461)	₱4,963	(₱259,147)	(₱421,260)	(₱433,157)	₱34,060,000	₱63,006,308	₱8,582,094	₱123,978,464
Effect of adoption - PFRS 9	–	625	–	–	–	–	–	–	–	–	–	(57,713)	(3,767)	(60,855)
Balances at January 1, 2018, as restated	19,947,498	–	124,121	113,637	(144,507)	(601,461)	4,963	(259,147)	(421,260)	(433,157)	34,060,000	62,948,595	8,578,327	123,917,609
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	21,707,603	3,725,897	25,433,500
Other comprehensive income (loss)														
Movement in unrealized loss on FVOCI investments	–	–	(22,394)	–	–	–	–	–	–	–	–	–	–	(22,394)
Movement in cumulative translation adjustments	–	–	–	412,279	–	–	–	–	–	–	–	–	171,808	584,087
Share in movement in cumulative translation adjustment of associates and joint ventures	–	–	–	–	465,646	–	–	–	–	–	–	–	–	465,646
Actuarial gains (losses) on defined benefit plans, net of tax	–	–	–	–	–	14,194	–	–	–	–	–	–	(5,301)	8,893
Share in actuarial gains on defined benefit plans of associates and joint ventures	–	–	–	–	–	–	24,766	–	–	–	–	–	–	24,766
Total comprehensive income (loss) for the year	–	–	(22,394)	412,279	465,646	14,194	24,766	–	–	–	–	21,707,603	3,892,404	26,494,498
Cash dividends - ₱1.39 per share (Note 20b)	–	–	–	–	–	–	–	–	–	–	–	(10,228,460)	–	(10,228,460)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(4,768,596)	(4,768,596)
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	1,161,616	1,161,616
Balances at December 31, 2018	₱19,947,498	₱–	₱101,727	₱525,916	₱321,139	(₱587,267)	₱29,729	(₱259,147)	(₱421,260)	(₱433,157)	₱34,060,000	₱74,427,738	₱8,863,751	₱136,576,667

	Attributable to Equity Holders of the Parent													
											Retained Earnings			
	Paid-in Capital (Note 20a)	Net Unrealized Loss on AFS Investments	Share in Net Unrealized Valuation Gains on AFS Investments of an Associate (Note 10)	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 10)	Actuarial Gains (Losses) on Defined Benefit Plans (Note 27)	Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures (Note 10)	Acquisition of Non-controlling Interests	Excess of cost of investments over net assets (Note 9)	Loss on Dilution	Appropriated (Note 20b)	Unappropriated (Note 20b)	Non-controlling Interests	Total
Balances at January 1, 2017	₱19,947,498	(₱3,311)	₱114,920	(₱78,232)	(₱128,203)	(₱607,913)	(₱1,878)	(₱259,147)	(₱526,883)	₱–	₱34,060,000	₱52,597,568	₱7,094,801	₱112,209,220
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	20,416,442	2,571,985	22,988,427
Other comprehensive income (loss)														
Movement in unrealized loss on AFS investments	–	2,686	9,201	–	–	–	–	–	–	–	–	–	–	11,887
Movement in cumulative translation adjustments	–	–	–	191,869	–	–	–	–	–	–	–	–	197,385	389,254
Share in movement in cumulative translation adjustment of associates and joint ventures	–	–	–	–	(16,304)	–	–	–	–	–	–	–	–	(16,304)
Actuarial gains (losses) on defined benefit plans, net of tax	–	–	–	–	–	6,452	–	–	–	–	–	–	(19,638)	(13,186)
Share in actuarial gains on defined benefit plans of associates and joint ventures	–	–	–	–	–	–	6,841	–	–	–	–	–	–	6,841
Total comprehensive income (loss) for the year	–	2,686	9,201	191,869	(16,304)	6,452	6,841	–	–	–	–	20,416,442	2,749,732	23,366,919
Reversal of excess of cost of investments over net assets	–	–	–	–	–	–	–	–	105,623	–	–	–		105,623
Loss on dilution	–	–	–	–	–	–	–	–	–	(433,157)	–	–	–	(433,157)
Cash dividends - ₱1.36 a share (Note 20b)	–	–	–	–	–	–	–	–	–	–	–	(10,007,702)	–	(10,007,702)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(1,281,223)	(1,281,223)
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	18,784	18,784
Balances at December 31, 2017	₱19,947,498	(₱625)	₱124,121	₱113,637	(₱144,507)	(₱601,461)	₱4,963	(₱259,147)	(₱421,260)	(₱433,157)	₱34,060,000	₱63,006,308	₱8,582,094	₱123,978,464

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱23,397,280**	₱28,359,123	₱26,846,825
Adjustments for:			
Interest expense and other financing costs (Note 33)	**14,047,646**	12,082,158	11,247,780
Depreciation and amortization (Notes 12 and 13)	**9,895,695**	8,681,403	7,596,268
Losses on disposal of property, plant and equipment (Note 28)	**304,631**	292,799	86,913
Write-off of project development costs and other assets (Note 13)	**31,431**	50,922	79,881
Unrealized fair valuation loss (gain) on derivatives and financial assets at FVTPL (Note 34)	**1,424**	196,297	(451,270)
Share in net earnings of associates and joint ventures (Note 10)	**(3,813,962)**	(4,356,825)	(4,697,864)
Net unrealized foreign exchange loss (gain)	**(1,950,762)**	997,010	333,868
Interest income (Notes 5 and 32)	**(1,291,703)**	(880,085)	(927,012)
Impairment loss (recovery) on property, plant and equipment, goodwill and other assets (Notes 4, 12, 13 and 14)	**(245,489)**	847,619	3,233,036
Unrealized fair valuation gains on investment property (Note 28)	**(126,842)**	–	–
Gain on sale of financial assets at FVTPL	**(1,251)**	–	–
Gain on remeasurement in step acquisition (Note 9)	**–**	–	(310,198)
Operating income before working capital changes	**40,248,098**	46,270,421	43,038,227
Decrease (increase) in:			
Trade and other receivables	**(5,765,526)**	(3,449,871)	(3,062,564)
Inventories	**58,424**	(1,057,730)	(1,190,795)
Other current assets	**2,780,992**	(3,401,458)	(2,263,317)
Increase (decrease) in:			
Trade and other payables	**5,230,984**	2,687,675	(1,834,708)
Long-term obligation on power distribution system	**(40,000)**	(40,000)	(40,000)
Customers' deposits	**513,105**	(86,326)	(736,552)
Net cash generated from operations	**43,026,077**	40,922,711	33,910,291
Income and final taxes paid	**(3,669,115)**	(3,634,811)	(3,674,360)
Net cash flows from operating activities	**39,356,962**	37,287,900	30,235,931
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash dividends received (Note 10)	**3,784,671**	4,346,071	5,070,559
Interest received	**1,421,536**	919,255	1,135,069
Proceeds from redemption of shares (Note 10)	**5,340**	80,216	8,809
Decrease (increase) in other noncurrent assets	**(2,109,404)**	(1,450,074)	1,073,472
Net collection of advances (Note 10)	**–**	2,054	7,443
Proceeds from sale of property, plant and equipment	**63,555**	18,388	10,846
Disposal of assets at FVTPL	**101,251**	–	–
Acquisitions through business combinations, net of cash acquired (Note 9)	**–**	–	894,655
Additions to:			
Property, plant and equipment (Note 12)	**(9,675,816)**	(8,607,781)	(16,068,050)
Intangible assets - service concession rights (Note 13)	**(60,625)**	(52,343)	(86,159)
Additional investments (Note 10)	**(27,591,092)**	(2,498,905)	(1,499,569)
Net cash flows used in investing activities	**(34,060,584)**	(7,243,119)	(9,452,925)

(Forward)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from availment of long-term debt (Note 17)	**₱33,500,091**	₱24,494,810	₱43,957,187
Net availments (payments) of short-term loans (Note 16)	**(1,187,800)**	6,829,260	561,700
Cash dividends paid (Note 20b)	**(10,817,148)**	(10,228,460)	(10,007,702)
Payments of:			
Long-term debt (Note 17)	**(11,819,230)**	(20,626,654)	(50,967,235)
Lease liabilities (Note 35)	**(7,424,990)**	(7,804,460)	(7,877,292)
Acquisition of non-controlling interest (Note 10)	**(6,773,008)**	–	–
Changes in non-controlling interests	**(2,580,724)**	(3,387,726)	(757,071)
Interest paid	**(7,273,246)**	(8,432,523)	(7,032,286)
Net cash flows used in financing activities	**(14,376,055)**	(19,155,753)	(32,122,699)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(9,079,677)**	10,889,028	(11,339,693)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**170,565**	(245,618)	(55,417)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**46,343,041**	35,699,631	47,094,741
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱37,433,929**	₱46,343,041	₱35,699,631

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Earnings per Share and Exchange Rate Data and When Otherwise Indicated)

1. Corporate Information

Aboitiz Power Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1998. The Company is a publicly-listed holding company of the entities engaged in power generation, retail electricity supply and power distribution in the Aboitiz Group. As of December 31, 2019, Aboitiz Equity Ventures, Inc. (AEV, also incorporated in the Philippines) owns 76.98% of the Company. The ultimate parent of the Company is Aboitiz & Company, Inc. (ACO).

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

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

2. Group Information

The consolidated financial statements comprise the financial statements of the Company, subsidiaries controlled by the Company and a joint operation that is subject to joint control (collectively referred to as "the Group"; see Note 11). The following are the subsidiaries as of December 31 of each year:

	Nature of Business	Percentage of Ownership					
		2019		2018		2017	
		Direct	**Indirect**	Direct	Indirect	Direct	Indirect
Aboitiz Renewables, Inc. (ARI) and Subsidiaries	Power generation	**100.00**	**–**	100.00	–	100.00	–
AP Renewables, Inc. (APRI)	Power generation	**–**	**100.00**	–	100.00	–	100.00
Aboitiz Power Distributed Energy, Inc.	Power generation	**–**	**100.00**	–	100.00	–	100.00
Aboitiz Power Distributed Renewables, Inc.	Power generation	**–**	**100.00**	–	100.00	–	100.00
Hedcor, Inc. (HI)	Power generation	**–**	**100.00**	–	100.00	–	100.00
Hedcor Sibulan, Inc. (HSI)	Power generation	**–**	**100.00**	–	100.00	–	100.00
Hedcor Tudaya, Inc. (Hedcor Tudaya)	Power generation	**–**	**100.00**	–	100.00	–	100.00
Luzon Hydro Corporation (LHC)	Power generation	**–**	**100.00**	–	100.00	–	100.00
AP Solar Tiwi, Inc.*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Retensol, Inc.*	Power generation	**–**	**100.00**	–	100.00	–	100.00
AP Renewable Energy Corporation*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Aseagas Corporation (Aseagas)*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Bakun Power Line Corporation*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Cleanergy, Inc.*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Cordillera Hydro Corporation*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Hedcor Benguet, Inc.*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Hedcor Bukidnon, Inc. (Hedcor Bukidnon)	Power generation	**–**	**100.00**	–	100.00	–	100.00
Hedcor Kabayan, Inc. *	Power generation	**–**	**100.00**	–	100.00	–	100.00
PV Sinag Power, Inc. (formerly Hedcor Ifugao, Inc.)*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Amihan Power, Inc. (formerly Hedcor Kalinga, Inc.)*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Aboitiz Solar Power, Inc. (formerly Hedcor Itogon Inc.)*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Hedcor Manolo Fortich, Inc.*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Hedcor Mt. Province, Inc.*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Hedcor Sabangan, Inc. (Hedcor Sabangan)	Power generation	**–**	**100.00**	–	100.00	–	100.00
Hedcor Tamugan, Inc.*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Mt. Apo Geopower, Inc.*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Negron Cuadrado Geopower, Inc. (NCGI)*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Tagoloan Hydro Corporation*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Luzon Hydro Company Limited*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Hydro Electric Development Corporation*	Power generation	**–**	**99.97**	–	99.97	–	99.97

(Forward)

	Nature of Business	Percentage of Ownership					
		2019		2018		2017	
		Direct	**Indirect**	Direct	Indirect	Direct	Indirect
Therma Power, Inc. (TPI) and Subsidiaries	Power generation	**100.00**	**–**	100.00	–	100.00	–
Mindanao Sustainable Solutions, Inc.*	Services	**–**	**100.00**	–	100.00	–	100.00
Therma Luzon, Inc. (TLI)	Power generation	**–**	**100.00**	–	100.00	–	100.00
Therma Marine, Inc. (Therma Marine)	Power generation	**–**	**100.00**	–	100.00	–	100.00
Therma Mobile, Inc. (Therma Mobile)	Power generation	**–**	**100.00**	–	100.00	–	100.00
Therma South, Inc. (TSI)	Power generation	**–**	**100.00**	–	100.00	–	100.00
Therma Power-Visayas, Inc. (TPVI) *	Power generation	**–**	**100.00**	–	100.00	–	100.00
Therma Central Visayas, Inc.*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Therma Subic, Inc.*	Power generation	**–**	**100.00**	–	100.00	–	100.00
Therma Mariveles Holding Cooperatief U.A. *(A,D)*	Holding company	**–**	**–**	–	–	–	100.00
Therma Mariveles Camaya B.V. *(A,D)*	Holding company	**–**	**–**	–	–	–	100.00
Therma Mariveles Holdings, Inc.	Holding company	**–**	**100.00**	–	100.00	–	100.00
GNPower Mariveles Coal Plant Ltd. Co. (GMCP) *(A,C)*	Power generation	**–**	**78.33**	–	66.07	–	66.07
Therma Dinginin Holding Cooperatief U.A. *(B,E)*	Holding company	**–**	**–**	–	100.00	–	100.00
Therma Dinginin B.V. *(B,E)*	Holding company	**–**	**–**	–	100.00	–	100.00
Therma Dinginin Holdings, Inc.	Holding company	**–**	**100.00**	–	100.00	–	100.00
Therma Visayas, Inc. (TVI)	Power generation	**–**	**80.00**	–	80.00	–	80.00
Abovant Holdings, Inc.	Holding company	**–**	**60.00**	–	60.00	–	60.00
AboitizPower International Pte. Ltd. (API)	Holding company	**100.00**	**–**	100.00	–	100.00	–
Aboitiz Energy Solutions, Inc. (AESI)	Retail electricity supplier	**100.00**	**–**	100.00	–	100.00	–
Adventenergy, Inc. (AI)	Retail electricity supplier	**100.00**	**–**	100.00	–	100.00	–
Balamban Enerzone Corporation (BEZ)	Power distribution	**100.00**	**–**	100.00	–	100.00	–
Lima Enerzone Corporation (LEZ)	Power distribution	**100.00**	**–**	100.00	–	100.00	–
Mactan Enerzone Corporation (MEZ)	Power distribution	**100.00**	**–**	100.00	–	100.00	–
Malvar Enerzone Corporation (MVEZ)	Power distribution	**100.00**	**–**	100.00	–	100.00	–
East Asia Utilities Corporation (EAUC)	Power generation	**50.00**	**50.00**	50.00	50.00	50.00	50.00
Cotabato Light and Power Company (CLP)	Power distribution	**99.94**	**–**	99.94	–	99.94	–
Cotabato Ice Plant, Inc.	Manufacturing	**–**	**100.00**	–	100.00	–	100.00
Davao Light & Power Company, Inc. (DLP)	Power distribution	**99.93**	**–**	99.93	–	99.93	–
Maaraw Holdings San Carlos, Inc. (MHSCI, see Note 9)	Holding company	**–**	**100.00**	–	100.00	–	100.00
San Carlos Sun Power, Inc. (Sacasun, see Note 9)	Power generation	**–**	**100.00**	–	100.00	–	100.00
AboitizPower International B.V. (APIBV, see Note 9)	Holding company	**–**	**100.00**	–	100.00	–	100.00
Subic Enerzone Corporation (SEZ)	Power distribution	**65.00**	**34.98**	65.00	34.98	65.00	34.98
Cebu Private Power Corporation (CPPC)	Power generation	**60.00**	**–**	60.00	–	60.00	–
Prism Energy, Inc. (PEI)	Retail electricity supplier	**60.00**	**–**	60.00	–	60.00	–
Visayan Electric Company (VECO)	Power distribution	**55.26**	**–**	55.26	–	55.26	–

A) Part of Therma Mariveles Group
B) Part of Therma Dinginin Group
C) In 2019, ownership increased in relation to AA Thermal, Inc. (ATI) acquisition (Note 10).
D) Dissolved and liquidated in 2018 as part of TPI's restructuring of its offshore intermediary companies acquired as part of the GNPower acquisition
E) Dissolved and liquidated in 2019 as part of TPI's restructuring of its offshore intermediary companies acquired as part of the GNPower acquisition
** No commercial operations as of December 31, 2019.*

All of the foregoing subsidiaries are incorporated and registered with the Philippine SEC and operate in the Philippines except for the following:

Subsidiary	Country of incorporation
AboitizPower International Pte. Ltd.	Singapore
AboitizPower International B.V.	Netherlands
Therma Mariveles Holding Cooperatief U.A.	Netherlands
Therma Mariveles Camaya B.V.	Netherlands
Therma Dinginin Holding Cooperatief U.A.	Netherlands
Therma Dinginin B.V.	Netherlands

Material partly-owned subsidiary

Information of subsidiaries that have material non-controlling interests is provided below:

	2019	2018	**2019**	2018
	GMCP	GMCP	**VECO**	VECO
Summarized balance sheet information				
Current assets	**₱10,006,452**	₱13,319,702	**₱4,989,549**	₱5,490,252
Noncurrent assets	**32,432,202**	34,003,425	**13,621,804**	11,577,649
Current liabilities	**4,612,886**	5,490,602	**6,869,764**	7,945,148
Noncurrent liabilities	**35,149,248**	37,651,754	**4,945,832**	3,748,561
Non-controlling interests	**2,277,399**	1,793,715	**2,680,701**	2,155,912
Summarized comprehensive income information				
Profit for the year	**₱3,803,229**	₱6,656,926	**₱2,468,943**	₱2,282,626
Total comprehensive income	**3,428,913**	7,470,424	**2,482,145**	2,268,931
Summarized other financial information				
Profit attributable to non-controlling interests	**₱1,289,565**	₱2,258,695	**₱1,076,870**	₱993,505
Dividends paid to non-controlling interests	**1,628,509**	3,348,883	**555,622**	979,147
Summarized cash flow information				
Operating	**₱9,044,012**	₱8,392,378	**₱2,779,002**	₱2,520,603
Investing	**(62,051)**	(856,220)	**(1,107,726)**	(922,612)
Financing	**(9,867,586)**	(6,258,128)	**(732,901)**	(1,632,733)
Net increase (decrease) in cash and cash equivalents	**(866,957)**	1,154,253	**938,375**	(34,742)

3. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets at FVTPL and investment properties which are measured at fair value. The consolidated financial statements are presented in Philippine peso which is the Company's functional currency and all values are rounded to the nearest thousand except for earnings per share and exchange rates and as otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous periods.

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company, its subsidiaries and joint operation that are subject to joint control as at December 31 of each year. The Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses, cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Transactions with Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the equity attributable to equity holders of the parent. Transactions with non-controlling interests are accounted for as equity transactions. On acquisitions of non-controlling interests, the difference between the consideration and the book value of the share of the net assets acquired is reflected as being a transaction between owners and recognized directly in equity. Gain or loss on disposals of non-controlling interest is also recognized directly in equity.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the new and revised standards and Philippine Interpretations which were applied starting January 1, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applied PFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. Several other amendments and interpretations apply for the first time in 2019, but did not have any significant impact on the Group's consolidated financial statements:

- PFRS 16*, Leases*

  PFRS 16 was issued in January 2016 and it replaces Philippine Accounting Standard (PAS) 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17.

  Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

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

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

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

	As at January 1, 2019
Increase (decrease) in consolidated balance sheet:	
Property, plant and equipment	₱3,170,656
Investments in and advances in associates and joint ventures	(18,691)
Other current and noncurrent assets	(1,133,294)
Total Assets	₱2,018,671
Lease liabilities	₱49,190,986
Finance lease obligation	(46,894,355)
Retained earnings	(237,890)
Non-controlling interests	(40,070)
Total Liabilities and Equity	₱2,018,671

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

- Property, plant and equipment were recognized amounting to ₱3.17 billion representing the amount of right-of-use assets set up on transition date.
- Adjustment to investment in and advances in associates and joint ventures amounting to ₱18.69 million pertaining to share of the Group in the transition made by its associates and joint ventures.
- Additional lease liabilities of ₱49.19 billion were recognized, which includes the reclass of finance lease obligation amounting to ₱46.89 billion previously recognized.
- Prepayments of ₱1.13 billion related to previous operating leases under PAS 17 were derecognized.
- The net effect of these adjustments had been adjusted to retained earnings and non-contolling interest amounting to ₱237.89 million and ₱40.07 million, respectively.

Prior to adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in the consolidated statement of income on a straight-line basis over the lease term. Any prepaid rent was recognized under “Other current assets” or “Other noncurrent assets.”

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

Leases previously classified as finance leases
The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under PAS 17). The requirements of PFRS 16 was applied to these leases from January 1, 2019. The Group reclassified amounts recognized under finance lease obligation to lease liabilities.

Leases previously accounted for as operating leases
The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

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

- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- Apply the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application,
- Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application,
- Use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

Operating lease commitments as at December 31, 2018	₱7,651,372
Incremental borrowing rate as at January 1, 2019	7.04% to 9.75%
Discounted operating lease commitments at January 1, 2019	2,310,811
Less commitments relating to short-term leases	(14,180)
Add commitments to leases previously classified as finance leases	46,894,355
Lease liabilities as at January 1, 2019	₱49,190,986

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

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

This amendment does not have an impact on the consolidated financial statements.

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

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

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

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

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

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

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests. The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

  Since the Group does not have such long-term interests in its associate and joint venture, the amendments do not have an impact on its consolidated financial statements.

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

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

The interpretation specifically addresses the following:

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

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

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

- *Annual Improvements to PFRSs* 2015-2017 Cycle

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

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

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

    These amendments are currently not applicable to the Group but may apply to future transactions.

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

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

  These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Income Tax Consequences of Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

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

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

The Group will adopt the standards enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRSs, PAS and Philippine Interpretations to have significant impact on its consolidated financial statements.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

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

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

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

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

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

Deferred effectivity

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

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

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

Summary of Significant Accounting Policies

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree pertaining to instruments that represent present ownership interests and entitle the holders to a proportionate share of the net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by PFRS. Acquisition-related costs incurred are expensed and included in administrative expenses.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized as "bargain purchase gain" in profit or loss.

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of goodwill
Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized.

Common control business combination
Business combination of entities under common control is accounted for similar to pooling of interest method, which is scoped out of PFRS 3. Under the pooling of interest method, any excess of acquisition cost over the net asset value of the acquired entity is recorded in equity.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated balance sheet based on current/noncurrent classification. An asset as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for a least twelve months after reporting period

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or
- There is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period

All other liabilities are classified as noncurrent.

Deferred income tax assets and liabilities are classified as non-current assets and liabilities.

Fair Value Measurement

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

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Group's valuation team (the Team) determines the policies and procedures for fair value measurement of its investment properties. External valuers (the Valuers) are involved in the periodic valuation of these assets. The respective subsidiary's Team decides the selection of the external valuers after discussion with and approval by its Chief Financial Officer (CFO). Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Team also determines, after discussions with the chosen Valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Team analyses the movements in the values of the investment properties which are required to be re-measured or re-assessed in accordance with the subsidiaries' accounting policies. The team, in coordination with the Valuers, also compares each of the changes in the fair value of each property with relevant external sources to determine whether the change is reasonable.

On the re-appraisal year, the Team and Valuers present the valuation results and the major assumptions used in the valuation to its CFO.

Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.
The Group's investments in its associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint

venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the loss in the consolidated statement of income.

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

Interest in Joint Operations

A joint arrangement is classified as a joint operation if the parties with joint control have rights to the assets and obligations for the liabilities of the arrangement. For interest in joint operations, the Group recognizes:

- assets, including its share of any assets held jointly;
- liabilities, including its share of any liabilities incurred jointly;
- revenue from the sale of its share of the output arising from the joint operation;
- share of the revenue from the sale of the output by the joint operation; and
- expenses, including its share of any expenses incurred jointly.

The accounting and measurement for each of these items is in accordance with the applicable PFRS.

Foreign Currency Translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of its subsidiaries; Therma Mariveles Group, Therma Dinginin Group, and LHC, and its associate; STEAG State Power, Inc. (STEAG), is the United States (US) Dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Group (the Philippine peso) at the rate of exchange ruling at the balance sheet date and their statement of income and statement of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income. Upon disposal of the subsidiary and associate, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in the consolidated statement of income.

Cash and Cash Equivalents

Cash and cash equivalents in the consolidated balance sheet consist of cash on hand and with banks, and short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. They are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

Inventories

Materials and supplies are valued at the lower of cost and net realizable value (NRV). Cost is composed of purchase costs determined on weighted average method. NRV is the current replacement cost. An allowance for inventory obsolescence is provided for slow-moving, defective or damaged goods based on analyses and physical inspection.

Financial Instruments - Classification and Measurement in Accordnace with PFRS 9 (applicable in 2019 and 2018)

Classification of financial assets

Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:

- financial assets measured at amortized cost
- financial assets measured at fair value through profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Contractual cash flows characteristics

If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model

The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument.

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

determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial assets at amortized cost
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the consolidated statement of income.

The Group's debt financial assets as of December 31, 2019 and 2018 consist of cash in banks, including restricted cash, cash equivalents, and trade and other receivables and the Power Sector Assets and Liabilities Management Corporation (PSALM) deferred adjustment - net of current portion included in "Other noncurrent assets" in the consolidated balance sheets. The Group assessed that the contractual cash flows of its debt financial assets are SPPI and are expected to be held to collect all contractual cash flows until their maturity. As a result, the Group concluded these debt financial assets to be measured at amortized cost.

Financial assets at FVOCI
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

The Group may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Group may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:

- the Group's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Group; and
- the amount of the dividend can be measured reliably.

The Group does not have any financial asset at FVOCI as of December 31, 2019 and 2018.

Financial assets at FVTPL
Financial assets at FVTPL are measured at fair value in the consolidated balance sheet with changes in fair value being recognized in the consolidated statement of income Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the consolidated statement of income as incurred.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

The Group's investments in quoted equity securities and in unquoted equity shares are measured at FVTPL as of December 31, 2019 and 2018.

Classification of financial liabilities
Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Group retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

The Group's financial liabilities measured at amortized cost as of December 31, 2019 and 2018 include trade and other payables (excluding taxes and fees, output value-added tax (VAT) and unearned revenue), customers' deposits, short-term loans, lease liabilities, long-term obligation on power distribution system, long-term debts, other noncurrent liabilities and lease liabilities (see Note 33).

Reclassifications of financial instruments
The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

The Group does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at fair value through profit or loss.

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

Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated balance sheet on the date when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

Initial recognition of financial instruments
All financial assets and financial liabilities are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS investments. For financial liabilities, the Group also classifies them into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every balance sheet date.

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

(a) Financial assets or financial liabilities at FVPL
Financial assets and liabilities at FVPL include financial assets and liabilities held for trading purposes and financial assets and liabilities designated upon initial recognition as at FVPL. Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated and considered as hedging instruments in an effective hedge.

Financial assets and liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities, or recognizing gains or losses on them on a different basis; (ii) the assets and liabilities are part of a group of financial assets, liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk managing strategy; or (iii) the financial instruments contains an embedded derivative that would need to be recorded separately, unless the embedded derivative does not significantly modify the cash flow or it is clear, with little or no analysis, that it would not be separately recorded.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as financial asset or financial liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and liabilities at FVPL are recorded at the consolidated balance sheet at fair value. Subsequent changes in fair value are recognized in the consolidated statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payments has been established.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS investments or financial assets at FVPL. Loans and receivables are carried at amortized cost less allowance for impairment. Amortization is determined using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that

are integral to the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(c) HTM investments
HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement, HTM investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

(d) AFS investments
AFS investments are non-derivative financial assets that are either designated as AFS or not classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Quoted AFS investments are measured at fair value with gains or losses being recognized as other comprehensive income, until the investments are derecognized or until the investments are determined to be impaired at which time, the accumulated gains or losses previously reported in other comprehensive income are included in the consolidated statement of income. Unquoted AFS investments are carried at cost, net of impairment. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statement of income when the right of payment has been established.

(e) Other financial liabilities
This category pertains to issued financial liabilities or their components that are neither held for trading nor designated as at FVPL upon the inception of the liability and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Other financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable financing costs. Deferred financing costs are amortized, using the effective interest rate method, over the term of the related long-term liability. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortized cost using the effective interest rate method.

Gains and losses are recognized in the consolidated statement of income when liabilities are derecognized, as well as through amortization process.

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments, including embedded derivatives, are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at FVTPL, unless designated as effective hedge. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. An embedded derivative is separated from the host financial or non-financial contract and accounted for as a separate derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized as at FVPL.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. The Group uses derivative financial instruments, such as foreign currency forward, interest rate swap (IRS) and commodity swap contracts to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively.

For the purpose of hedge accounting, the Group's hedges are classified as cash flow hedges. Hedges are classified as cash flow hedge when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Under PAS 39, the documentation includes identification of the hedging instrument, the hedge item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting period for which they were designated.

Under PFRS 9, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

The Group's hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedge
The effective portion of the gain or loss on the hedging instrument is recognized in the cumulative translation adjustment, while any ineffective portion is recognized immediately in the consolidated statement of income. The cumulative translation adjustment is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses foreign currency forward contracts as hedges of its exposure to foreign currency risk in forecast transactions, IRS contracts to manage its floating interest rate exposure on its loans and commodity swap contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to these contracts are recognized in other operating income or expenses as realized gain or loss on derivative instruments.

The Group designated all of the foreign currency forward, IRS and commodity swap contracts as hedging instrument. The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive must be accounted for depending on the nature of the underlying transaction as described above.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when, and only when:

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

When the Group retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Group treats the transaction as a transfer of a financial asset if the Group:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it retains control over the financial asset, the financial asset is recognized to the extent of the Group's continuing involvement in the financial asset. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Group could be required to repay ('the guarantee amount'). When the Group's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Group's continuing involvement takes the form of a cash- settled option or similar provision on the transferred asset, the extent of the Group's continuing involvement is measured in the same way as that which results from non-cash settled options.

Modification of contractual cash flows

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the consolidated statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

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

Impairment of Financial Assets in Accordance with PFRS 9 (applicable in 2019 and 2018)
PFRS 9 introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Group recognizes ECL for the following financial assets that are not measured at FVTPL:

- debt instruments that are measured at amortized cost and FVOCI;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL
For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the balance sheet date are recognized.

Stage 2: Lifetime ECL - not credit-impaired
For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL - credit-impaired
Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than 30 days past due.

Determining the stage for impairment
At each balance sheet date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to 'Trade receivables'. The Company has established a provision matrix for customer segments that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

<u>Impairment of Financial Assets in Accordance with PAS 39 (applicable in 2017)</u>
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that

an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the financial asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS investments
For AFS investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income) is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on rate of interest used to discount future cash flows for measuring impairment loss. Such accrual is recorded as part of "Interest income" in the consolidated statement of income. If, in subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Financial Guarantee Contracts and Loan Commitments
Financial guarantees are contracts issued by the Group that require it to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are initially recognized in the consolidated financial statements at fair value. Subsequently, these are measured at the higher of:

- the amount of the loss allowance determined in accordance with the ECL model and
- the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of PFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans that can be settled net in cash or by delivering or issuing another financial instrument or that are issued at below-market interest rates.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for financial instruments that include both a loan and an undrawn commitment (i.e. loan commitment) component where the Group cannot separately identify the expected credit losses on the loan commitment component from those on the loan component, the expected credit losses on the loan commitment should be recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognized as a provision.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements whereby the related assets and liabilities are presented gross in the consolidated balance sheet.

Classification of financial instruments between liability and equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as income or expense. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Property held for sale

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

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Property, Plant and Equipment

Except for land, property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The initial cost of property, plant and equipment comprises its purchase price, including import duties, if any, and nonrefundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing parts of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Cost also include decommissioning liability relating to the decommissioning of power plant equipment, if any. Repairs and maintenance costs are recognized in the consolidated statement of income as incurred.

Land is stated at cost less any accumulated impairment in value.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Category	Estimated Useful Life (in years)
Buildings, warehouses and improvements	10-50
Power plant equipment	2-50
Transmission, distribution and substation equipment:	
Power transformers	30
Poles and wires	20-40
Other components	12-30
Transportation equipment	5-10
Office furniture, fixtures and equipment	2-20
Electrical equipment	5-25
Meters and laboratory equipment	25
Steam field assets	20-25
Tools and others	2-20

Leasehold improvements are amortized over the shorter of the lease terms and the lives of the improvements.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts, and any resulting gain or loss is credited or charged to current operations. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period.

Leases (prior to adoption of PFRS 16)

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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

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

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

Finance lease

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated balance sheet as lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liabilities so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in profit or loss.

Capitalized leased assets are depreciated over the estimated useful life of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Leases (upon adoption of PFRS 16)
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

Right-of-use assets
The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Category	Number of years
Land	10-50
Building	2-50
Power plant	20-25
Equipment and others	2-20

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

Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the

lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

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

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

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Service Concession Arrangements
Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls-through ownership, beneficial entitlement or otherwise-any significant residual interest in the infrastructure at the end of the term of the arrangement, are accounted for under the provisions of Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of this Interpretation if the conditions in (a) are met.

This interpretation applies to both: (a) infrastructure that the entities in the Group constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the entity in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of this Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of contractual arrangements within the scope of this Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

An entity recognizes and measures revenue in accordance with PFRS 15 (PAS 18 in 2017), for the services it performs. If an entity performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

When an entity provides construction or upgrades services, the consideration received or receivable by the entity is recognized at its fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PFRS 15 (PAS 18 in 2017). Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the percentage of costs incurred to date to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PFRS 15 (PAS 18 in 2017).

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entities have contractual obligations it must fulfill as a condition of its license (a) to maintain the infrastructure to a specified level of serviceability or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures these contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the balance sheet date.

Borrowing cost attributable to the construction of the asset if the consideration received or receivable is an intangible asset, is capitalized during the construction phase. In all other cases, borrowing costs are expensed as incurred.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Software and licenses

Software and licenses are initially recognized at cost. Following initial recognition, the software and licenses are carried at cost less accumulated amortization and any accumulated impairment in value.

The software and licenses is amortized on a straight-line basis over its estimated useful economic life of three to five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the software development costs is available for use. The amortization period and the amortization method for the software development costs are reviewed at each financial year-end. Changes in the estimated useful life is

accounted for by changing the amortization period or method, as appropriate, and treating them as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the software development costs.

Service concession right
The Group's intangible asset - service concession right pertains mainly to its right to charge users of the public service in connection with the service concession and related arrangements. This is recognized initially at the fair value which consists of the cost of construction services and the fair value of future fixed fee payments in exchange for the license or right. Following initial recognition, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses.

The intangible asset - service concession right is amortized using the straight-line method over the estimated economic useful life which is the service concession period, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated economic useful life is ranging from 18 to 25 years. The amortization period and the amortization method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Franchise
The Group's franchise pertains to VECO's franchise to distribute electricity within an area granted by the Philippine Legislature, acquired in the business combination in 2013. The franchise is initially recognized at its fair value at the date of acquisition. Following initial recognition, the franchise is carried at cost less accumulated amortization and any accumulated impairment losses. The Group's franchise is amortized using the straight-line method over the estimated economic useful life, and assessed for impairment whenever there is an indication that the franchise may be impaired. The estimated economic useful life of the franchise is 40 years. The amortization period and amortization method for franchise are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the franchise are accounted for by changing the amortization period or method, as appropriate, and treated as a change in accounting estimates. The amortization expense on franchise is recognized in the consolidated statement of income in the expense category consistent with its function.

Intangible assets - customer contracts
The Group's intangible assets - customer contracts pertain to contracts entered by subsidiaries relating to the provision of utility services to locators within an industrial zone.

These are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The intangible assets - customer contracts are amortized using the straight-line method over the remaining life of the contract, and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and method are reviewed at least at each financial year end.

The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Project development costs
Project development costs include power plant projects in the development phase which meet the "identifiability" requirement under PAS 38, *Intangible Assets*, as they are separable and susceptible to individual sale and are carried at acquisition cost. These assets are transferred to "Property, plant and equipment" when construction of each power plant commences. During the period of development, the asset is tested for impairment annually.

Research and Development Expenditure
The Group's policy is to record research expenses in the consolidated statement of income in the period when they are incurred.

Development costs are recognized as an intangible asset on the consolidated balance sheet if the Group can identify them separately and show the technical viability of the asset, its intention and capacity to use or sell it, and how it will generate probable future economic benefits.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Investment Properties
Investment properties, which pertain to land and buildings, are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are carried at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in fair values of investment properties are included in the consolidated statement of income in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development with a view to sale. For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent

accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income.

Impairment of Non-financial Assets

Property, plant and equipment, intangible assets, investment and advances and other current and noncurrent assets excluding restricted cash and PSALM deferred adjustment

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Decommissioning Liability

The decommissioning liability arose from the Group's obligation, under their contracts, to decommission, abandon and perform surface rehabilitation at the end of the useful lives of the steam field assets, or the end of the lease term, or upon abandonment of the plant. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income under "Interest expense" account. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively.

Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of property, plant and equipment. The amount deducted from the cost of property, plant and equipment, shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the property, plant and equipment, the excess shall be recognized immediately in the consolidated statement of income.

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Capital stock includes common stock and preferred stock.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are debited to the "Paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against equity.

Retained Earnings

The amount included in retained earnings includes accumulated earnings of the Company and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the BOD. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the transition provisions of new and amended standards.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of power

For power generation and ancillary services where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone without the corresponding energy and the buyer cannot obtain energy without contracting a capacity. The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer.

Revenue from power generation and ancillary services is recognized in the period actual capacity is delivered. Revenue is recognized over time since the customer simultaneously receives and consumes the benefits as the seller supplies power.

Under PAS 18, revenue from power generation is recognized in the period actual capacity is generated. Under PFRS 15, the Group has concluded that revenue should be recognized over time since the customer simultaneously receives and consumes the benefit as the seller supplies power.

In contracts with fixed capacity payments which are determined at contract inception, the fixed capacity payments for the entire contract period is determined at day 1 and is recognized over time. Specifically, on contracts where capacity payments are fixed but escalates throughout the contract period without any reference to market indices, the fixed escalation is recognized on a straight-line basis over the contract period.

Some contracts with customers provide unspecified quantity of energy, includes provisional Energy Regulatory Commission (ERC) rates, and volume and prompt payment discounts that give rise to variable consideration. Under PFRS 15, the variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of constraint on variable consideration resulted in the same revenue recognition under PAS 18.

Power distribution and retail supply also qualify as a series of distinct goods or services that are substantially the same and have the same pattern of transfer accounted for as one performance obligation. Revenue is recognized over time and based on amounts billed.

Technical, management and other fees
Technical, management and other fees are recognized when the related services are rendered.

Interest income
Interest is recognized as it accrues taking into account the effective interest method.

Other income
Revenue is recognized when non-utility operating income and surcharges are earned.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

Pension Benefits
The Group has defined benefit pension plans which require contributions to be made to separately administered funds. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to consolidated statement of income in subsequent periods.

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

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

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in the consolidated statement of comprehensive income and not in the consolidated statement of income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries,
- associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Income tax relating to items recognized directly in other comprehensive income is also recognized in other comprehensive income and not in the consolidated statement of income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

VAT

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

For its VAT-registered activities, when VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated balance sheet up to the extent of the recoverable amount.

For its non-VAT registered activities, the amount of VAT passed on from its purchases of goods or service is recognized as part of the cost of goods/asset acquired or as part of the expense item, as applicable.

Input VAT, which is presented as part of “Other current assets” and/or “Other noncurrent assets” in the consolidated balance sheet, is recognized as an asset and will be used to offset the Group’s current output VAT liabilities and/or applied for claim for tax credit certificates. Input VAT is stated at its estimated NRV.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Reporting Period
Post year-end events that provide additional information about the Group's position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed when material.

Earnings Per Common Share
Basic earnings per common share are computed by dividing consolidated net income for the year attributable to the equity holders of the Company by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect for any stock dividends declared and stock rights exercised during the year.

Diluted earnings per share amounts are calculated by dividing the consolidated net income for the year attributable to the equity holders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalents. The Group does not have dilutive potential common shares.

Operating Segments
For management purposes, the Group is organized into two major operating segments (power generation and power distribution) according to the nature of the services provided, with each segment representing a significant business segment. The Group's identified operating segments are consistent with the segments reported to the BOD which is the Group's Chief Operating Decision Maker (CODM). Financial information on the operating segment is presented in Note 31.

4. Significant Accounting Judgments, Estimates and Assumptions

The Group's consolidated financial statements prepared in accordance with PFRSs require management to make judgment, estimates and assumptions that affect amount reported in the financial statements and related notes. The judgment, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. Actual results could differ from such estimates. Judgments, estimates and assumptions are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under circumstances. The following items are those matters which the Group assess to have significant risk arising from judgements and estimation uncertainties:

Judgments
In the process of applying the Group's accounting policies, management has made judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Determining functional currency
Based on the economic substance of the underlying circumstances relevant to the companies in the Group, the functional currency of the companies in the Group has been determined to be the Philippine Peso except for certain subsidiaries and an associate whose functional currency is the US Dollar. The Philippine Peso is the currency of the primary economic environment in which companies in the Group operates and it is the currency that mainly influences the sale of power and

services and the costs of power and of providing the services. The functional currency of the Group's subsidiaries and associates is the Philippine Peso except for Therma Mariveles Group, Therma Dinginin Group, and LHC (subsidiaries), and STEAG (associate) whose functional currency is the US Dollar.

Service concession arrangements - Group as Operators
Based on management's judgment, the provisions of Philippine Interpretation IFRIC 12 apply to SEZ's Distribution Management Service Agreement (DMSA) with Subic Bay Metropolitan Authority (SBMA); MEZ's Built-Operate-Transfer agreement with Mactan Cebu International Airport Authority (MCIAA) and LHC's Power Purchase Agreement (PPA) with the National Power Corporation (NPC). SEZ, MEZ and LHC's service concession agreements were accounted for under the intangible asset model.

The Company's associate, STEAG, has also determined that the provisions of Philippine Interpretation IFRIC 12 apply to its PPA with NPC. STEAG's service concession agreement was accounted for under the financial asset model. Refer to the accounting policy on service concession arrangements for the discussion of intangible asset and financial asset models.

Determining fair value of customers' deposits
In applying PFRS 9 on transformer and lines and poles deposits, the Group has made a judgment that the timing and related amounts of future cash flows relating to such deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using alternative valuation techniques since the expected timing of customers' refund or claim for these deposits cannot be reasonably estimated. These customers' deposits, which are therefore stated at cost, amounted to ₱6.52 billion and ₱6.01 billion as of December 31, 2019 and 2018, respectively (see Note 18).

Finance lease - Group as the lessee, applicable under Philippine Interpretation IFRIC 4 and PAS 17 (see Note 3 application of transition relief)
In accounting for its Independent Power Producer (IPP) Administration Agreement with PSALM, the Group's management has made a judgment that the IPP Administration Agreement of TLI is an arrangement that contains a lease. The Group's management has made a judgment that TLI has substantially acquired all the risks and rewards incidental to ownership of the power plant principally by virtue of its right to control the capacity of power plant and its right to receive the transfer of the power plant at the end of the IPP Administration Agreement for no consideration. Accordingly, the Group accounted for the agreement as a finance lease and recognized the power plant and lease liability at the present value of the agreed monthly payments to PSALM (see Note 35).

The power plant is depreciated over its estimated useful life, as there is reasonable certainty that the Group will obtain ownership by the end of the lease term. As of December 31, 2019 and 2018, the carrying value of the power plant amounted to ₱33.58 billion and ₱34.67 billion, respectively (see Notes 12 and 35). The carrying value of the lease liability related to this contract amounted to ₱42.07 billion and ₱46.89 billion as of December 31, 2019 and 2018, respectively (see Note 35).

Nonconsolidation of Manila-Oslo Renewable Enterprise, Inc. (MORE) and its investees, ATI and GNPower Dinginin Ltd. Co. (GNPD)
The Group has 83.33% interest in MORE which has a 60% ownership interest in SN Aboitiz Power-Magat, Inc. (SNAP M), SN Aboitiz Power-Benguet, Inc. (SNAP B), SN Aboitiz Power-RES, Inc. (SNAP RES), and SN Aboitiz Power-Generation, Inc.

The Group has 72.5% interest in GNPD.

The Group does not consolidate MORE and GNPD since it does not have the ability to direct the relevant activities which most significantly affect the returns of MORE and its investees, and GNPD. This is a result of partnership and shareholders' agreements which, among others, stipulate the management and operation of MORE and GNPD. Management of MORE and GNPD are vested in their respective BOD or "Management Committee" and the affirmative vote of the other shareholders or partners is required for the approval of certain company actions which include financial and operating undertakings (see Note 10).

Determining a joint operation
The Group has 50% interest in Pagbilao Energy Corporation (PEC). The Group assessed that the joint arrangement is a joint operation as the financial and operating activities of the operation are jointly controlled by the participating shareholders and are primarily designed for the provision of output to the shareholders.

Classification of financial instruments
The Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet.

Contractual cash flows assessment
For each financial asset, the Group assesses the contractual terms to identify whether the instrument is consistent with the concept of SPPI.

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

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

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

Evaluation of business model in managing financial instruments
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

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

Identifying performance obligations under PFRS 15 in 2019 and 2018
The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

The Group assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if i) each distinct good or services in the series are transferred over time and ii) the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation.

For power generation and ancillary services where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone without the corresponding energy and the buyer cannot obtain energy without contracting a capacity.

The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer since the delivery of energy every month are distinct services which are all recognized over time and have the same measure of progress.

Power distribution and retail supply also qualify as a series of distinct goods or services which is accounted for as one performance obligation since the delivery of energy every month are distinct services which are recognized over time and have the same measure of progress.

Revenue recognition under PFRS 15 in 2019 and 2018
The Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The Group's revenue from power generation, power distribution, ancillary services and retail supply are to be recognized over time, since customers simultaneously receives and consumes the benefits as the Group supplies power.

Identifying methods for measuring progress of revenue recognized over time under PFRS 15 in 2019 and 2018
The Group determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

For power generation and ancillary services, the Group determined that the output method is the best method in measuring progress since actual electricity is supplied to customers. The Group recognizes revenue based on:

For power generation and ancillary services:

a. For the variable energy payment, actual kilowatt hours consumed which are billed on a monthly basis.
b. For fixed capacity payments, the Group allocates the transaction price on a straight-line basis over the contract term. The allocated fixed payments are also billed on a monthly basis.

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

Determining method to estimate variable consideration and assessing the constraint under PFRS 15 in 2019 and 2018
The Group includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the Group will subject to constraint. Factors such as i) highly susceptibility to factors outside the Group's influence, ii) timing of resolution of the uncertainty, and iii) having a large number and broad range of possible considerations amount are considered.

Some contracts with customers provide unspecified quantity of energy, provisional ERC rates, and volume and prompt payment discounts that give rise to variable consideration. In estimating the variable consideration, the Group applies the expected value method in estimating the variable consideration given the large number of customer contracts that have similar characteristics and the range of possible outcomes.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are to be fully constrained based on its historical experience (i.e., volume and prompt payment discounts), the range of possible outcomes (i.e., unspecified quantity of energy), and the unpredictability of other factors outside the Group's influence (i.e., provisional ERC rates).

Allocation of variable consideration under PFRS 15 in 2019 and 2018
Variable consideration may be attributable to the entire contract or to a specific part of the contract. For power generation, power distribution, ancillary services and retail supply revenue streams which are considered as series of distinct goods or services that are substantially the same and have the same pattern of transfer, the Group allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month) which forms part of the single performance obligation, and forms part of the monthly billing of the Group.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Acquisition accounting
The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed be recorded at the date of acquisition at their respective fair values.

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined.

The judgments made in the context of the purchase price allocation can materially impact the Group's future results of operations. Accordingly, for significant acquisitions, the Group obtains assistance from third party valuation specialists. The valuations are based on information available at the acquisition date (see Note 9).

Estimating allowance for impairment losses on investments and advances
Investments and advances are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There were no impairment indicators in 2019 and 2018 based on management's assessment. The carrying amounts of the investments and advances amounted to ₱60.88 billion and ₱34.33 billion as of December 31, 2019 and 2018, respectively (see Note 10).

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2019

and 2018 amounted to ₱40.88 billion and ₱40.22 billion, respectively. Goodwill impairment recognized in 2018 amounted to ₱45.93 million (see Note 13). No impairment of goodwill was recognized in 2019 and 2017.

Estimating useful lives of property, plant and equipment
The Group estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors and circumstances mentioned above. As of December 31, 2019 and 2018, the net book values of property, plant and equipment, excluding land and construction in progress, amounted to ₱204.07 billion and ₱170.37 billion, respectively (see Note 12).

Estimating residual value of property, plant and equipment
The residual value of the Group's property, plant and equipment is estimated based on the amount that would be obtained from disposal of the asset, after deducting estimated costs of disposal, if the asset is already of the age and in the condition expected at the end of its useful life. Such estimation is based on the prevailing price of property, plant and equipment of similar age and condition. The estimated residual value of each asset is reviewed periodically and updated if expectations differ from previous estimates due to changes in the prevailing price of a property, plant and equipment of similar age and condition. As of December 31, 2019 and 2018, the aggregate net book values of property, plant and equipment, excluding land and construction in progress, amounted to ₱204.07 billion and ₱170.37 billion, respectively (see Note 12).

Estimating useful lives of intangible asset - franchise
The Group estimates the useful life of VECO distribution franchise based on the period over which the asset is estimated to be available for use over 40 years, which consist of the 15 years remaining contract period from the date of business combination and an expected probable renewal covering another 25 years. As of December 31, 2019 and 2018, the carrying value of the franchise amounted to ₱2.57 billion and ₱2.65 billion, respectively (see Note 13).

Estimating useful lives of intangible asset - service concession rights
The Group estimates the useful lives of intangible asset arising from service concessions based on the period over which the asset is expected to be available for use which is 18 to 25 years. The Group has not included any renewal period on the basis of uncertainty, as of balance sheet date, of the probability of securing renewal contracts at the end of the original contract term. As of December 31, 2019 and 2018, the aggregate net book values of intangible asset - service concession rights amounted to ₱2.41 billion and ₱2.79 billion, respectively (see Note 13).

Assessing impairment of nonfinancial assets
The Group assesses whether there are any indicators of impairment for nonfinancial assets at each balance sheet date. These nonfinancial assets (property, plant and equipment, intangible assets (excluding goodwill), and other current and noncurrent assets) are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Determining the recoverable amount of non-financial assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that the property, plant and equipment, intangible assets (excluding goodwill), and other current and noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on the consolidated balance sheet and consolidated statement of income.

As of December 31, 2019 and 2018, the aggregate net book values of these assets amounted to ₱228.70 billion and ₱228.45 billion, respectively (see Notes 8, 12, 13 and 14). Impairment losses recognized on these non-financial assets in 2019, 2018 and 2017 amounted to nil, ₱740.3 million and ₱3.13 billion, respectively (see Notes 12, 13 and 14).

Measurement of expected credit losses under PFRS 9 in 2019 and 2018
ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- *Financial guarantee contracts:* as the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The Group leverages existing risk management indicators (e.g. internal credit risk classification and restructuring triggers), credit risk rating changes and reasonable and supportable information which allows the Group to identify whether the credit risk of financial assets has significantly increased.

Inputs, assumptions and estimation techniques under PFRS 9 in 2019 and 2018
The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), defined as follows:

- *Probability of default*
  The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining life of the obligation. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures. The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

- *Loss given default*
  Loss Given Default represents the Group's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD.

- *Exposure at default*
  EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

The ECL is determined by projecting the PD, LGD, and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by customer segment.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies including contracted debt sales and price.

The assumptions underlying the ECL calculation such as how the maturity profile of the PDs change are monitored and reviewed on a quarterly basis.

Simplified approach for trade receivables under PFRS 9 in 2019 and 2018
The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for various customer segments that have similar loss patterns (i.e., by geography, customer segment and coverage by letters of credit).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the industrial segment, the historical default rates are adjusted. At every balance sheet date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

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

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Incorporation of forward-looking information under PFRS 9 in 2019 and 2018
The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Group has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The macro-economic variables include the following key indicators for the Philippines: unemployment rates, inflation rates, gross domestic product growth and net personal income growth.

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Group has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

An increase in the Group's allowance for expected credit losses of trade and other receivables will increase the Group's recorded expenses and decrease current assets. As of December 31, 2019 and 2018, allowance for expected credit losses amounted to ₱1.97 billion and ₱1.75 billion, respectively. Trade and other receivables, net of allowance for ECL, amounted to ₱21.75 billion and ₱21.72 billion as of December 31, 2019 and 2018, respectively (see Note 6).

Estimating allowance for inventory obsolescence
The Group estimates the allowance for inventory obsolescence based on the age of inventories. The amounts and timing of recorded expenses for any period would differ if different judgments or different estimates are made. An increase in allowance for inventory obsolescence would increase recorded expenses and decrease current assets. As of December 31, 2019 and 2018, allowance for inventory obsolescence amounted to ₱88.2 million and ₱34.2 million, respectively. The carrying amount of the inventories amounted to ₱6.63 billion and ₱6.69 billion as of December 31, 2019 and 2018, respectively (see Note 7).

Estimating the incremental borrowing rate (IBR)
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates. The carrying amount of the lease liabilities amounted to ₱44.79 billion and ₱46.89 billion as of December 31, 2019 and 2018, respectively, (see Note 35).

Estimating decommissioning liability
Under the Geothermal Resource Service Contract (GRSC), the Group has a legal obligation to decommission, abandon and perform surface rehabilitation on its steam field asset at the end of its useful life. The Group also has a legal obligation under its land lease agreements to decommission the power plants at the end of its lease term. The Group recognizes the present value of the obligation to decommission the plant, abandon and perform surface rehabilitation of the steam field asset and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment, which are being depreciated and amortized on a straight-line basis over the useful life of the related asset.

These costs are accrued based on in-house estimates, which incorporates estimates of the amount of obligations and interest rates, if appropriate. Assumptions used to compute the provision are reviewed and updated annually. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with charges being recognized as accretion expense, included under "Interest expense" in the consolidated statement of income.

Changes in the decommissioning liability that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in the consolidated statement of income as it occurs.

While the Group has made its best estimate in establishing the decommissioning provision, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning activities, the ultimate provision requirements could either increase or decrease significantly from the Group's current estimates.

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Decommissioning liability amounted to ₱3.57 billion and ₱3.68 billion as of December 31, 2019 and 2018, respectively, (see Note 19).

Recognition of deferred income tax assets
The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The

Group recognize deferred taxes based on enacted or substantially enacted tax rates for renewable of 10% and for non-renewable of 30%. The Group has deferred income tax assets amounting to ₱4.36 billion and ₱4.27 billion as of December 31, 2019 and 2018, respectively (see Note 29).

The Group did not recognize deferred income tax assets on Minimum Corporate Income Tax (MCIT) amounting to ₱67.7 million and ₱58.3 million as of December 31, 2019 and 2018, respectively, and Net Operating Loss Carryover (NOLCO) amounting to ₱7.80 billion and ₱5.44 billion as of December 31, 2019 and 2018, respectively, since management expects that it will not generate sufficient taxable income in the future that will be available to allow all of the deferred income tax assets to be utilized (see Note 29).

Pension benefits
The cost of defined benefit pension plans, as well as the present value of the pension obligation, are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 27.

Net benefit expense amounted to ₱182.3 million in 2019, ₱195.7 million in 2018, and ₱219.4 million in 2017. The net pension assets as of December 31, 2019 and 2018 amounted to ₱68.2 million and ₱127.0 million, respectively. Net pension liabilities as of December 31, 2019 and 2018 amounted to ₱426.0 million and ₱244.9 million, respectively.

Fair value of financial instruments
Where the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques which include the discounted cash flow model and other generally accepted market valuation model. The inputs for these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The fair values of the Group's financial instruments are presented under Note 34.

Legal contingencies
The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized in the Group's consolidated financial statements for the years ended December 31, 2019, 2018 and 2017.

5. Cash and Cash Equivalents

	2019	2018
Cash on hand and in banks	**₱14,177,919**	₱11,426,051
Short-term deposits	**23,256,010**	34,916,990
	₱37,433,929	₱46,343,041

Cash in banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposits rates. Interest income earned from cash and cash equivalents amounted to ₱1.29 billion in 2019, ₱880.1 million in 2018, and ₱907.6 million in 2017.

6. Trade and Other Receivables

	2019	2018
Trade receivables - net of allowance for expected credit losses of ₱1.97 billion and ₱1.75 billion in 2019 and 2018, respectively (Notes 32 and 33)	**₱12,958,429**	₱12,810,034
Others:		
Dividends receivable (Note 10)	**1,199,068**	665,783
Advances to contractors	**63,339**	148,300
Accrued revenue	**3,462,523**	3,476,120
Non-trade receivable	**2,450,311**	2,872,224
Interest receivable	**48,666**	91,992
PSALM deferred adjustment (Note 40k)	**1,042,861**	1,042,861
Others	**522,225**	614,462
	₱21,747,422	₱21,721,776

Trade and other receivables are non-interest bearing and are generally on 10 - 30 days' term.

For terms and conditions relating to related party receivables, refer to Note 32.

Advances to contractors refer to non-interest bearing advance payments made for project mobilization which are offset against progress billings to be made by the contractors.

Accrued revenue relates to accrual of power sales of the Power Generation segment.

Non-trade receivable relates mostly to receivable of GMCP from NGCP related to the sale of transmission assets in 2019 and advances to partners in GMCP which are subject to offset against any cash dividends declared by GMCP and due to the partners in 2018.

The rollforward analysis of allowance for expected credit losses as of December 31, 2019 and 2018, which pertains to trade receivables, is presented below:

	2019	2018
January 1	**₱1,749,991**	₱1,774,838
Transition adjustment and translation effect	**–**	86,936
Provision (see Note 24)	**87,086**	235,818
Write-off	**(89,496)**	(347,601)
Effect of changes in foreign exchange rate	**225,939**	–
December 31	**₱1,973,520**	₱1,749,991

7. Inventories

	2019	2018
Fuel	**₱2,514,447**	₱3,521,390
Plant spare parts and supplies	**2,507,832**	2,245,805
Transmission and distribution supplies	**1,492,222**	915,168
Other parts and supplies	**117,528**	8,090
	₱6,632,029	₱6,690,453

Inventories are carried at lower of cost and NRV as of December 31, 2019 and 2018.

The cost of inventories recognized as part of cost of generated power in the consolidated statements of income amounted to ₱29.39 billion in 2019, ₱29.42 billion in 2018, and ₱22.32 billion in 2017 (see Note 23). The cost of inventories recognized as part of operations and maintenance in the consolidated statements of income amounted to ₱353.70 million in 2019, ₱286.71 million in 2018, and ₱412.1 million in 2017 (see Note 25). Write-down on inventories to arrive at NRV amounted to ₱54.0 million and nil in 2019 and 2018, respectively.

8. Other Current Assets

	2019	2018
Restricted cash (Note 17)	**₱4,449,716**	₱5,289,145
Input VAT	**2,049,496**	2,673,822
Prepaid tax	**1,854,792**	2,171,352
Advances to National Grid Corporation of the Philippines (NGCP)	**1,727,028**	1,725,176
Prepaid expenses	**610,426**	722,066
Prepaid rent (Note 35)	**–**	93,894
Others	**391,947**	530,480
	₱11,083,405	₱13,205,935

Restricted cash represents proceeds from sale of power under the control of trustees of TVI and TSI's lenders as per loan agreement (see Note 17). The asset will be used to pay the current portion of loans payable and interest payments in the following period.

Advances to NGCP pertain to TVI's cost of construction and installation of substation and transmission facilities which are subject for reimbursement after completion of the project.

Prepaid expenses mainly include prepayments for insurance.

9. Business Combination

Step-acquisition of Sacasun

In 2014, ARI and SunEdison Inc. (SEI), entered into a joint framework agreement to develop solar photovoltaic projects in the Philippines. Pursuant to their agreement, SEI, the ultimate parent company of SunE Solar B.V. (SunE BV) and Sunedison Philippines Helios B.V. (Helios BV), and ARI invested in MHSCI and Sacasun for the 59-MWp solar project in San Carlos City, Negros Occidental.

On December 27, 2017, API completed its acquisition of 100% equity interest in Helios BV from SunE BV. The transaction resulted in API owning all the issued and outstanding shares of Helios BV, which owns a 40% equity interest in each of MHSCI and Sacasun. MHSCI owns 25% of Sacasun. This increased the Company's indirect ownership interest in MHSCI and SACASUN to 100%.

The transaction was accounted for as a business combination achieved in stages. The purchase price allocation in the step-acquisition of Sacasun was finalized in 2018. The fair value of the previously-held interest as at the date of acquisition is ₱330.9 million. The resulting bargain purchase gain of ₱328.7 million and the loss on remeasurement of previously held interest of ₱18.5 million are included in other income as "Bargain purchase gain" in the 2017 consolidated statement of income (see Note 28). The bargain purchase gain is mainly due to the purchase price reflecting the ongoing difficulty of SEI as confirmed by its bankruptcy declaration which affected its ability to fulfill loan obligations.

10. **Investments and Advances**

	2019	2018
Acquisition cost:		
Balance at beginning of the year	**₱30,559,245**	₱28,140,556
Additions during the year	**27,591,092**	2,498,905
Redemptions during the year	**(5,340)**	(80,216)
Balance at end of year	**58,144,997**	30,559,245
Accumulated equity in net earnings:		
Balance at beginning of the year	**3,867,849**	3,666,971
Transition adjustment (see Note 3)	**(18,691)**	–
Share in net earnings	**3,813,962**	4,356,825
Dividends received or receivable	**(4,317,956)**	(4,155,947)
Balance at end of year	**3,345,164**	3,867,849
Share in net unrealized valuation gain on FVOCI investment of an associate	**101,727**	101,727
Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures	**(14,299)**	29,729
Share in cumulative translation adjustments of associates and joint ventures	**(153,485)**	321,139
	(66,057)	452,595
	61,424,104	34,879,689
Less allowance for impairment losses	**568,125**	568,125
Investments at equity	**60,855,979**	34,311,564
Advances	**22,562**	22,562
	₱60,878,541	₱34,334,126

As of December 31, 2019 and 2018, the undistributed earnings of the associates and joint ventures included in the Group's retained earnings amounting to ₱3.35 billion and ₱3.87 billion, respectively, are not available for distribution to the stockholders unless declared by the investees (see Note 20).

2019

In 2019, the Group, through TPI and ATI, made capital contributions to GNPD amounting to US$81.45 million (₱4.21 billion).

In 2019, AEV Aviation, Inc. (AAI) redeemed 5,340 redeemable preferred shares (RPS) held by the Company for ₱5.34 million.

Acquisition of ATI

On May 2, 2019, the Company completed its acquisition of a 49% voting stake and a 60% economic stake in ATI, AC Energy's thermal platform in the Philippines. The transaction is valued at $572.9 million (₱29.79 billion).

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

The completion of the transaction increases the Company's economic interests in GMCP, and GNPD to 78.3%, and 75.0%, respectively.

2018

In 2018, the Group, through TPI, made capital contributions to GNPD amounting to US$47.0 million (₱2.50 billion).

In 2018, AEV Aviation, Inc. (AAI) redeemed 80,216 RPS held by the Company for ₱80.2 million.

The Group's associates and joint ventures and the corresponding equity ownership are as follows:

		Percentage of Ownership		
	Nature of Business	**2019**	2018	2017
MORE[1]	Holding company	**83.33**	83.33	83.33
GNPD [1, 2]	Power generation	**72.50**	45.00	47.50
ATI[3]	Holding company	**60.00**	–	–
Hijos de F. Escaño, Inc. (Hijos)	Holding company	**46.73**	46.73	46.73
Mazzaraty Energy Corporation (MEC)	Retail electricity supplier	**44.87**	44.87	44.87
San Fernando Electric Light & Power Co., Inc. (SFELAPCO)	Power distribution	**43.78**	43.78	43.78
Pampanga Energy Ventures, Inc. (PEVI)	Holding company	**42.84**	42.84	42.84
La Filipina Electrika, Inc. (LFEI) *	Power generation	**40.00**	40.00	40.00
STEAG	Power generation	**34.00**	34.00	34.00
AAI	Service	**26.69**	26.69	26.69
Cebu Energy Development Corporation (CEDC)	Power generation	**26.40**	26.40	26.40
RPEI*	Power generation	**25.00**	25.00	25.00
Southern Philippines Power Corporation (SPPC)	Power generation	**20.00**	20.00	20.00
Western Mindanao Power Corporation (WMPC)	Power generation	**20.00**	20.00	20.00

[1] Joint ventures
[2] GNPD change in ownership based on the Partnership Agreement and in 2019 due to ATI acquisition
[3] Economic interest
** No commercial operations as of December 31, 2019.*

The principal place of business and country of incorporation of the Group's associates and joint ventures are in the Philippines.

All ownership percentages presented in the table above are direct ownership of the Group except for GNPD and SFELAPCO. As of December 31, 2019, ATI has an indirect ownership in GNPD of 50% while the Group's direct ownership in GNPD is 42.50% resulting to the Group's effective ownership in GNPD of 72.50%. PEVI has direct ownership in SFELAPCO of 54.83% while the Group's direct ownership in SFELAPCO is 20.29% resulting to the Group's effective ownership in SFELAPCO of 43.78%.

The carrying values of investments, which are accounted for under the equity method are as follows:

	2019	2018
ATI	**₱24,084,947**	₱–
GNPD	**17,172,530**	14,789,971
MORE	**10,180,552**	10,235,695
STEAG	**4,032,405**	4,185,758
CEDC	**3,447,491**	3,192,609
RPEI	**525,769**	528,383
PEVI	**508,895**	472,095
SFELAPCO	**372,917**	385,272
Hijos	**176,037**	176,037
WMPC	**142,577**	106,524
SPPC	**61,497**	81,856
Others	**150,362**	157,364
	₱60,855,979	₱34,311,564

Following is the summarized financial information of significant associates and joint ventures:

	2019	2018	2017
MORE:			
Total current assets	**₱681,925**	₱141,293	₱126,125
Total noncurrent assets	**12,222,826**	12,196,002	11,889,592
Total current liabilities	**(610,443)**	(54,462)	(56,336)
Total noncurrent liabilities	**(75,721)**	–	–
Equity	**₱12,218,587**	₱12,282,833	₱11,959,381
Gross revenue	**₱198,636**	₱180,236	₱170,236
Operating profit	**3,750,522**	4,133,911	4,893,753
Net income	**3,732,874**	4,125,996	4,891,630
Other comprehensive income (loss)	**(152,630)**	96,116	55,115
Group's share in net income	**₱3,110,204**	₱3,439,589	₱4,160,480
Additional information:			
Cash and cash equivalents	**₱34,480**	₱31,873	₱16,134
Current financial liabilities	**11,745**	54,462	56,336
Noncurrent financial liabilities	**43,821**	–	–
Depreciation and amortization	**18,163**	7,347	11,272
Interest income	**1,175**	808	740
Interest expense	**(4,272)**	–	–
Income tax expense	**14,373**	9,043	2,868

(Forward)

	2019	2018	2017
WMPC:			
Total current assets	**₱643,983**	₱717,162	₱695,570
Total noncurrent assets	**348,174**	454,108	418,808
Total current liabilities	**(193,157)**	(551,781)	(457,032)
Total noncurrent liabilities	**(83,804)**	(74,341)	(82,718)
Equity	**₱715,196**	₱545,148	₱574,628
Gross revenue	**₱1,157,772**	₱1,393,417	₱1,439,482
Operating profit	**280,417**	13,006	98,838
Net income	**196,693**	20,521	71,933
Other comprehensive loss	**–**	–	–
Group's share in net income	**₱36,053**	₱4,104	₱14,387
SPPC:			
Total current assets	**₱148,228**	₱182,303	₱344,106
Total noncurrent assets	**265,422**	311,472	364,648
Total current liabilities	**(39,137)**	(36,361)	(221,096)
Total noncurrent liabilities	**(76,324)**	(58,491)	(68,326)
Equity	**₱298,189**	₱398,923	₱419,332
Gross revenue	**₱–**	₱160,831	₱523,854
Operating profit	**(88,013)**	(19,307)	133,508
Net income (loss)	**(77,296)**	(23,407)	272,756
Other comprehensive income	**–**	–	–
Group's share in net income (loss)	**(₱20,359)**	(₱4,681)	₱19,101
SFELAPCO*:			
Total current assets	**₱1,135,431**	₱1,104,307	₱1,576,530
Total noncurrent assets	**2,691,104**	2,567,663	2,215,130
Total current liabilities	**(868,787)**	(763,966)	(770,041)
Total noncurrent liabilities	**(784,368)**	(699,175)	(751,789)
Equity	**₱2,173,380**	₱2,208,829	₱2,269,830
Gross revenue	**₱4,448,624**	₱4,088,124	₱4,211,674
Operating profit	**479,553**	408,160	366,492
Net income	**342,199**	302,677	671,268
Other comprehensive income (loss)	**(51,500)**	(63,679)	334,246
Group's share in net income	**₱164,080**	₱168,307	₱323,674
STEAG:			
Total current assets	**₱3,107,046**	₱3,459,931	₱2,688,544
Total noncurrent assets	**9,967,406**	10,477,098	10,348,729
Total current liabilities	**(1,379,138)**	(1,672,896)	(1,394,855)
Total noncurrent liabilities	**(2,840,129)**	(3,262,770)	(3,453,496)
Equity	**₱8,855,185**	₱9,001,363	₱8,188,922
Gross revenue	**₱4,812,414**	₱4,468,016	₱4,502,920
Operating profit	**1,250,028**	1,115,567	1,020,846
Net income	**1,150,501**	687,186	516,893
Other comprehensive income (loss)	**(29,106)**	(37,173)	4,750
Group's share in net income	**₱249,432**	₱87,508	₱25,744

(Forward)

	2019	2018	2017
CEDC:			
Total current assets	**₱5,199,140**	₱4,986,619	₱5,419,700
Total noncurrent assets	**12,842,201**	13,371,586	14,308,208
Total current liabilities	**(2,496,096)**	(2,158,754)	(2,444,036)
Total noncurrent liabilities	**(7,672,244)**	(8,943,522)	(10,422,073)
Equity	**₱7,873,001**	₱7,255,929	₱6,861,799
Gross revenue	**₱8,578,452**	₱9,728,163	₱8,751,540
Operating profit	**3,017,831**	3,300,164	3,183,144
Net income	**2,317,071**	1,880,853	1,686,941
Other comprehensive income	**29,483**	13,277	2,451
Group's share in net income	**₱1,002,882**	₱827,576	₱742,254
ATI			
Total current assets	**₱75,243**	₱–	₱–
Total noncurrent assets	**14,827,626**	–	–
Total current liabilities	**(7,762)**	–	–
Total noncurrent liabilities	**–**	–	–
Equity	**₱14,895,107**	₱–	₱–
Gross revenue	**₱–**	₱–	₱–
Operating profit	**–**	–	–
Net income	**–**	–	–
Other comprehensive income	**–**	–	–
Group's share in net loss	**₱–**	₱–	₱–
GNPD			
Total current assets	**₱1,612,549**	₱1,705,863	₱2,486,668
Total noncurrent assets	**67,043,356**	40,707,048	16,762,108
Total current liabilities	**(5,623,202)**	(3,342,924)	(539,651)
Total noncurrent liabilities	**(48,514,482)**	(29,473,440)	(14,242,277)
Equity	**₱14,518,221**	₱9,596,547	₱4,466,848
Gross revenue	**₱–**	₱–	₱–
Operating loss	**(1,161,098)**	(352,858)	(251,703)
Net loss	**(1,160,004)**	(68,174)	(376,336)
Other comprehensive income	**–**	–	–
Group's share in net loss	**(₱726,682)**	(₱15,435)	(₱188,167)
Additional information:			
Cash and cash equivalents	**₱1,093,991**	₱911,642	₱1,869,486
Current financial liabilities	**2,033,297**	3,246,671	513,281
Noncurrent financial liabilities	**48,514,482**	29,473,440	14,019,562
Depreciation and amortization	**61,005**	41,169	26,252
Interest income	**590**	487	182
Interest expense	**(63,928)**	(28,073)	(30,809)
Income tax expense	**395,945**	158,506	91,790

(Forward)

	2019	2018	2017
Others**:			
Total current assets	**₱403,979**	₱453,445	₱1,116,846
Total noncurrent assets	**2,831,067**	2,842,300	3,395,270
Total current liabilities	**(31,272)**	(62,706)	(16,405)
Total noncurrent liabilities	**(111,875)**	(110,557)	(5,497)
Gross revenue	**₱150,059**	₱160,695	₱133,022
Net income (loss)	**(8,856)**	(727,830)	13,318

**Amounts are based on appraised values which are adjusted to historical amounts upon equity take-up of the Group. Using cost method in accounting for property, plant and equipment net income amounted to ₱374.8 million, ₱952.8 million and ₱745.1 million in 2019, 2018, and 2017, respectively, for SFELAPCO.*
***The financial information of insignificant associates and joint ventures is indicated under "Others".*

11. Joint Operation

		Percentage of Ownership		
Name of Joint Operation	Nature of Business	**2019**	2018	2017
PEC	Power generation	**50.00**	50.00	50.00

**PEC's principal place of business and country of incorporation is the Philippines.*

On May 15, 2014, the Group entered into a shareholders' agreement with TPEC Holdings Corporation (TPEC) for the development, construction and operation of the 400 MW Pagbilao Unit III in Pagbilao, Quezon through PEC. TPI and TPEC both agreed to provide their respective capital contributions and subscribe to common shares such that each stockholder owns 50% of the issued and outstanding shares of stock of PEC.

The financial and operating activities of the operation are jointly controlled by the participating shareholders and are primarily designed for the provision of output to the shareholders.

The Group's share of assets, liabilities, revenue, expenses and cash flows of joint operations are included in the consolidated financial statements on a line-by-line basis.

12. Property, Plant and Equipment

December 31, 2019

	Land	Buildings, warehouses and improvements	Power plant equipment and steam field assets (Note 19)	Transmission, distribution and substation equipment	Transportation equipment	Office furniture, fixtures and equipment	Leasehold improvements	Electrical equipment	Meters and laboratory equipment	Tools and others	Construction in progress	ROU assets (Note 35)	Total
Cost:													
Balances at beginning of year, as previously stated	₱1,541,756	₱21,356,246	₱168,443,359	₱19,458,140	₱1,570,064	₱1,052,237	₱2,774,370	₱5,685,213	₱1,892,174	₱1,335,213	₱37,835,549	₱–	₱262,944,321
Effect of adoption - PFRS 16 (see Note 3)	–	–	(34,669,713)	–	–	–	–	–	–	–	–	37,840,369	3,170,656
Balances at beginning of year, as restated	1,541,756	21,356,246	133,773,646	19,458,140	1,570,064	1,052,237	2,774,370	5,685,213	1,892,174	1,335,213	37,835,549	37,840,369	266,114,977
Additions (see Notes 15 and 19)	186,097	240,684	1,032,129	–	198,729	136,388	5,994	12,589	–	32,465	7,830,741	24,249	9,700,065
Disposals	–	(3,849)	(413,521)	(29,432)	(119,132)	(27,537)	–	(400)	–	(1,511)	(2,363)	–	(597,745)
Reclassifications and others	57,397	15,625,247	7,556,007	1,867,104	(22,940)	13,555	13,178	2,091,459	373,198	(137,174)	(39,352,442)	–	(11,915,411)
Balances at end of year	1,785,250	37,218,328	141,948,261	21,295,812	1,626,721	1,174,643	2,793,542	7,788,861	2,265,372	1,228,993	6,311,485	37,864,618	263,301,886
Accumulated Depreciation and Amortization:													
Balances at beginning of year	–	4,489,697	37,371,844	5,227,736	948,524	847,093	595,409	2,482,478	78,758	657,930	–	–	52,699,469
Depreciation and amortization	–	749,417	5,970,481	598,759	168,397	123,588	131,678	278,804	93,374	80,343	–	1,223,073	9,417,914
Disposals	–	(3,849)	(70,556)	(29,432)	(95,904)	(27,346)	–	(400)	–	(2,072)	–	–	(229,559)
Reclassifications and others	–	(258,106)	(11,181,920)	(58,465)	(24,273)	(72,830)	(45,283)	520,432	5,430	(115,262)	–	(11,567)	(11,241,844)
Balances at end of year	–	4,977,159	32,089,849	5,738,598	996,744	870,505	681,804	3,281,314	177,562	620,939	–	1,211,506	50,645,980
Accumulated Impairment	–	–	486,280	–	2,088	792	251	–	–	–	2,645,029	–	3,134,440
Net book values	₱1,785,250	₱32,241,169	₱109,372,132	₱15,557,214	₱627,889	₱303,346	₱2,111,487	₱4,507,547	₱2,087,810	₱608,054	₱3,666,456	₱36,653,112	₱209,521,466

December 31, 2018

	Land	Buildings, warehouses and improvements	Power plant equipment and steam field assets (Note 19)	Transmission, distribution and substation equipment	Transportation equipment	Office furniture, fixtures and equipment	Leasehold improvements	Electrical equipment	Meters and laboratory equipment	Tools and others	Construction in progress	Total
Cost:												
Balances at beginning of year	₱1,596,788	₱21,495,721	₱141,380,362	₱17,401,054	₱1,405,923	₱924,894	₱2,762,709	₱5,500,971	₱1,551,939	₱1,252,071	₱56,262,403	₱251,534,835
Additions (see Notes 15 and 19)	32,391	86,872	1,496,624	1,121,508	218,259	156,385	11,770	169,545	98,907	74,069	7,905,143	11,371,473
Disposals	(4,316)	(178,189)	(461,778)	(18,163)	(74,429)	(54,926)	–	(6,089)	–	(40)	–	(797,930)
Reclassifications and others	(83,107)	(48,158)	26,028,151	953,741	20,311	25,884	(109)	20,786	241,328	9,113	(26,331,997)	835,943
Balances at end of year	1,541,756	21,356,246	168,443,359	19,458,140	1,570,064	1,052,237	2,774,370	5,685,213	1,892,174	1,335,213	37,835,549	262,944,321
Accumulated Depreciation and Amortization:												
Balances at beginning of year	–	3,660,718	31,734,935	4,665,817	836,705	678,892	468,165	2,225,590	(9,518)	600,068	–	44,861,372
Depreciation and amortization	–	773,109	5,958,157	585,036	165,986	173,959	127,244	258,944	88,272	58,648	–	8,189,355
Disposals	–	(151,677)	(225,945)	(24,020)	(62,592)	(19,893)	–	(2,054)	–	(562)	–	(486,743)
Reclassifications and others	–	207,547	(95,303)	903	8,425	14,135	–	(2)	4	(224)	–	135,485
Balances at end of year	–	4,489,697	37,371,844	5,227,736	948,524	847,093	595,409	2,482,478	78,758	657,930	–	52,699,469
Accumulated Impairment:												
Balances at beginning of year	–	–	–	–	2,088	792	251	–	–	–	2,645,029	2,648,160
Impairment (see Note 28)	–	–	486,280	–	–	–	–	–	–	–	–	486,280
Balances at end of year	–	–	486,280	–	2,088	792	251	–	–	–	2,645,029	3,134,440
Net book values	₱1,541,756	₱16,866,549	₱130,585,235	₱14,230,404	₱619,452	₱204,352	₱2,178,710	₱3,202,735	₱1,813,416	₱677,283	₱35,190,520	₱207,110,412

In 2019 and 2018, the Group has determined that an impairment test has to be performed on certain segments of its property, plant and equipment amounting to ₱3.55 billion and ₱5.44 billion, respectively. In performing an impairment test calculation, the Group determined the recoverable amount of the relevant property, plant and equipment through value in use (VIU). VIU is derived based on financial budgets prepared by senior management covering the project's entire life. Pre-tax discount rate of 9.83% in 2019 and 13.00% - 16.14% in 2018 was used.

The calculation of value in use of these property, plant and equipment are most sensitive to the following assumptions:

- Discount rate - Discount rate reflects the management's estimate of risks applicable to these projects. The benchmark used by the management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates, consideration has been given to various market information, including, but not limited to, government bond yield, bank lending rates and market risk premium.

- Material price inflation - Estimates are obtained from published indices from which the materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise past actual material price movements are used as an indicator of future price movement.

- Growth rate - The long-term rate used to extrapolate future cash flows excludes expansions and potential improvements in the future. Management also recognized the possibility of new entrants, which may have significant impact on existing growth rate assumptions. Management however, believes that new entrants will not have a significant adverse impact on the forecasts included in the financial budget.

The impairment test calculation has not resulted to any recognition of an impairment loss in 2019 and 2018.

In 2019 and 2018, movements to power plant equipment and steam field assets includes adjustment in the decommissioning liability due to the change in accounting estimate amounting to ₱321.9 million and ₱560.0 million, respectively (see Note 19).

In 2019 and 2018, additions to "Construction in progress" include capitalized borrowing costs, net of interest income earned from short-term deposits amounted to ₱890.0 million and ₱2.51 billion, respectively (see Note 17). The rate used to determine the amount of borrowing costs eligible for capitalization ranged from 5.7% to 9.4% and 4.9% to 9.4% which are the effective interest rate of the specific borrowings in 2019 and 2018, respectively.

Property, plant and equipment with carrying amounts of ₱124.00 billion and ₱126.90 billion as of December 31, 2019 and 2018, respectively, are used to secure the Group's long-term debts (see Note 17).

Fully depreciated property and equipment with gross carrying amount of ₱5.91 billion and ₱5.00 billion as of December 31, 2019 and 2018, respectively, are still in use.

A significant portion of the Group's property, plant and equipment relates to various projects under "Construction in progress" as of December 31, 2019 and 2018, as shown below:

Project Company	Estimated Cost to Complete (in millions)		% of Completion	
	2019	2018	**2019**	2018
TVI	**₱114**	₱7,246	**99.7%**	81%

As of December 31, 2018, the Group classifies its transmission assets as property held for sale as an ongoing negotiation for the sale of these assets with NGCP which is expected to be consummated in 2019. The property held for sale was recorded at its recoverable amount of ₱675.8 million (see Note 28). In 2019, the Deed of Sale was signed and executed.

13. Intangible Assets

	2019	2018
Goodwill	**₱40,876,082**	₱40,224,411
Service concession rights	**2,406,320**	2,789,610
Franchise	**2,571,772**	2,648,732
Project development costs	**622,491**	388,468
Customer contracts	**–**	8,582
Software and licenses	**235,836**	105,691
	₱46,712,501	₱46,165,494

The table below shows the rollforward of intangible assets:

December 31, 2019

	Service concession rights	Franchise	Project development costs	Customer contracts	Software and licenses	Total
Cost:						
Balances at beginning of year	**₱5,478,607**	**₱3,078,431**	**₱388,468**	**₱60,068**	**₱307,338**	**₱9,312,912**
Additions during the year	**60,625**	**–**	**234,023**	**–**	**160,785**	**455,433**
Exchange differences	**(82,316)**	**–**	**–**	**–**	**–**	**(82,316)**
Balances at end of year	**5,456,916**	**3,078,431**	**622,491**	**60,068**	**468,123**	**9,686,029**
Accumulated amortization:						
Balances at beginning of year	**2,688,997**	**429,699**	**–**	**51,486**	**201,647**	**3,371,829**
Amortization	**361,599**	**76,960**	**–**	**8,582**	**30,640**	**477,781**
Balances at end of year	**3,050,596**	**506,659**	**–**	**60,068**	**232,287**	**3,849,610**
Net book values	**₱2,406,320**	**₱2,571,772**	**₱622,491**	**₱–**	**₱235,836**	**₱5,836,419**

December 31, 2018

	Service concession rights	Franchise	Project development costs	Customer contracts	Software and licenses	Total
Cost:						
Balances at beginning of year	₱5,299,470	₱3,078,431	₱263,436	₱60,068	₱252,690	₱8,954,095
Additions during the year	50,410	–	175,954	–	54,648	281,012
Impairment	–	–	(50,922)	–	–	(50,922)
Exchange differences	128,727	–	–	–	–	128,727
Balances at end of year	5,478,607	3,078,431	388,468	60,068	307,338	9,312,912
Accumulated amortization:						
Balances at beginning of year	2,327,513	352,738	–	40,045	159,485	2,879,781
Amortization	361,484	76,961	–	11,441	42,162	492,048
Balances at end of year	2,688,997	429,699	–	51,486	201,647	3,371,829
Net book values	₱2,789,610	₱2,648,732	₱388,468	₱8,582	₱105,691	₱5,941,083

Impairment Testing of Goodwill

Goodwill acquired through business combinations have been attributed to individual CGUs.

The carrying amount of goodwill follows:

	2019	2018
GMCP	**₱39,996,797**	₱39,345,126
LEZ	**467,586**	467,586
HI	**220,228**	220,228
BEZ	**191,471**	191,471
	₱40,876,082	₱40,224,411

The recoverable amounts of the investments have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period.

Key assumptions used in value-in-use calculation for December 31, 2019 and 2018
The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Discount rates and growth rates
The discount rates applied to cash flow projections are from 9.87% to 11.81% in 2019 and 10.63% to 14.80% in 2018, and cash flows beyond the five-year period are extrapolated using a zero percent growth rate.

Revenue assumptions
Revenue assumptions are based on the expected electricity to be sold. In 2019, revenue growth of 10% in year 1, 0% in year 2 and 4% in the next three years was applied for LEZ; 4% in year 1, -6% in year 2, 1% in year 3, -3% in year 4 and -2% in year 5 for BEZ; 0% in year 1, 2% in year 2 , 7% in year 3, 3% in year 4 and 10% in year 5 for GMCP; and -6% in year 1, 16% in year 2, 15% in year 3, 12% in year 4, and 5% in year 5 was applied for HI.

In 2018, revenue growth of 6% in year 1, 4% for the next two years, 3% in year 4 and 5% in year 5 was applied for LEZ; 9% in year 1, 5% in year 2 and 2% in the next three years to BEZ; 4% in year 1, 0% in year 2 , 2% in year 3, 7% in year 4 and 3% in year 5 for GMCP; and 45% in year 1, -1% in year 2, 0% in year 3, 11% I year 4, and -4% in year 5 was applied for HI.

Materials price inflation
In 2019, the assumption used to determine the value assigned to the materials price inflation is 3.30% in 2020, decreases to 3.20% in 2021 and settles at 3.00% for the next 3 years until 2024. The starting point of 2020 is consistent with external information sources. The starting point of 2020 is consistent with external information sources.

In 2018, the assumption used to determine the value assigned to the materials price inflation is 3.47% in 2019, decreases to 3.37% in 2020 and 3.10% in 2021. It then settles at 3.00% for the next 2 years until 2023.

Foreign exchange rates
In 2019, the assumption used to determine foreign exchange rate is a weakening Philippine peso which starts at a rate of ₱54.70 to a dollar in 2020 and depreciates annually at an average of 2.67% until 2024. In 2018, the assumption used to determine foreign exchange rate is a a steady Philippine peso at a rate of ₱55.00 to a dollar from 2019 until 2023.

Based on the impairment testing, no impairment of goodwill was recognized in 2019. In 2018, an impairment loss on goodwill amounting to ₱45.9 million on the investment in BEZ was recognized. No impairment of goodwill was recognized in 2017.

With regard to the assessment of value-in-use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

Service Concession Rights

Service concession arrangements entered into by the Group are as follows:

a. On November 24, 1996, LHC entered into a PPA with NPC, its sole customer, for the construction and operation of a 70-megawatt hydroelectric power generating facility (the Power Station) in Bakun River in Benguet and Ilocos Sur Provinces on a build-operate-transfer scheme. Under the PPA, LHC shall deliver to NPC all electricity generated over a cooperation period of 25 years until February 5, 2026.

   On the Transfer Date, as defined in the PPA, LHC shall transfer to NPC, free from any lien or encumbrance, all its rights, title and interest in and to the Power Station and all such data as operating manuals, operation summaries/transfer notes, design drawings and other information as may reasonably be required by NPC to enable it to operate the Power Station.

   Since NPC controls the ownership of any significant residual interest of the Power Station at the end of the PPA, the PPA is accounted for under the intangible asset model as LHC has the right to charge users for the public service under the service concession arrangement.

   The Power Station is treated as intangible asset and is amortized over a period of 25 years, which is the service concession period, in accordance with Philippine Interpretation IFRIC 12. The intangible asset with a carrying value of ₱1.62 billion and ₱1.97 billion as of December 31, 2019 and 2018, respectively, was used as collateral to secure LHC's long-term debt (see Note 17).

b. On May 15, 2003, the SBMA, AEV and DLP entered into a DMSA for the privatization of the SBMA Power Distribution System (PDS) on a rehabilitate-operate-and-transfer arrangement; and to develop, construct, lease, lease out, operate and maintain property, structures and machineries in the Subic Bay Freeport Zone (SBFZ).

   Under the terms of the DMSA, SEZ was created to undertake the rehabilitation, operation and maintenance of the PDS (the Project), including the provision of electric power service to the customers within the Subic Bay Freeport Secured Areas of the SBFZ as well as the collection of the relevant fees from them for its services and the payment by SBMA of the service fees throughout the service period pursuant to the terms of the DMSA. The DMSA shall be effective for 25-year period commencing on the turnover date.

For and in consideration of the services and expenditures of SEZ for it to undertake the rehabilitation, operation, management and maintenance of the Project, it shall be paid by the SBMA the service fees in such amount equivalent to all the earnings of the Project, provided, however, that SEZ shall remit the amount of ₱40.0 million to the SBMA at the start of every 12-month period throughout the service period regardless of the total amount of all earnings of the Project. The said remittances may be reduced by the outstanding power receivables from SBMA, including streetlights power consumption and maintenance, for the immediate preceding year.

Since SBMA controls ownership of the equipment at the end of the agreement, the PDS are treated as intangible assets and are amortized over a period of 25 years up to year 2028, in accordance with Philippine Interpretation IFRIC 12.

The carrying value of the intangible asset arising from the service concession arrangement amounted to ₱700.3 million and ₱720.3 million as of December 31, 2019 and 2018, respectively.

c. The transmission and distribution equipment of MEZ are located within Mactan Export Processing Zone (MEPZ) II. Since MCIAA controls ownership of the equipment at the end of the agreement, the equipment are treated as intangible assets and are amortized over a period of 21 years up to year 2028, in accordance with Philippine Interpretation IFRIC 12.

The carrying amount of the intangible asset arising from the service concession arrangement amounted to ₱84.5 million and ₱97.2 million as of December 31, 2019 and 2018, respectively.

Customer Contracts

Customer contracts pertain to agreements between LEZ and the locators within Lima Technology Center relating to the provision of utility services to the locators. These contracts are treated as intangible assets and are amortized over a period of 5.25 years since 2014.

The amortization of intangible assets is included in “Depreciation and amortization” under “Operating Expenses” in the consolidated statements of income.

14. Other Noncurrent Assets

	2019	2018
Restricted cash	**₱4,672,031**	₱–
Input VAT and tax credit receivable, net of impairment loss of ₱9.9 million and ₱253.2 million in 2019 and 2018 (see Note 28)	**4,434,349**	5,276,346
PSALM deferred adjustment - net of current portion (see Notes 6 and 40k)	**2,140,219**	3,183,089
Prepaid rent - net of current portion (see Note 35)	**–**	1,051,102
Advances to contractors and projects	**553,280**	464,139
Refundable deposits	**326,850**	375,014
Investment properties	**132,300**	3,300
Prepaid taxes	**879,439**	159,942
Others	**380,844**	147,247
	₱13,519,312	₱10,660,179

Restricted cash pertains to the amount drawn by TVI on June 11, 2019 on the performance securities under its Engineering, Procurement and Construction agreement with the contractors. The contractors have disputed the draw on the securities in dispute resolution proceedings.

15. Trade and Other Payables

	2019	2018
Trade payables (see Note 33)	**₱9,947,733**	₱8,999,633
Output VAT	**3,022,048**	2,768,254
Amounts due to contractors and other third parties	**1,159,984**	1,735,685
PSALM deferred adjustment (see Note 40k)	**1,042,861**	1,042,861
Accrued expenses:		
Interest	**2,350,811**	2,101,531
Materials and supplies cost	**470,588**	82,098
Taxes and fees	**1,246,863**	1,196,611
Energy fees and fuel purchase	**937,988**	413,141
Claims conversion costs	**102,808**	239,377
Insurance	**18,437**	17,764
Dividends payable	**94,976**	59,834
Unearned revenues	**37,425**	38,765
Customers' deposit	**19,360**	6,633
Nontrade	**1,270,946**	2,725,289
Others	**653,292**	373,812
	₱22,376,120	₱21,801,288

Trade payables are non-interest bearing and generally on 30-day terms.

Accrued taxes and fees represent accrual of real property tax, transfer tax and other fees.

Amounts due to contractors and other third parties include liabilities arising from the power plant construction (see Note 12).

Nontrade payables include amounts due to PSALM pertaining to Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Rate Adjustment (ICERA) and universal charges.

Others include withholding taxes and other accrued expenses and are generally payable within 12 months from the balance sheet date.

16. **Short-term Loans**

	Interest Rate	**2019**	2018
Peso loans - financial institutions - unsecured	2.68% - 4.95% in 2019 5.00% - 6.75% in 2018	**₱9,727,800**	₱10,915,600
Temporary advances (see Note 32)		**607,620**	630,960
		₱10,335,420	₱11,546,560

The bank loans are unsecured short-term notes payable obtained from local banks. These loans are covered by the respective borrower's existing credit lines with the banks and are not subject to any significant covenants and warranties.

Interest expense on short-term loans amounted to ₱797.6 million in 2019, ₱374.6 million in 2018, and ₱131.2 million in 2017 (see Note 33).

17. **Long-term Debts**

	Annual Interest Rate	**2019**	2018
Company:			
Bonds due 2024	7.51%	**₱7,700,000**	₱7,700,000
Bonds due 2026	5.28%	**7,250,000**	–
Bonds due 2021	5.21%	**6,600,000**	6,600,000
Bonds due 2026	6.10%	**3,400,000**	3,400,000
Bonds due 2027	5.34%	**3,000,000**	3,000,000
Bonds due 2025	8.51%	**2,500,000**	2,500,000
Financial institutions- unsecured	5.28%	**5,000,000**	–
Financial institutions- unsecured	LIBOR + 1.2%	**15,190,500**	–
Subsidiaries:			
GMCP			
Financial institutions - unsecured	LIBOR + 1.7% - 4.00% in 2019 LIBOR + 1.7% - 4.85% in 2018	**37,247,830**	41,375,202
TVI			
Financial institutions - secured	5.56% - 9.00% in 2019 5.50% - 9.00% in 2018	**31,520,000**	31,520,000
TSI			
Financial institutions - secured	5.05% - 5.70% in 2019 5.05% - 5.69% in 2018	**20,039,365**	21,349,704
APRI			
Financial institutions - secured	4.48% - 5.20%	**8,124,160**	9,374,400
Hedcor Bukidnon			
Financial institutions - secured	4.75% - 7.36% in 2019 4.75% - 6.78% in 2018	**9,416,666**	9,327,700
TPVI			
Fixed rate corporate notes - unsecured	5.06% - 5.25%	**1,300,000**	–
Hedcor Sibulan			
Fixed rate corporate notes - unsecured	4.05% - 5.42%	**3,801,400**	3,900,400
HI			
Financial institution - secured	5.25% - 7.41% in 2019 5.25% - 7.41% in 2018	**423,000**	450,000
Financial institution - secured	7.87%	**1,327,000**	1,390,000
VECO			
Financial institution - unsecured	4.59% - 4.81% in 2019 4.58% - 4.81% in 2018	**776,000**	975,000
LHC			
Financial institutions - secured	3.94% - 4.81% in 2019 3.63% - 4.81% in 2018	**564,580**	875,458
DLP			
Financial institution - unsecured	4.59% - 4.81% in 2019 4.58% - 4.81% in 2018	**582,000**	731,250
AI			
AEV - unsecured (see Note 32)	4.60% - 6.25%	**300,000**	300,000
SEZ			
Financial institution - unsecured	5.00%	**113,000**	169,500
CLP			
Financial institution - unsecured	4.59% - 4.81% in 2019 4.58% - 4.81% in 2018	**116,400**	146,250
Joint operation (see Note 11)			
Financial institutions - secured	5.50% - 8.31% in 2019 5.50% - 8.31% in 2018	**13,380,097**	14,473,052
		179,671,998	159,557,916
Less deferred financing costs		**1,700,376**	1,500,225
		177,971,622	158,057,691
Less current portion - net of deferred financing costs		**10,386,311**	8,697,404
		₱167,585,311	₱149,360,287

** London Interbank Offered Rate (LIBOR)*

Interest expense and other financing costs on long-term debt amounted to ₱8.65 billion in 2019, ₱6.86 billion in 2018, and ₱6.33 billion in 2017 (see Note 33).

Company

In September 2014, the Company issued a total of ₱10.00 billion bonds, broken down into a ₱6.60 billion 7-year bond due 2021 at an annual fixed rate equivalent to 5.21% and a ₱3.40 billion 12-year bond due 2026 at an annual fixed rate equivalent to 6.10%. The bonds have been rated PRS Aaa by PhilRatings.

In July 2017, the Company issued a ₱3.00 billion 10-year bond due 2027 at an annual fixed rate equivalent to 5.34%. The bonds have been rated PRS Aaa by PhilRatings.

In October 2018, the Company issued a total of ₱10.20 billion bonds, broken down into a ₱7.70 billion 5.25-year bond due 2024 at an annual fixed rate equivalent to 7.51% and a ₱2.50 billion 7-year bond due 2025 at an annual fixed rate equivalent to 8.51%. The bonds have been rated PRS Aaa by PhilRatings.

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

The principal amount of the bonds shall be payable on a lump sum basis on the respective maturity date at its face value. These bonds may be redeemed in advance by the Company based on stipulated early redemption option dates and on agreed early redemption price.

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

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

GMCP

On August 29, 2017, GMCP entered into a Notes Facility Agreement (NFA) with local banks with BDO Capital and Investment Corporation as Lead Arranger, with the maximum principal amount of $800.0 million, the proceeds of which will be used to refinance GMCP's existing loan obligation and for other general corporate purposes.

On September 29, 2017, $600.0 million was drawn from the NFA, out of which $462.4 million was used to prepay the outstanding loans. In February 2018, the remaining principal amount of $200.0 million was drawn from the NFA.

GMCP also has an existing facility agreement with BDO to finance the GMCP's working capital requirements.

Loans payable consist of the following dollar denominated loans as of December 31, 2019 and 2018:

	2019	2018	Interest Rate Per Annum	Payment Schedule
NFA				
Fixed Rate Loan	**$448,164**	$483,450	(i) Fixed rates of 2.5514% and 3.4049% plus 1.45% margin for the first seven-year period and (ii) Fixed Rate Loan Benchmark plus 1.45% margin for the subsequent five-year period	24 semi-annual payments starting from the first Interest Payment Date
LIBOR Loan	**267,450**	288,450	Six-month LIBOR plus 1.70% margin	24 semi-annual payments starting from the first Interest Payment Date
Working Capital				
BDO	**20,000**	15,000	LIBOR plus 1.7% applicable margin	Payable within three months
Total borrowings	**735,614**	786,900		
Less unamortized portion of deferred financing costs	**(4,017)**	(4,049)		
	731,597	782,851		
Less current portion	**63,583**	70,229		
Loans payable - net of current portion	**$668,014**	$712,622		

TVI

On June 18, 2015, TVI entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of ₱31.97 billion. As of December 31, 2019 and 2018, ₱31.52 billion has been drawn from the loan facility.

The loan is available in two tranches, as follows:

- Tranche A, in the amount of ₱25.60 billion, with interest rate fixed for the first eight years and will be repriced and fixed for another seven years.
- Tranche B, in the amount of ₱5.9 billion, with a fixed interest rate for fifteen years.

70% of the principal amount of the loan is payable in 20 equal semi-annual installments, with the remaining 30% payable in full on the final maturity date. TVI may prepay the loan in part or in full beginning on the end of the fourth year from the initial advance or on the project completion date, whichever is earlier. Any prepayment shall be subject to a certain percentage of prepayment penalty on the principal to be prepaid.

The loan is secured by a mortgage of all its assets with carrying amount of ₱50.81 billion as of December 31, 2019, and a pledge of TVI's shares of stock held by its shareholders.

TSI

On October 14, 2013, TSI entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of ₱24.00 billion, which was fully drawn in 2014.

On October 28, 2015, TSI entered into an additional loan agreement with principal amount of ₱1.68 billion, which was fully drawn in 2016.

The loan is secured by a mortgage of all its assets with carrying amount of ₱36.41 billion as of December 31, 2019, and a pledge of TSI's shares of stock held by the Company and TPI.

Interest rate ranging from 4.50% - 5.15% is fixed for the first seven years and will be repriced and fixed for another five years. In 2018, upon release of AP guarantee, interest was increased by 0.5%.

Fifty percent of the principal amount of the loan is payable at semi-annual installments within 12 years with a two-year grace period, with the remaining 50% payable in full on the final maturity date.

TSI may prepay the loan in part or in full beginning on the end of the third year from the initial advance or on the project completion date, whichever is earlier. Any prepayment shall be subject to a certain percentage of prepayment penalty on the principal to be prepaid.

APRI

On February 29, 2016, APRI entered into an omnibus agreement with BPI, Asian Development Bank (ADB) and Credit Guarantee and Investment Facility (CGIF). This has been certified to have met the requirements of the Climate Bond Standard. The loan proceeds were used for return of equity to shareholders and to fund necessary operating and capital expenditures.

The loan is available in two tranches, as follows:

a. The Notes Facility Agreement, in the amount of ₱10.7 billion, with interest rate already fixed for ten years. 41.6% of the principal amount is payable in ten equal semi-annual installments and the balance payable in another ten semi-annual installments
b. The ADB Facility Agreement, in the amount of ₱1.8 billion, with interest rate fixed for five years and principal repayments made in ten equal semi-annual installments.

The loan is secured by mortgage of its assets with carrying amount of ₱25.15 billion as of December 31, 2019, and pledge of APRI's shares of stock held by shareholders and assignment of Project Agreements and Project Accounts.

Hedcor Bukidnon

On September 22, 2015, Hedcor Bukidnon entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of up to ₱10.00 billion. As of December 31, 2019, ₱9.33 billion has been drawn from the loan facility based on the agreed schedule.

The term of the loan is 15 years, and the first principal repayment will take place 42 months after the financial close, or six months after project completion. Principal repayments shall be made in equal semi-annual installments, with a balloon payment not to exceed 30% of the loan amount. Interest rate on the loan is computed at the time of each drawdown, as designated under the agreement.

The loan is secured by an assignment of trade receivables amounting to ₱263.47 million, a pledge of all issued share capital of Hedcor Bukidnon, and corporate suretyship from AP to guarantee the debt service until (a) project completion and (b) receipt of Feed-In-Tariff payments or contracting power supply agreements equivalent to at least the break-even capacity.

TPVI

On December 26, 2019, the TPVI was granted a loan with an aggregate amount of ₱1.30 billion by the Philippine National Bank (PNB). The loan is payable for 15 years, with a grace period of 3 years. The mode of repayment is sculpted with balloon payment of 70%. The Company will pay PNB an interest of 5.0593% for the first 8 years, with the rate being expected to go up to 5.25% for the rest of the term due to: (1) continued inflation, and; (2) liquidity tightness due to funds held and additional borrowings by the Bureau of Treasury. The interest is payable semi-annually, every 30th of June and 31st of December.

Hedcor Sibulan

On November 17, 2016, Hedcor Sibulan entered into a NFA with various institutions with Metrobank - Trust Banking Group as the Notes Facility Agent, for a loan facility with an aggregate principal amount of up to ₱4.10 billion to return equity to shareholders, and for other general corporate purposes.

The unsecured notes were issued in ten tranches with interest payable semi-annually at annual fixed rates ranging from 4.05% - 5.42% with principal maturity as follows:

Tranche	Maturity Date	Principal Amount
1	Fifteen months from issue date	₱96.8 million
2	Two (2) years from issue date	96.8 million
3	Three (3) years from issue date	84.0 million
4	Four (4) years from issue date	84.0 million
5	Five (5) years from issue date	284.0 million
6 (Series A&B)	Six (6) years from issue date	388.4 million
7 (Series A&B)	Seven (7) years from issue date	445.8 million
8	Eight (8) years from issue date	451.4 million
9	Nine (9) years from issue date	508.1 million
10 (Series A&B)	Ten (10) years from issue date	1,660.7 million

Prior to maturity date, Hedcor Sibulan may redeem in whole or in part the relevant outstanding notes on any interest payment date plus a one percent prepayment penalty.

HI

On August 6, 2013, HI availed of a ten-year ₱900 million loan from a local bank. This loan is subject to a semi-annual principal payment with annual interest fixed at 5.25% for the first 5 years. For the remaining five years, interest rate will be repriced and fixed on the fifth anniversary from the drawdown date. The debt is secured by a pledge of HI's shares of stock held by ARI.

On December 14, 2018, HI entered into a Notes Facility Agreement with a local bank to borrow ₱1.39 billion, which will mature on August 31, 2033, to finance the rehabilitation and/or expansion of the Bineng hydropower plant, refinance its short-term loans and for other general corporate purposes. This loan is subject to a semi-annual principal payment with annual interest fixed at 7.8747% for the first 5 years. For the next five years, interest rate will be repriced and fixed one banking day prior to August 31, 2023. For the remaining five years, interest rate will be repriced and fixed one banking day prior to August 31, 2028. The debt is secured by a continuing suretyship from ARI.

VECO

On December 20, 2013, VECO availed of a ₱2.00 billion loan from the NFA it signed on December 17, 2013 with Land Bank of the Philippines (LBP). The unsecured notes were issued in ten tranches of ₱200 million with interest payable semi-annually at annual fixed rates ranging from 3.50% - 4.81% and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱200M balloon payment on maturity date
C	December 20, 2016	₱1M each on first 2 years; ₱198M on maturity date
D	December 20, 2017	₱1M each on first 3 years; ₱197M on maturity date
E	December 20, 2018	₱1M each on first 4 years; ₱196M on maturity date
F	December 20, 2019	₱1M each on first 5 years; ₱195M on maturity date
G	December 20, 2020	₱1M each on first 6 years; ₱194M on maturity date
H	December 20, 2021	₱1M each on first 7 years; ₱193M on maturity date
I	December 20, 2022	₱1M each on first 8 years; ₱192M on maturity date
J	December 20, 2023	₱1M each on first 9 years; ₱191M on maturity date

Prior to maturity date, VECO may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

LHC

On April 24, 2012, LHC entered into an omnibus agreement with Philippine National Bank and Banco De Oro to borrow US$43.1 million with maturity on April 26, 2022 and payable in 20 semi-annual installments. Interest is repriced and paid semi-annually. Annual interest rate ranges from 2.00% to 2.75%.

Intangible asset arising from service concession arrangement with carrying value of ₱1.62 billion as of December 31, 2019, was used as collateral to secure LHC's long-term debt (see Note 13).

DLP

On December 20, 2013, DLP availed of a ₱1.50 billion loan from the NFA it signed on December 17, 2013 with LBP. The unsecured notes were issued in ten tranches of ₱150 million with interest payable semi-annually at annual fixed rates ranging from 3.50% to 4.81% and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱150M balloon payment on maturity date
C	December 20, 2016	₱0.75M each on first 2 years; ₱148.5M on maturity date
D	December 20, 2017	₱0.75M each on first 3 years; ₱147.8M on maturity date
E	December 20, 2018	₱0.75M each on first 4 years; ₱147M on maturity date
F	December 20, 2019	₱0.75M each on first 5 years; ₱146.2M on maturity date
G	December 20, 2020	₱0.75M each on first 6 years; ₱145.5M on maturity date
H	December 20, 2021	₱0.75M each on first 7 years; ₱144.8M on maturity date
I	December 20, 2022	₱0.75M each on first 8 years; ₱144M on maturity date
J	December 20, 2023	₱0.75M each on first 9 years; ₱143.2M on maturity date

Prior to maturity date, DLP may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

SEZ
On July 7, 2011, SEZ issued ₱565.0 million worth of fixed rate notes to Metropolitan Bank and Trust Company. Interest on the notes is subject to quarterly payment at 5% annual fixed interest rate. Principal is payable annually over 10 years at an equal amortization of ₱56.5 million.

CLP
On December 20, 2013, CLP availed of a ₱300 million loan from the NFA it signed on December 17, 2013 with LBP. The unsecured notes were issued in ten tranches of ₱30.0 million with interest payable semi-annually at annual fixed rates ranging from 3.50% - 4.81% and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱30M balloon payment on maturity date
C	December 20, 2016	₱0.15M each on first 2 years; ₱29.7M on maturity date
D	December 20, 2017	₱0.15M each on first 3 years; ₱29.6M on maturity date
E	December 20, 2018	₱0.15M each on first 4 years; ₱29.4M on maturity date
F	December 20, 2019	₱0.15M each on first 5 years; ₱29.2M on maturity date
G	December 20, 2020	₱0.15M each on first 6 years; ₱29.1M on maturity date
H	December 20, 2021	₱0.15M each on first 7 years; ₱29.0M on maturity date
I	December 20, 2022	₱0.15M each on first 8 years; ₱28.8M on maturity date
J	December 20, 2023	₱0.15M each on first 9 years; ₱28.62M on maturity date

Prior to maturity date, CLP may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

Long-term debt of Joint Operation (see Note 11)
This pertains to TPI's share of the outstanding project debt of its joint operation.

In May 2014, PEC entered into an omnibus agreement with various local banks for a loan facility in the aggregate principal amount of up to ₱33.31 billion with maturity period of 15 years.

The loan facility is subject to a semi-annual interest payment with annual fixed interest ranging from 5.50% - 8.31%. The loans may be voluntarily prepaid in full or in part commencing on and from the third year of the date of initial drawdown with a prepayment penalty.

The loans are secured by a mortgage of substantially all its assets with carrying amount of ₱38.70 billion as of December 31, 2019, and a pledge of the shares of stock held by the joint operators.

Loan covenants
The loan agreements on long-term debt of the Group provide for certain restrictions with respect to, among others, mergers or consolidations or other material changes in their ownership, corporate set-up or management, investment and guaranties, incurrence of additional debt, disposition of mortgage of assets, payment of dividends, and maintenance of financial ratios at certain levels.

These restrictions and requirements were complied with by the Group as of December 31, 2019 and 2018.

18. Customers' Deposits

	2019	2018
Lines and poles	**₱1,149,552**	₱1,101,664
Transformers	**1,077,175**	1,044,037
Bill and load	**4,294,742**	3,862,663
	₱6,521,469	₱6,008,364

Transformers and lines and poles deposits are obtained from certain customers principally as cash bond for their proper maintenance and care of the said facilities while under their exclusive use and responsibility.

Effective April 1, 2010, the Amended Distribution Services and Open Access Rules (Amended DSOAR), increased the refund rate from 25% to 75% of the gross distribution revenue generated from the extension lines and facilities until such amounts are fully refunded.

Bill deposit serves to guarantee payment of bills by a customer which is estimated to equal one month's consumption or bill of the customer.

Both the Magna Carta and Distribution Services and Open Access Rules (DSOAR) also provide that residential and non-residential customers, respectively, must pay a bill deposit to guarantee payment of bills equivalent to their estimated monthly billing. The amount of deposit shall be adjusted after one year to approximate the actual average monthly bills. A customer who has paid his electric bills on or before due date for three consecutive years, may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise, bill deposits and accrued interests shall be refunded within one month from termination of service, provided all bills have been paid.

In cases where the customer has previously received the refund of his bill deposit pursuant to Article 7 of the Magna Carta, and later defaults in the payment of his monthly bills, the customer shall be required to post another bill deposit with the distribution utility and lose his right to avail of the right to refund his bill deposit in the future until termination of service. Failure to pay the required bill deposit shall be a ground for disconnection of electric service.

Interest expense on customers' deposits amounted to ₱4.3 million in 2019, ₱2.1 million in 2018, ₱3.2 million in 2017 (see Note 33).

The Group classified customers' deposit under noncurrent liabilities due to the expected long-term nature of these deposits. The portion of customers' deposit to be refunded amounted to ₱19.4 million and ₱6.6 million as of December 31, 2019 and 2018, respectively, and are presented as part of "Trade and other payables" (see Note 15).

19. Decommissioning liability

Decommissioning liability includes the estimated costs to decommission, abandon and perform surface rehabilitation on the steam field assets at the end of their useful lives, and the best estimate of the expenditure required to settle the obligation to decommission power plant at the end of its lease term (see Note 12).

	2019	2018
Balances at beginning of year	**₱3,678,810**	₱2,959,060
Change in accounting estimate (see Note 12)	**(321,948)**	559,996
Accretion of decommissioning liability (see Note 33)	**210,630**	159,754
	₱3,567,492	₱3,678,810

The actual dismantling and removal cost could vary substantially from the above estimate because of new regulatory requirements, changes in technology, increased cost of labor, materials, and equipment or actual time required to complete all dismantling and removal activities. Adjustment, if any, to the estimated amount will be recognized prospectively as they become known and reliably estimable.

20. Equity

a. Paid-in Capital (number of shares in disclosed figures)

	2019	2018
Capital Stock		
Authorized - ₱1 par value		
Common shares - 16,000,000,000 shares		
Preferred shares - 1,000,000,000 shares		
Issued		
Common shares - 7,358,604,307 shares	**₱7,358,604**	₱7,358,604
Additional Paid-in Capital	**12,588,894**	12,588,894
	₱19,947,498	₱19,947,498

On May 25, 2007, the Company listed with the PSE its 7,187,664,000 common shares with a par value of ₱1.00 to cover the initial public offering (IPO) of 1,787,664,000 common shares at an issue price of ₱5.80 per share. On March 17, 2008, the Company listed an additional 170,940,307 common shares, which it issued pursuant to a share swap agreement at the IPO price of ₱5.80 per share. The total proceeds from the issuance of new shares amounted to ₱10.37 billion. The Company incurred transaction costs incidental to the initial public offering amounting to ₱412.4 million, which is charged against "Additional paid-in capital" in the consolidated balance sheet.

As of December 31, 2019, 2018 and 2017, the Company has 631, 629 and 628 shareholders, respectively.

Preferred shares are non-voting, non-participating, non-convertible, redeemable, cumulative, and may be issued from time to time by the BOD in one or more series. The BOD is authorized to issue from time to time before issuance thereof, the number of shares in each series, and all

the designations, relative rights, preferences, privileges and limitations of the shares of each series. Preferred shares redeemed by the Company may be reissued. Holders thereof are entitled to receive dividends payable out of the unrestricted retained earnings of the Company at a rate based on the offer price that is either fixed or floating from the date of the issuance to final redemption. In either case, the rate of dividend, whether fixed or floating, shall be referenced, or be a discount or premium, to market-determined benchmark as the BOD may determine at the time of issuance with due notice to the SEC.

In the event of any liquidation or dissolution or winding up of the Company, the holders of the preferred stock shall be entitled to be paid in full the offer price of their shares before any payment in liquidation is made upon the common stock.

There are no preferred shares issued and outstanding as of December 31, 2019 and 2018.

b. Retained Earnings

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

On March 7, 2017, the BOD approved the declaration of regular cash dividends of ₱1.36 a share (₱10.01 billion) to all stockholders of record as of March 21, 2017. These dividends were paid on April 10, 2017.

On March 8, 2018, the BOD approved the declaration of regular cash dividends of ₱1.39 a share (₱10.23 billion) to all stockholders of record as of March 22, 2018. These dividends were paid on April 12, 2018.

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

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

- Appropriation of ₱11.90 billion retained earnings for the equity infusions into GNPD to fund the construction of GNPD units 1 & 2, which is expected to have full commercial operations by end of 2020.
- Reversal of ₱12.30 billion retained earnings appropriation that was set up in 2014 for the equity requirements of the 300 MW Davao Coal and 14 MW Sabangan Hydro projects.

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

c. The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint arrangement amounting to ₱57.57 billion and ₱52.77 billion as at December 31, 2019 and 2018, respectively. Such amounts are not available for distribution until such time that the Company receives the dividends from the respective subsidiaries, associates and joint arrangement (see Note 10).

21. Sale of Power

Sale from Distribution of Power

a. The Uniform Rate Filing Requirements on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001, specified that the billing for sale and distribution of power and electricity will have the following components: Generation Charge, Transmission Charge, System Loss Charge, Distribution Charge, Supply Charge, Metering Charge, the Currency Exchange Rate Adjustment and Interclass and Lifeline Subsidies. National and local franchise taxes, the Power Act Reduction (for residential customers) and the Universal Charge are also separately indicated in the customer's billing statements.

b. Pursuant to Section 43(f) of Republic Act (R.A.) No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), and Rule 15, section 5(a) of its Implementing Rules and Regulations (IRR), the ERC promulgated the Distribution Wheeling Rates Guidelines on December 10, 2004. These were subsequently updated and released on July 26, 2006 as the Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Utilities entering Performance Based Regulation (PBR).

   Details of the PBR regulatory period and the date of implementation of the approved rates are as follows:

	CLP	DLP	VECO	SEZ
Current regulatory period	April 1, 2009 to March 31, 2013	July 1, 2010 to June 30, 2014	July 1, 2010 to June 30, 2014	October 1, 2011 to September 30, 2015
Date of implementation of approved distribution supply and metering charges	May 1, 2009	August 1, 2010	August 1, 2010	November 26, 2011

   The reset process for the Third Regulatory Period to adjust the previously approved distribution supply and metering charges were deferred due to the changes on PBR rules.

   Through ERC Resolution No. 25 Series of 2016 dated July 12, 2016, the ERC adopted the Resolution Modifying the RDWR. Based on this Resolution, the Fourth Regulatory Period shall be as follows:

   (i) CLP: April 1, 2017 to March 31, 2021
   (ii) DLP and VECO: July 1, 2018 to June 30, 2022
   (iii) SEZ: October 1, 2019 to September 30, 2023

   The reset process for the Fourth Regulatory Period has not started for all private DUs as the above-mentioned ERC rules have not been published, which is a condition for their effectivity. Total sale from distribution of power amounted to ₱46.12 billion, ₱44.88 billion, and ₱43.53 billion in 2019, 2018 and 2017, respectively.

Sale from Generation of Power and Retail Electricity

a. Energy Trading through the Philippine Wholesale Electricity Spot Market (WESM)
   Certain subsidiaries are trading participants and direct members under the generator sector of the WESM. These companies are allowed to access the WESM Market Management System through its Market Participant Interface (MPI). The MPI is the facility that allows the trading participants to submit and cancel bids and offers, and to view market results and reports. Under

its price determination methodology as approved by the ERC, locational marginal price method is used in computing prices for energy bought and sold in the market on a per node, per hour basis. In the case of bilateral power supply contracts, however, the involved trading participants settle directly with their contracting parties.

Total sale of power to WESM amounted to ₱6.37 billion, ₱6.77 billion and ₱3.80 billion in 2019, 2018 and 2017, respectively.

b. Power Supply Agreements

i. *Power Supply Contracts assumed under Asset Purchase Agreement (APA) and IPP Administration Agreement*
Revenue recognition for customers under the power supply contracts assumed under the APA and IPP Administration Agreements are billed based on the contract price which is calculated based on the pricing structure approved by the ERC. Rates are calculated based on the time-of-use pricing schedule with corresponding adjustments using the GRAM and the ICERA.

ii. *Power Purchase/Supply Agreement and Energy Supply Agreement (PPA/PSA and ESA)*
Certain subsidiaries have negotiated contracts with NPC, Private Distribution Utilities, Electric Cooperatives and Commercial and Industrial Consumers referred to as PPA/PSA or ESA. These contracts provide a tariff that allows these companies to charge for capacity fees, fixed operating fees and energy fees.

iii. *Feed-in-Tariff (FIT)*
Certain subsidiaries were issued a FIT Certificate of Compliance from the ERC which entitles them to avail the FIT rate. These subsidiaries also signed agreements with the National Transmission Corporation (NTC), the FIT administrator. These agreements enumerate the rights and obligations under the FIT rules and FIT-All guidelines, in respect to the full payment of the actual energy generation of the generator, at a price equivalent to the applicable FIT rate, for the entire duration of its FIT eligibility period.

Total sale of power under power supply agreements amounted to ₱46.78 billion in 2019, ₱55.08 billion in 2018, and ₱53.61 billion in 2017.

c. Retail Electricity Supply Agreements (see Note 40i)
Certain subsidiaries have negotiated contracts with contestable customers. These contracts provide supply and delivery of electricity where capacity fees, fixed operating fees and energy fees are at fixed price/kwh or time of use.

Total sale of power under retail electricity supply agreements amounted to ₱22.81 billion, ₱24.22 billion, and ₱18.07 billion in 2019, 2018 and 2017, respectively.

22. Purchased Power

Distribution

The Group's distribution utilities entered into contracts with NPC/PSALM and generation companies for the purchase of electricity, and into Transmission Service Agreements with NGCP for the transmission of electricity.

To avail of opportunities in the competitive electricity market, some of the Group's distribution utilities registered as direct participants of the WESM.

Total purchased power amounted to ₱22.38 billion, ₱24.18 billion, ₱22.47 billion in 2019, 2018 and 2017, respectively.

Generation

Purchased power takes place during periods when power generated from power plants are not sufficient to meet customers' required power as stated in the power supply contracts. Insufficient supply of generated energy results from the shutdowns due to scheduled maintenance or an emergency situation. The Group purchases power from WESM to ensure uninterrupted supply of power and meet the requirements in the power supply contracts.

The Group entered into Replacement Power Contracts with certain related parties (see Note 32). Under these contracts, the Group supplies power to counterparties when additional power is needed. Correspondingly, when faced with energy shortfalls, the Group purchases power from counterparties.

Total purchased power amounted to ₱7.60 billion, ₱4.87 billion, ₱6.63 billion in 2019, 2018 and 2017, respectively.

Retail Electricity Supply

AESI pays PSALM monthly generation payments using the formula specified in the IPP Administration Agreement. In October 2019, a compromise agreement with PSALM was effected, which includes the termination of supply and ₱125.0 million payment of AESI as termination fee.

The Group also purchases from WESM in order to supply its contestable customers.

Total purchased power amounted to ₱6.43 billion, ₱7.55 billion, ₱6.29 billion in 2019, 2018 and 2017, respectively.

23. Cost of Generated Power

	2019	2018	2017
Fuel costs (see Note 7)	**₱29,394,773**	₱29,423,013	₱22,324,825
Steam supply costs (see Note 36a)	**5,008,607**	5,227,807	4,981,187
Energy fees	**694,696**	646,317	668,558
Ancillary charges	**360,095**	355,260	547,291
Wheeling expenses	**68,535**	21,821	35,895
	₱35,526,706	₱35,674,218	₱28,557,756

24. General and Administrative

	2019	2018	2017
Personnel costs (see Note 26)	**₱2,641,365**	₱2,647,636	₱2,609,400
Taxes and licenses	**1,680,928**	1,496,779	1,033,227
Outside services (see Note 32)	**1,031,326**	1,132,345	1,087,347
Professional fees (see Note 32)	**814,149**	608,107	256,779
Repairs and maintenance	**306,316**	420,524	377,788
Corporate social responsibility (CSR) (see Note 40)	**299,595**	308,918	331,027
Transportation and travel (see Note 32)	**206,861**	230,658	195,016
Insurance	**205,998**	209,590	226,712
Information technology and communication	**181,746**	108,332	106,213
Training	**156,027**	70,080	80,482
Provision for expected credit losses of trade receivables (see Note 6)	**87,086**	235,818	77,708
Rent (see Notes 32 and 35)	**44,916**	224,758	95,974
Entertainment, amusement and recreation	**40,916**	39,689	23,862
Advertisements	**33,798**	41,768	53,583
Guard services	**25,570**	2,960	10,463
Freight and handling	**4,264**	2,343	5,245
Gasoline and oil	**1,020**	1,631	1,339
Supervision and regulatory fees	**584**	797	2,413
Market service and administrative fees	**–**	30,818	23,075
Others	**392,901**	374,961	624,615
	₱8,155,366	₱8,188,512	₱7,222,268

"Others" include host community-related expenses, provision for probable losses, claims conversion costs and utilities expenses.

25. Operations and Maintenance

	2019	2018	2017
Repairs and maintenance	**₱2,076,988**	₱1,659,288	₱1,262,634
Personnel costs (see Note 26)	**1,586,624**	1,781,283	1,482,775
Taxes and licenses	**1,167,990**	861,626	1,052,800
Outside services	**944,561**	684,074	808,436
Insurance	**787,983**	752,425	789,210
Materials and supplies (see Note 7)	**275,814**	201,903	339,734
Transportation and travel	**104,858**	37,444	69,795
Fuel and lube oil (see Note 7)	**77,880**	84,806	72,412
Rent (see Note 35)	**11,980**	171,989	204,818
Others	**331,694**	290,351	366,574
	₱7,366,372	₱6,525,189	₱6,449,188

"Others" include environmental, health and safety expenses, and transmission charges.

26. Personnel Costs

	2019	2018	2017
Salaries and wages	**₱3,105,859**	₱3,798,218	₱2,978,818
Employee benefits (see Note 27)	**1,122,130**	630,701	1,113,357
	₱4,227,989	₱4,428,919	₱4,092,175

27. Pension Benefit Plans

Under the existing regulatory framework, RA 7641, otherwise known as *The Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity. It further states that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The Company and its subsidiaries have funded, non-contributory, defined retirement benefit plans ("Plan") covering all regular and full-time employees and requiring contributions to be made to separately administered funds. The retirement benefit fund ("Fund") of each subsidiary is in the form of a trust being maintained and managed by AEV, under the supervision of the Board of Trustees (BOT) of the Plan. The BOT, whose members are also corporate officers, is responsible for the investment of the Fund assets. Taking into account the Plan's objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of net benefit expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the respective plans.

Net benefit expense (recognized as part of personnel costs under operations and maintenance and general and administrative expenses):

	2019	2018	2017
Current service cost	**₱179,269**	₱189,906	₱193,346
Net interest cost	**5,012**	15,379	10,730
Past service cost	**(1,975)**	(9,564)	15,319
	₱182,306	₱195,721	₱219,395

Remeasurement effects to be recognized in other comprehensive income:

	2019	2018	2017
Actuarial gain (losses) due to:			
Changes in financial assumptions	**(₱145,431)**	₱61,493	(₱4,455)
Changes in demographic assumptions	**31,693**	34,416	182,355
Return on assets excluding amount included in net interest cost	**(18,050)**	(96,856)	27,498
Experience adjustments	**(82,122)**	15,705	(252,957)
	(₱213,910)	₱14,758	(₱47,559)

Net pension assets

	2019	2018
Fair value of plan assets	**₱342,117**	₱1,150,771
Present value of the defined benefit obligation	**(273,908)**	(1,023,794)
	₱68,209	₱126,977

Net pension liabilities

	2019	2018
Present value of the defined benefit obligation	**₱2,138,190**	₱1,153,382
Fair value of plan assets	**(1,712,143)**	(908,525)
	₱426,047	₱244,857

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

	2019	2018
At January 1	**₱2,177,176**	₱2,331,322
Net benefit expense:		
Current service cost	**179,269**	189,906
Net interest cost	**129,804**	119,262
Past service cost	**(1,975)**	(9,564)
	307,098	299,604
Benefits paid	**(271,204)**	(330,546)
Transfers and others	**3,168**	(11,590)
Remeasurements in other comprehensive income:		
Actuarial loss (gain) due to:		
Experience adjustments	**₱82,122**	(₱15,705)
Changes in demographic assumptions	**(31,693)**	(34,416)
Changes in financial assumptions	**145,431**	(61,493)
	195,860	(111,614)
At December 31	**₱2,412,098**	₱2,177,176

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

	2019	2018
At January 1	**₱2,059,296**	₱2,026,494
Contribution by employer	**156,252**	367,917
Interest income included in net interest cost	**124,792**	103,883
Fund transfer from affiliates	**3,174**	(11,596)
Return on assets excluding amount included in net interest cost	**(18,050)**	(96,856)
Benefits paid	**(271,204)**	(330,546)
At December 31	**₱2,054,260**	₱2,059,296

Changes in net pension liability recognized in the consolidated balance sheets are as follows:

	2019	2018
At January 1	**₱117,880**	₱304,828
Retirement expense during the year	**182,306**	195,721
Transfers and others	**(6)**	6
Contribution to retirement fund	**(156,252)**	(367,917)
Actuarial loss (gain) recognized during the year	**213,910**	(14,758)
At December 31	**₱357,838**	₱117,880

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

	2019	2018
Cash and fixed-income investments	**₱473,840**	₱1,470,918
Financial assets at FVOCI	**715,814**	-
Financial assets at amortized cost	**394,522**	-
Equity instruments:		
Financial Institution	**31,551**	39,582
Power	**145,155**	103,193
Holding	**147,253**	178,538
Others	**146,125**	267,065
	1,580,420	588,378
Fair value of plan assets	**₱2,054,260**	₱2,059,296

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets are diverse and do not have any concentration risk.

The BOT reviews the performance of the plans on a regular basis. It assesses whether the retirement plans will achieve investment returns which, together with contributions, will be sufficient to pay retirement benefits as they fall due. The Group also reviews the solvency position of the different member companies on an annual basis and estimates, through the actuary, the expected contribution to the Retirement plan in the subsequent year.

The principal assumptions used as of December 31, 2019, 2018 and 2017 in determining pension benefit obligations for the Group's plans are shown below:

	2019	2018	2017
Discount rates	**4.36%-6.00%**	4.87%-8.18%	3.48%-5.21%
Salary increase rates	**6.00%**	7.00%	6.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2019, assuming if all other assumptions were held constant:

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rates	100	(₱28,519)
	(100)	235,579
Future salary increases	100	290,709
	(100)	(5,115)

The Group's defined benefit pension plans are funded by the Company and its subsidiaries.

The Group expects to contribute ₱161.08 million to the defined benefit plans in 2020. The average durations of the defined benefit obligation as of December 31, 2019 and 2018 are 7.0 to 22.02 years and 7.78 to 28.76 years, respectively.

28. Other Income (Expense) - net

	2019	2018	2017
Net foreign exchange gains (loss)	**₱1,130,743**	(₱2,055,085)	₱203,083
Surcharges	**536,856**	508,492	435,428
Non-utility operating income	**170,640**	142,363	145,948
Unrealized fair valuation gain on investment property	**126,842**	–	–
Rental income	**67,854**	42,290	39,704
Bargain purchase gain (see Note 9)	**–**	–	310,198
Write off of project costs and other assets	**(31,431)**	(50,922)	(79,881)
(Forward)			
Losses on disposal of property, plant and equipment	**(₱304,631)**	(₱292,799)	(₱86,193)
Reversal of (impairment) losses on property, plant and equipment, goodwill and other assets	**245,489**	(847,619)	(3,233,036)
Others - net	**1,541,025**	1,260,969	560,749
	₱3,483,387	(₱1,292,311)	(₱1,704,000)

Included in "Net foreign exchange gain (losses)" are the net gains and losses relating to currency forward transactions (see Note 34).

Reversal of (impairment) losses on property, plant and equipment, goodwill and other assets includes the following:

- The income from the 2019 recovery of a certain Aseagas asset previously impaired in 2017 amounting to ₱245.5 million.
- The ₱486.5 million net book value of the Bajada Power Plant which was fully impaired when it ceased operations in 2018 and the loss of ₱282.3 million from recognizing the recoverable amount of transmission assets which were classified as property held for sale.
- The ₱2.64 billion impairment loss of Aseagas biomass plant which temporarily ceased its operation due to unavailability of the supply of organic effluent wastewater from source and in January 2018, Aseagas decided to make the plant shutdown permanently. In the year ending December 31, 2017, the recoverable amount of Aseagas' property, plant and equipment was determined based on their fair value less costs of disposal. The fair value of the property, plant and equipment was based on valuation performed by an accredited independent appraiser (see Note 12).

"Others" include reversal of APRI and TLI's liability to PSALM pertaining to GRAM and ICERA of ₱924.0 million in 2019 and income arising from the proceeds from claims of liquidating damages from contractor due to the delay of the completion of PEC's power plant amounting to ₱340.7 million in 2018. "Others" also include non-recurring items like sale of scrap and sludge oil, and reversal of provisions.

29. Income Tax

The provision for income tax account consists of:

	2019	2018	2017
Current:			
Corporate income tax	**₱3,460,636**	₱3,713,410	₱3,772,375
Final tax	**221,149**	143,714	119,833
	3,681,785	3,857,124	3,892,208
Deferred	**(466,287)**	(931,501)	(33,810)
	₱3,215,498	₱2,925,623	₱3,858,398

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

	2019	2018	2017
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Nondeductible interest expense	**6.43**	5.77	6.42
Nondeductible depreciation expense	**1.42**	1.18	1.22
Deductible lease payments	**(11.53)**	(9.57)	(9.89)
Income under income tax holiday (ITH)	**(7.41)**	(11.90)	(9.29)
Nontaxable share in net earnings of associates and joint ventures	**(4.89)**	(4.61)	(5.25)
Interest income subjected to final tax at lower rates - net	**(1.57)**	(0.89)	(0.78)
Others	**1.30**	0.34	1.94
	13.75%	10.32%	14.37%

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

	2019	2018
Net deferred income tax assets:		
Allowances for impairment and probable losses	**₱329,278**	₱325,356
Net income from commissioning	**1,536,161**	1,562,631
Difference between the carrying amount of nonmonetary assets and related tax base	**(1,299,507)**	(1,673,699)
Unrealized foreign exchange loss	**372,732**	1,324,958
Net operating loss carryover (NOLCO)	**1,298,227**	189,267
Pension asset (liability):		
Unamortized contributions for past service	**34,923**	96,333
Recognized in other comprehensive income	**20,662**	127,234
Recognized in statements of income	**25,609**	(80,907)
Unamortized streetlight donations capitalized	**(685)**	(822)
Unamortized customs duties and taxes capitalized	**(47,626)**	(50,281)
Net provision for rehabilitation and restoration costs	**427,114**	393,397
Others	**89,422**	20,228
Net deferred income tax assets	**₱2,786,310**	₱2,233,695

	2019	2018
Net deferred income tax liabilities:		
Unamortized franchise	**₱771,532**	₱794,620
Fair value adjustments of property, plant and equipment	**137,740**	144,117
Unrealized foreign exchange gains	**2,749**	4,004
Unamortized customs duties and taxes capitalized	**5,618**	9,008
Pension asset (liability):		
Recognized in other comprehensive income	**147,884**	127,798
Recognized in statements of income	**(168,678)**	(149,723)
Unamortized past service cost	**(35,972)**	(42,743)
Allowances for impairment and probable losses	**(22,934)**	(33,738)
Others	**10,532**	4,947
Net deferred income tax liabilities	**₱848,471**	₱858,290

In computing for deferred income tax assets and liabilities, the rates used were 30% and 10%, which are the rates expected to apply to taxable income in the years in which the deferred income tax assets and liabilities are expected to be recovered or settled and considering the tax rate for renewable energy (RE) developers as allowed by the Renewable Energy Act of 2008 (see Note 40j).

No deferred income tax assets were recognized on the Group's NOLCO and MCIT amounting to ₱7.80 billion and ₱67.7 million, respectively, as of December 31, 2019 and ₱5.44 billion and ₱58.3 million, respectively, as of December 31, 2018, since management expects that it will not generate sufficient taxable income in the future that will be available to allow all of the deferred income tax assets to be utilized.

There are no income tax consequences to the Group attaching to the payment of dividends to its shareholders.

30. Earnings Per Common Share

Earnings per common share amounts were computed as follows:

	2019	2018	2017
a. Net income attributable to equity holders of the parent	**₱17,322,677**	₱21,707,603	₱20,416,442
b. Weighted average number of common shares issued and outstanding	**7,358,604,307**	7,358,604,307	7,358,604,307
Earnings per common share (a/b)	**₱2.35**	₱2.95	₱2.77

There are no dilutive potential common shares for the years ended December 31, 2019, 2018 and 2017.

31. Operating Segment Information

Operating segments are components of the Group that engage in business activities from which they may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's CODM to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information is available.

For purposes of management reporting, the Group's operating businesses are organized and managed separately according to services provided, with each segment representing a strategic business segment. The Group's identified operating segments, which are consistent with the segments reported to the BOD, which is the Group's CODM, are as follows:

- "Power Generation" segment, which is engaged in the generation and supply of power to various customers under power supply contracts, ancillary service procurement agreements and for trading in WESM;
- "Power Distribution" segment, which is engaged in the distribution and sale of electricity to the end-users; and
- "Parent Company and Others", which includes the operations of the Company, retail electricity sales to various off takers that are considered to be eligible contestable customers (see Note 40i) and electricity related services of the Group such as installation of electrical equipment.

The power generation segment's revenue from contracts with customers is mainly from power supply contracts. Set out below is the disaggregation of the Group's revenue from contracts with customers:

2019

	Power Generation	**Power Distribution**	**Parent and Others**	**Total**
Revenue from power supply contracts	**₱46,783,955**	**–**	**–**	**₱46,783,955**
Revenue from distribution services	**–**	**46,120,403**	**–**	**46,120,403**
Revenue from retail electricity sales	**–**	**–**	**22,805,450**	**22,805,450**
Revenue from non-power supply contracts	**9,111,632**	**–**	**–**	**9,111,632**
Revenue from technical and management services	**–**	**–**	**813,717**	**813,717**
	₱55,895,587	**₱46,120,403**	**₱23,619,167**	**₱125,635,157**

2018

	Power Generation	Power Distribution	Parent and Others	Total
Revenue from power supply contracts	₱54,237,387	₱–	₱–	₱54,237,387
Revenue from distribution services	–	44,880,546	–	44,880,546
Revenue from retail electricity sales	–	–	24,216,767	24,216,767
Revenue from non-power supply contracts	7,617,298	–	–	7,617,298
Revenue from technical and management services	–	–	620,086	620,086
	₱61,854,685	₱44,880,546	₱24,836,853	₱131,572,084

The revenue from contracts with customers is consistent with the revenue with external customers presented in Segment information.

The Group has only one geographical segment as all of its assets are located in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. Thus, geographical business information is not required.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenue and segment expenses are consistent with the consolidated statement of income. Interest expense and financing charges, depreciation and amortization expense and income taxes are managed on a per segment basis.

The Group has inter-segment revenues in the form of management fees as well as inter-segment sales of electricity which are eliminated in consolidation. The transfers are accounted for at competitive market prices on an arm's-length transaction basis.

Segment assets do not include deferred income tax assets, pension asset and other noncurrent assets. Segment liabilities do not include deferred income tax liabilities, income tax payable and pension liability. Capital expenditures consist of additions of property, plant and equipment and intangible asset - service concession rights. Adjustments as shown below include items not presented as part of segment assets and liabilities.

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and that the revenue can be reliably measured. Sale of power to Manila Electric Company

(MERALCO) accounted for 22%, 22%, and 24% of the power generation revenues of the Group in 2018, 2018, and 2017 respectively.

Financial information on the operations of the various business segments are summarized as follows:

2019

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	**₱55,895,587**	**₱46,120,403**	**₱23,619,167**	**₱–**	**₱125,635,157**
Inter-segment	**28,483,698**	**1,327,759**	**2,911,436**	**(32,722,893)**	**–**
Total Revenue	**₱84,379,285**	**₱47,448,162**	**₱26,530,603**	**(₱32,722,893)**	**₱125,635,157**
Segment Results	**₱21,830,533**	**₱5,885,145**	**₱1,140,196**	**₱–**	**₱28,855,874**
Unallocated corporate income - net	**2,406,999**	**956,784**	**119,604**	**–**	**3,483,387**
INCOME FROM OPERATIONS	**24,237,532**	**6,841,929**	**1,259,800**	**–**	**32,339,261**
Interest expense and other financing costs	**(10,957,821)**	**(507,019)**	**(2,582,806)**	**–**	**(14,047,646)**
Interest income	**943,542**	**41,972**	**306,189**	**–**	**1,291,703**
Share in net earnings of associates and joint ventures	**3,648,999**	**164,080**	**19,003,726**	**(19,002,843)**	**3,813,962**
Provision for income tax	**(1,230,697)**	**(1,742,500)**	**(242,301)**	**–**	**(3,215,498)**
NET INCOME	**₱16,641,555**	**₱4,798,462**	**₱17,744,608**	**(₱19,002,843)**	**₱20,181,782**
OTHER INFORMATION					
Investments	**₱59,646,763**	**₱881,812**	**₱161,528,818**	**(₱161,201,414)**	**₱60,855,979**
Capital Expenditures	**₱6,237,592**	**₱3,319,554**	**₱31,393**	**₱–**	**₱ 9,588,539**
Segment Assets	**₱298,890,572**	**₱33,688,098**	**₱191,993,277**	**(₱114,102,590)**	**₱410,469,357**
Segment Liabilities	**₱190,812,375**	**₱27,267,433**	**₱71,179,680**	**(₱12,433,142)**	**₱276,826,346**
Depreciation and Amortization	**₱8,694,303**	**₱1,010,396**	**₱37,397**	**₱153,599**	**₱9,895,695**

2018

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱61,854,685	₱44,880,546	₱24,836,853	₱–	₱131,572,084
Inter-segment	23,725,675	1,518,792	3,041,129	(28,285,596)	–
Total Revenue	₱85,580,360	₱46,399,338	₱27,877,982	(₱28,285,596)	₱131,572,084
Segment Results	₱27,643,753	₱6,039,597	₱2,813,332	₱–	₱36,496,682
Unallocated corporate income - net	(1,611,364)	429,911	(110,858)	–	(1,292,311)
INCOME FROM OPERATIONS	26,032,389	6,469,508	2,702,474	–	35,204,371
Interest expense and other financing costs	(10,178,990)	(370,814)	(1,532,354)	–	(12,082,158)
Interest income	574,737	47,394	257,954	–	880,085
Share in net earnings of associates and joint ventures	4,152,912	168,307	22,444,396	(22,408,790)	4,356,825
Provision for income tax	(459,775)	(1,681,315)	(784,533)	–	(2,925,623)
NET INCOME	₱20,121,273	₱4,633,080	₱23,087,937	(₱22,408,790)	₱25,433,500
OTHER INFORMATION					
Investments	₱33,119,798	₱857,368	₱133,369,580	(₱133,035,182)	₱34,311,564
Capital Expenditures	₱5,973,352	₱2,642,276	₱15,155	₱–	₱8,630,783
Segment Assets	₱280,845,233	₱32,008,694	₱170,041,730	(₱93,233,481)	₱389,662,176
Segment Liabilities	₱185,274,861	₱25,093,441	₱55,420,889	(₱12,703,682)	₱253,085,509
Depreciation and Amortization	₱7,511,495	₱988,911	₱24,537	₱156,460	₱8,681,403

2017

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱57,418,126	₱44,391,734	₱18,440,774	(₱859,331)	₱119,391,303
Inter-segment	20,833,785	–	2,937,047	(23,770,832)	–
Total Revenue	₱78,251,911	44,391,734	₱21,377,821	(₱24,630,163)	₱119,391,303
Segment Results	₱27,493,307	₱5,623,677	₱1,056,745	₱–	₱34,173,729
Unallocated corporate income - net	(2,808,401)	773,943	330,458	–	(1,704,000)
INCOME FROM OPERATIONS	24,684,906	6,397,620	1,387,203	–	32,469,729
Interest expense and other financing costs	(9,225,679)	(293,339)	(1,728,762)	–	(11,247,780)
Interest income	413,527	34,014	479,471	–	927,012
Share in net earnings of associates and joint ventures	4,362,804	323,674	20,540,260	(20,528,874)	4,697,864
Provision for income tax	(1,799,796)	(1,667,979)	(390,623)	–	(3,858,398)
NET INCOME	₱18,435,762	₱4,793,990	₱20,287,549	(₱20,528,874)	₱22,988,427
OTHER INFORMATION					
Investments	₱29,896,526	₱889,166	₱115,650,315	(₱115,212,028)	₱31,223,979
Capital Expenditures	₱13,549,936	₱2,565,221	₱39,052	₱–	₱16,154,209
Segment Assets	₱252,921,514	₱26,977,414	₱151,029,118	(₱69,451,047)	₱361,476,999
Segment Liabilities	₱173,675,992	₱19,266,696	₱52,829,898	(₱8,274,051)	₱237,498,535
Depreciation and Amortization	₱6,532,040	₱884,511	₱23,257	₱156,460	₱7,596,268

32. Related Party Disclosures

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

The Group enters into transactions with its parent, associates, joint ventures and other related parties, principally consisting of the following:

a. The Company provides services to certain associates and joint ventures such as technical and legal assistance for various projects and other services.

b. Energy fees are billed by the Group to related parties and the Group also purchased power from associates and joint ventures, arising from the following:

   - PPA/PSA or ESA (Note 21)
   - Replacement power contracts (Note 22)

c. AEV provides human resources, internal audit, legal, treasury and corporate finance services, among others, to the Group and shares with the member companies the business expertise of its highly qualified professionals. Transactions are priced based on agreed rates, and billed costs are always benchmarked to third party rates. Service level agreements are in place to ensure quality of service. This arrangement enables the Group to maximize efficiencies and realize cost synergies. These transactions result to professional and technical fees paid by the Group to AEV (see Note 24).

d. Aviation services are rendered by AAI, an associate, to the Group.

e. Lease of commercial office units by the Group from Cebu Praedia Development Corporation (CPDC) and Aboitizland, Inc. and subsidiaries. CPDC and Aboitizland, Inc. are subsidiaries of AEV.

f. Aboitiz Construction, Inc. (ACI), a wholly owned subsidiary of ACO, rendered its services to the Group for various construction projects.

g. LEZ entered into a Concession Agreement with Lima Land, Inc. (LLI) for which it is entitled to the exclusive right to distribute and supply electricity to LLI's locators.

h. Interest-bearing advances from AEV availed by the Group. The annual interest rates are determined on arm's length basis.

i. Cash deposits with Union Bank of the Philippines (UBP) earn interest at prevailing market rates (see Note 5). UBP is an associate of AEV.

j. The Company obtained Standby Letter of Credit (SBLC) and is acting as surety for the benefit of certain associates and joint ventures in connection with loans and credit accommodations. The Company provided SBLC for STEAG, CEDC, and SNAP B in the amount of ₱958.3 million in 2019, ₱1.02 billion in 2018 and ₱1.04 billion in 2017.

The above transactions are settled in cash.

The consolidated balance sheets and consolidated statements of income include the following significant account balances resulting from the above transactions with related parties:

a. Revenue - Technical, management and other fees

	Revenue			Receivable			
	2019	2018	2017	**2019**	2018	Terms	Conditions
Associates:							
SFELAPCO	**₱106,760**	₱132,623	₱72,158	**₱57,440**	₱36,851	30-day; interest-free	Unsecured; no impairment
CEDC	**74,074**	71,880	101,367	**24,615**	–	30-day; interest-free	Unsecured; no impairment
GNPD	**41,768**	42,360	40,556	**3,441**	3,960	30-day; interest-free	Unsecured; no Impairment
APO AGUA	**24,545**	–		**24,194**	–	30-day; interest-free	Unsecured; no Impairment
Aboitiz InfraCapital, Inc.	**1,055**	–		**281**	–	30-day; interest-free	Unsecured; no Impairment
	₱248,202	₱246,863	₱214,081	**₱109,970**	₱40,811		

b. Revenue - Sale of power

	Revenue			Receivable			
	2019	2018	2017	**2019**	2018	Terms	Conditions
AEV and subsidiaries:							
Pilmico Foods Corporation	**₱203,398**	₱166,121	₱216,330	**₱19,850**	₱5,765	30-day; interest-free	Unsecured; no Impairment
Lima Land, Inc.	**9,842**	47,947	3,031	**2,709**	1,509	30-day; interest-free	Unsecured; no Impairment
Cebu Industrial Park Developers, Inc.	**2,540**	2,640	2,650	**156**	237	30-day; interest-free	Unsecured; no Impairment
Aboitizland, Inc. and subsidiaries	**–**	14,588	18,060	**–**	1,698	30-day; interest-free	Unsecured; no Impairment
Lima Water Corporation	**–**	1,943	17,141	**–**	2,084	30-day; interest-free	Unsecured; no Impairment
Associates and joint ventures							
SFELAPCO	**2,655,153**	2,290,390	2,487,557	**227,478**	160,375	30-day; interest-free	Unsecured; no Impairment
MEC	**312,055**	**–**	**–**	**44,017**	**–**	30-day; interest-free	Unsecured; no impairment
GNPD	**37,212**	**–**	**–**	**–**	**–**	30-day; interest-free	Unsecured; no impairment
SNAP RES	**28,983**	19,442	14,209	**1**	1,583	30-day; interest-free	Unsecured; no Impairment
SNAP M	**22,802**	9,193	–	–	–	30-day; interest-free	Unsecured; no Impairment
Other related parties							
Republic Cement & Building Materials, Inc. (an associate of AEV)	**1,295,957**	1,341,456	101,092	**52,320**	129,905	30-day; interest-free	Unsecured; no impairment
Aboitiz Construction International, Inc.	**–**	11,218	2,410	**–**	1,263	30-day; interest-free	Unsecured; no impairment
	₱4,733,196	₱4,256,884	₱3,268,846	**₱346,533**	₱343,897		

c. Cost of purchased power

	Purchases			Payable			
	2019	2018	2017	**2019**	2018	Terms	Conditions
Associates and joint ventures							
CEDC	**₱3,619,999**	₱4,196,052	₱4,540,798	**₱339,494**	₱303,563	30-day; interest-free	Unsecured
SNAP M	**109,142**	110,432	158,015	**8,012**	8,722	30-day; interest-free	Unsecured
SFELAPCO	**–**	14,287	23,592	**–**	–	30-day; interest-free	Unsecured
SNAP B	–	–	126,731	**–**	–	30-day; interest-free	Unsecured
	₱3,729,141	₱4,320,771	₱4,849,136	**₱347,506**	₱312,285		

d. Expenses

		Purchases/Expenses			Payable			
	Nature	**2019**	2018	2017	**2019**	2018	Terms	Conditions
Ultimate Parent								
ACO	Professional fees	**₱1,663**	₱9,105	₱18,296	**₱1,309**	₱955	30-day; interest-free	Unsecured
AEV and subsidiaries								
AEV	Professional and Technical fees	**591,310**	487,770	766,866	**91,168**	18,858	30-day; interest-free	Unsecured
Lima Land, Inc.	Concession fees	**78,516**	67,044	59,151	**5,378**	5,421	30-day; interest-free	Unsecured
AAI	Aviation Services	**55,537**	46,217	61,189	**10,847**	–	30-day; interest-free	Unsecured
CPDC	Rental	**34,862**	26,939	34,711	**–**	–	30-day; interest-free	Unsecured
AEV	Rental	**2,213**	–	–	–	–	30-day; interest-free	Unsecured
Aboitizland, Inc. and subsidiaries	Rental	**280**	258	1,163	**–**	–	30-day; interest-free	Unsecured
CPDC	Professional and Technical fees	**64**	–	7	**–**	–	30-day; interest-free	Unsecured
ACI	Professional and Technical fees	–	–	16,789	**–**	–	30-day; interest-free	Unsecured
		₱764,445	₱637,333	₱958,172	**₱108,702**	₱25,234		

e. Capitalized construction and rehabilitation costs

	Purchases			Payable			
	2019	2018	2017	**2019**	2018	Terms	Conditions
Other related parties							
ACI	**₱458,564**	₱399,105	₱727,378	**₱212,358**	₱–	30-day; interest-free	Unsecured

f. Capitalized construction and rehabilitation costs

	Interest Expense			Payable			
	2019	2018	2017	**2019**	2018	Terms	Conditions
Parent							
AEV	**₱17,919**	₱22,390	₱44,299	**₱607,620**	₱930,960	Promissory note; interest-bearing	Unsecured

g. Notes receivable

	Interest Income			Receivable			
	2019	2018	2017	**2019**	2018	Terms	Conditions
Joint venture							
Sacasun	**₱–**	**₱–**	₱151,040	**₱–**	₱–	Loan agreement; interest-bearing	Unsecured

h. Cash deposits and placements with UBP

	Interest Income			Outstanding Balance			
	2019	2018	2017	**2019**	2018	Terms	Conditions
Company	**₱106,743**	₱67,982	₱54,450	**₱22,806**	₱6,143,040	90 days or less; interest-bearing	No impairment
TPI and subsidiaries	**67,184**	269,597	57,888	**4,644,453**	6,091,050	90 days or less; interest-bearing	No impairment
ARI and subsidiaries	**40,802**	71,686	47,101	**1,708,116**	3,243,580	90 days or less; interest-bearing	No impairment
AESI	**15,026**	9,556	14,084	**856,115**	880,422	90 days or less; interest-bearing	No impairment
AI	**15,332**	7,091	3,501	**729,907**	1,241,725	90 days or less; interest-bearing	No impairment
CPPC	**11,710**	5,234	2,396	**607,526**	405,191	90 days or less; interest-bearing	No impairment
VECO	**10,144**	2,304	3,525	**988,027**	57,761	90 days or less; interest-bearing	No impairment
EAUC	**5,740**	3,932	4,629	**212,010**	229,886	90 days or less; interest-bearing	No impairment
DLP	**3,025**	1,564	3,505	**122,147**	156,235	90 days or less; interest-bearing	No impairment
PEI	**888**	121	76	**175,572**	99,358	90 days or less; interest-bearing	No impairment
CLP	**402**	157	306	**3,025**	40,783	90 days or less; interest-bearing	No impairment
MEZ	**311**	153	213	**3,145**	37,875	90 days or less; interest-bearing	No impairment
SEZ	**262**	176	1,575	**4,044**	73,548	90 days or less; interest-bearing	No impairment
BEZ	**205**	156	174	**2,515**	20,375	90 days or less; interest-bearing	No impairment
LEZ	**41**	2,635	2,034	**27,872**	28,819	90 days or less; interest-bearing	No impairment
MVEZ	**35**	–	–	**32,290**	3,280	90 days or less; interest-bearing	No impairment
CIPI	–	–	–	**200**	200	90 days or less; interest-bearing	No impairment
MHSCI	–	–	–	**49**	49	90 days or less; interest-bearing	No impairment
SACASUN	–	–	–	**178**	–	90 days or less; interest-bearing	No impairment
APInt	–	–	–	**105**	105	90 days or less; interest-bearing	No impairment
	₱277,850	₱442,344	₱195,457	**₱10,140,102**	₱18,753,282		

The Company's Fund is in the form of a trust being maintained and managed by AEV. In 2019 and 2018, other than contributions to the Fund, no transactions occurred between the Company or any of its direct subsidiaries and the Fund.

Compensation of BOD and key management personnel of the Group follows:

	2019	2018	2017
Short-term benefits	**₱456,844**	₱439,859	₱461,779
Post-employment benefits	**30,616**	25,998	28,518
	₱487,460	₱465,857	₱490,297

33. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents and long-term debts. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial instruments such as trade and other receivables, investments in equity securities, short-term loans, trade and other payables, lease liabilities, long-term obligation on power distribution system and customers' deposits, which generally arise directly from its operations.

The Group also enters into derivative transactions, particularly foreign currency forwards, to economically hedge its foreign currency risk from foreign currency denominated liabilities and purchases (see Note 34).

Risk Management Structure

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group.

Financial risk committee

The Financial Risk Committee has the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

Treasury service group

The Treasury Service Group is responsible for the comprehensive monitoring, evaluating and analyzing of the Group's risks in line with the policies and limits.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk, commodity price risk and foreign exchange risk.

Liquidity risk

Liquidity risk is the risk of not meeting obligations as they become due because of the inability to liquidate assets or obtain adequate funding. The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay any dividend declarations.

In managing its long-term financial requirements, the Group's policy is that not more than 25% of long-term borrowings should mature in any twelve-month period. 6.97% and 6.08% of the Group's debt will mature in less than one year as of December 31, 2019 and 2018 respectively. For its short-term funding, the Group's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term debt.

The financial assets that will be principally used to settle the financial liabilities presented in the following table are from cash and cash equivalents and trade and other receivables that have contractual undiscounted cash flows amounting to ₱37.50 billion and ₱23.90 billion, respectively, as of December 31, 2019 and ₱46.34 billion and ₱24.90 billion, respectively, as of December 31, 2018 (see Notes 5 and 6). Cash and cash equivalents can be withdrawn anytime while trade and other receivables are expected to be collected/realized within one year.

The following tables summarize the maturity profile of the Group's financial liabilities as of December 31, 2019 and 2018 based on contractual undiscounted payments:

December 31, 2019

	Total Carrying Value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Short-term loans	**₱10,335,420**	**₱10,547,767**	**₱–**	**₱10,547,767**	**₱–**	**₱–**
Trade and other payables*	**24,882,034**	**24,882,034**	**2,115,302**	**15,954,482**	**6,812,250**	**–**
Long-term debts	**177,971,622**	**243,705,445**	**–**	**17,883,835**	**129,204,381**	**96,617,229**
Customers' deposits	**6,521,469**	**6,521,469**	**–**	**25,199**	**184,625**	**6,311,645**
Lease liabilities	**44,789,644**	**63,070,543**	**–**	**9,117,883**	**44,872,854**	**9,079,806**
Long-term obligation on PDS	**199,350**	**360,000**	**–**	**40,000**	**200,000**	**120,000**
Derivative liabilities	**2,468,324**	**2,468,324**	**–**	**2,255,736**	**212,588**	**–**
	₱267,167,863	**₱351,555,582**	**₱2,115,302**	**₱55,824,902**	**₱181,486,698**	**₱112,128,680**

**Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent liabilities in the consolidated balance sheet.*

December 31, 2018

	Total Carrying Value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Short-term loans	₱11,546,560	₱11,595,877	₱–	11,595,877	₱–	₱–
Trade and other payables*	20,980,747	20,980,747	2,249,319	15,548,339	3,183,089	–
Long-term debts	158,057,691	196,167,005	–	12,385,044	69,567,926	114,214,035
Customers' deposits	6,008,364	6,008,364	–	24,546	80,334	5,903,484
Lease liabilities	46,894,355	66,433,090	–	9,052,200	41,790,990	15,589,900
Long-term obligation on PDS	213,496	400,000	–	40,000	200,000	160,000
Derivative liabilities	159,926	159,926	–	159,926	–	–
	₱243,861,139	₱301,745,009	₱2,249,319	₱48,805,932	₱114,822,339	₱135,867,419

**Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent liabilities in the consolidated balance sheet.*

Market risk

The risk of loss, immediate or over time, due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Group's overall portfolio (whether on or off-balance sheet) is market risk. These are influenced by foreign and domestic interest rates, foreign exchange rates and gross domestic product growth.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of December 31, 2019, 16% of the Group's long-term debt had annual floating interest rates ranging from 3.09% to 4.81%, and 84% have annual fixed interest rates ranging from 4.05% to 9.00%. As of December 31, 2018, 10% of the Group's long-term debt had annual floating interest rates ranging from 2.94% to 4.31%, and 90% have annual fixed interest rates ranging from 4.11% to 9.00%.

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to cash flow interest rate risk:

As of December 31, 2019

	<1 year	**1-5 years**	**>5 years**	**Total**
Floating rate - long-term debt	**₱1,887,609**	**₱23,257,354**	**₱4,183,912**	**₱29,328,875**

As of December 31, 2018

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	₱2,134,417	₱9,816,871	₱4,303,409	₱16,254,697

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk. The Group's derivative assets and liabilities are subject to fair value interest rate risk (see Note 34).

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income before tax (through the impact on floating rate borrowings):

	Increase (decrease) in basis points	Effect on income before tax
December 2019	**200**	**(₱586,577)**
	(100)	**293,289**
December 2018	200	(₱325,094)
	(100)	162,547

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

The interest expense and other finance charges recognized according to source are as follows:

	2019	2018	2017
Short-term loans and long-term debt (see Notes 16 and 17)	**₱9,443,882**	₱7,237,217	₱6,458,347
Lease liabilities (see Note 35)	**4,350,043**	4,659,794	4,757,379
Customers' deposits (see Note 18)	**4,353**	2,143	3,230
Other long-term obligations (see Notes 13 and 19)	**249,368**	183,004	28,824
	₱14,047,646	₱12,082,158	₱11,247,780

Commodity Price Risk

Commodity price risk of the Group arises from transactions on the world commodity markets to secure the supply of fuel, particularly coal, which is necessary for the generation of electricity.

The Group's objective is to minimize the impact of commodity price fluctuations and this exposure is hedged in accordance with the Group's commodity price risk management strategy.

Based on a 36-month forecast of the required coal supply, the Group hedges the purchase price of coal using commodity swap contracts. The commodity swap contracts do not result in physical delivery of coal, but are designated as cash flow hedges to offset the effect of price changes in coal.

Foreign exchange risk
The foreign exchange risk of the Group pertains significantly to its foreign currency denominated obligations. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency forward contracts aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows. Foreign currency denominated borrowings account for 32% and 31% of total consolidated borrowings as of December 31, 2019 and 2018, respectively.

Presented below are the Group's foreign currency denominated financial assets and liabilities as of December 31, 2019 and 2018, translated to Philippine Peso:

	December 31, 2019		December 31, 2018	
	US Dollar	**Philippine Peso equivalent[1]**	US Dollar	Philippine Peso equivalent[2]
Financial assets:				
Cash and cash equivalents	**$43,352**	**₱2,195,129**	$227,911	₱11,983,534
Trade and other receivables	**18,725**	**948,140**	26,591	1,398,184
Advances to associates	**–**	**–**	592	31,127
Total financial assets	**62,077**	**3,143,269**	255,094	13,412,845
Financial liabilities:				
Short-term loans	**12,000**	**607,620**	12,000	630,960
Trade and other payables	**13,439**	**680,493**	2,934	154,294
Long-term debt	**300,000**	**15,190,500**	–	–
Lease liabilities	**443,002**	**22,431,406**	479,512	25,212,741
Total financial liabilities	**768,441**	**38,910,019**	494,446	25,997,995
Total net financial liabilities	**($706,364)**	**(₱35,766,750)**	($239,352)	(₱12,585,150)

[1]US$1 = ₱50.64
[2]US$1 = ₱52.58

The following table demonstrates the sensitivity to a reasonable possible change in the US dollar exchange rates, with all other variables held constant, of the Group's income before tax as of December 31:

	Increase (decrease) in US Dollar	Effect on income before tax
2019		
US Dollar denominated accounts	**US Dollar strengthens by 5%**	**(₱1,788,338)**
US Dollar denominated accounts	**US Dollar weakens by 5%**	**1,788,338**
2018		
US Dollar denominated accounts	US Dollar strengthens by 5%	(₱629,257)
US Dollar denominated accounts	US Dollar weakens by 5%	629,257

The increase in US Dollar rate represents the depreciation of the Philippine Peso while the decrease in US Dollar rate represents appreciation of the Philippine Peso.

The following table presents LHC's and GMCP's foreign currency denominated assets and liabilities:

	2019		2018	
	Philippine Peso	**US Dollar Equivalent[1]**	Philippine Peso	US Dollar Equivalent[2]
Financial assets:				
Cash and cash equivalents	**₱718,508**	**$14,190**	₱1,212,747	$23,065
Trade and other receivables	**461,052**	**9,105**	801,466	15,243
	1,179,560	**23,295**	2,014,213	38,308
Financial liabilities:				
Trade and other payables	**842,075**	**16,630**	608,306	11,569
Net foreign currency denominated assets	**₱337,485**	**$6,665**	₱1,405,907	$26,739

[1]US$1 = ₱50.64
[2]US$1 = ₱52.58

The following tables demonstrate the sensitivity to a reasonable possible change in the US dollar exchange rate in relation to Philippine peso, with all variables held constant, of the Group's income before tax as of December 31:

2019	Effect on income before tax
U.S. dollar appreciates against Philippine peso by 5.0%	**($333)**
U.S. dollar depreciates against Philippine peso by 5.0%	**333**
2018	
U.S. dollar appreciates against Philippine peso by 5.0%	($1,337)
U.S. dollar depreciates against Philippine peso by 5.0%	1,337

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

Credit risk

For its cash investments (including restricted portion), financial assets at FVTPL and receivables, the Group's credit risk pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these investments. With respect to cash investments and financial assets at FVTPL, the risk is mitigated by the short-term and/or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions and entities of high credit standing. With respect to receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to only enter into transactions with credit-worthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales are made to customers with appropriate credit history and it has internal mechanisms to monitor the granting of credit and management of credit exposures.

Concentration risk
Credit risk concentration of the Group's receivables according to the customer category as of December 31, 2019 and 2018 is summarized in the following table:

	2019	2018
Power distribution:		
Industrial	**₱5,554,969**	₱4,973,567
Residential	**1,825,217**	1,676,936
Commercial	**437,994**	778,623
City street lighting	**111,570**	30,006
Power generation:		
Power supply contracts	**1,481,760**	4,567,682
Spot market	**5,520,439**	2,533,211
	₱14,931,949	₱14,560,025

The above receivables were provided with allowance for ECL amounting to ₱1.97 billion in 2019 and ₱1.75 billion in 2018 (see Note 6).

Maximum exposure to credit risk after collateral and other credit enhancements
The maximum exposure of the Group's financial instruments is equivalent to the carrying values as reflected in the consolidated balance sheets and related notes, except that the credit risk associated with the receivables from customers is mitigated because some of these receivables have collaterals.

Maximum exposure to credit risk for collateralized loans is shown below:

	2019			2018		
	Carrying Value	**Financial Effect of Collateral in Mitigating Credit Risk**	**Maximum Exposure to Credit Risk**	Carrying Value	Financial Effect of Collateral in Mitigating Credit Risk	Maximum Exposure to Credit Risk
Trade receivables:						
Power distribution	**₱7,639,069**	**₱7,639,069**	**₱–**	₱7,619,514	₱7,619,514	₱–

Financial effect of collateral in mitigating credit risk is equivalent to the fair value of the collateral or the carrying value of the loan, whichever is lower.

Credit quality
The credit quality per class of financial assets is as follows:

December 31, 2019

	Neither past due nor impaired			Past due or individually	
	High Grade	**Standard**	**Sub-standard**	**impaired**	**Total**
Cash and cash equivalents:					
Cash on hand and in banks	**₱14,177,919**	**₱–**	**₱–**	**₱–**	**₱14,177,919**
Short-term deposits	**23,256,010**	**–**	**–**	**–**	**23,256,010**
	37,433,929	**–**	**–**	**–**	**37,433,929**
Trade receivables:					
Power supply contracts	**2,848,479**	**–**	**–**	**2,671,960**	**5,520,439**
Spot market	**84,853**	**–**	**–**	**1,396,907**	**1,481,760**
Industrial	**5,274,393**	**–**	**–**	**280,576**	**5,554,969**
Residential	**1,346,631**	**–**	**–**	**478,586**	**1,825,217**
Commercial	**301,098**	**–**	**–**	**136,896**	**437,994**
City street lighting	**99,320**	**–**	**–**	**12,250**	**111,570**
	9,954,774	**–**	**–**	**4,977,175**	**14,931,949**
Other receivables*	**10,929,212**	**–**	**–**	**–**	**10,929,212**
Financial assets at FVTPL	**3,906**	**–**	**–**	**–**	**3,906**
Restricted cash	**9,121,747**	**–**	**–**	**–**	**9,121,747**
Derivative assets	**82,327**	**–**	**–**	**–**	**82,327**
Total	**₱67,525,895**	**₱–**	**₱–**	**₱4,977,175**	**₱72,503,070**

Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent assets in the consolidated balance sheets.

December 31, 2018

	Neither past due nor impaired			Past due or individually	
	High Grade	Standard	Sub-standard	impaired	Total
Cash and cash equivalents:					
Cash on hand and in banks	₱11,426,051	₱–	₱–	₱–	₱11,426,051
Short-term deposits	34,916,990	–	–	–	34,916,990
	46,343,041	–	–	–	46,343,041
Trade receivables:					
Power supply contracts	3,510,685	8,857	162	1,047,978	4,567,682
Spot market	653,426	–	–	1,879,785	2,533,211
Industrial	4,704,832	–	–	268,735	4,973,567
Residential	807,292	–	–	869,644	1,676,936
Commercial	477,608	–	–	301,015	778,623
City street lighting	16,495	–	–	13,511	30,006
	10,170,338	8,857	162	4,380,668	14,560,025
Other receivables*	12,074,660	–	–	20,171	12,094,831
Financial assets at FVTPL	101,441	–	–	–	101,441
Restricted cash	5,289,145	–	–	–	5,289,145
Derivative assets	292,828	–	–	–	292,828
Total	₱74,271,453	₱8,857	₱162	₱4,400,839	₱78,681,311

Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent assets in the consolidated balance sheets.

	2019			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
High grade	**₱57,571,121**	**₱9,954,774**	**₱–**	**₱67,525,895**
Standard grade	**–**	**–**	**–**	**–**
Substandard grade	**–**	**–**	**–**	**–**
Default	**–**	**3,027,476**	**1,949,699**	**4,977,175**
Gross carrying amount	**57,571,121**	**12,982,250**	**1,949,699**	**72,503,070**
Loss allowance	**–**	**23,821**	**1,949,699**	**1,973,520**
Carrying amount	**₱57,571,121**	**₱12,958,429**	**₱–**	**₱70,529,550**

	2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
High grade	₱64,101,115	₱10,170,338	₱–	₱74,271,453
Standard grade	–	8,857	–	8,857
Substandard grade	–	162	–	162
Default	20,171	2,879,856	1,500,812	4,400,839
Gross carrying amount	64,121,286	13,059,213	1,500,812	78,681,311
Loss allowance	–	249,179	1,500,812	1,749,991
Carrying amount	₱64,121,286	₱12,810,034	₱–	₱76,931,320

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

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

Sub-standard grade - pertain to those customers with payment habits that normally extend beyond the approved credit terms, and has high probability of being impaired.

Trade and other receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and have defaulted on payments and accounts under dispute and legal proceedings.

The Group evaluated its cash and cash equivalents and restricted cash as high quality financial assets since these are placed in financial institutions of high credit standing.

With respect to other receivables, investments in equity securities and derivative assets, the Group evaluates the counterparty's external credit rating in establishing credit quality.

The tables below show the Group's aging analysis of financial assets:

December 31, 2019

	Total	Neither past due nor impaired	Past due but not impaired: Less than 30 days	31 days to 60 days	Over 60 days	Individually impaired
Cash and cash equivalents:						
Cash on hand and in banks	**₱14,177,919**	**₱14,177,919**	**₱–**	**₱–**	**₱–**	**₱–**
Short-term deposits	**23,256,010**	**23,256,010**	**–**	**–**	**–**	**–**
	37,433,929	**37,433,929**	**–**	**–**	**–**	**–**
Trade receivables:						
Power supply contracts	**5,520,439**	**2,848,479**	**208,094**	**222,758**	**1,663,483**	**577,625**
Spot market	**1,481,760**	**84,853**	**9,339**	**1,405**	**126,148**	**1,260,015**
Industrial	**5,554,969**	**5,274,393**	**77,650**	**18,126**	**169,528**	**15,272**
Residential	**1,825,217**	**1,346,631**	**166,663**	**30,187**	**182,435**	**99,301**
Commercial	**437,994**	**301,098**	**39,269**	**5,628**	**71,720**	**20,279**
City street lighting	**111,570**	**99,320**	**8,801**	**1,931**	**490**	**1,028**
	14,931,949	**9,954,774**	**509,816**	**280,035**	**2,213,804**	**1,973,520**
Other receivables*	**10,929,212**	**10,929,212**	**–**	**–**	**–**	**–**
Financial assets at FVTPL	**3,906**	**3,906**	**–**	**–**	**–**	**–**
Restricted cash	**9,121,747**	**9,121,747**	**–**	**–**	**–**	**–**
Derivative assets	**82,327**	**82,327**	**–**	**–**	**–**	**–**
Total	**₱72,503,070**	**₱67,525,895**	**₱509,816**	**₱280,035**	**₱2,213,804**	**₱1,973,520**

**Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent assets in the consolidated balance sheets.*

December 31, 2018

	Total	Neither past due nor impaired	Past due but not impaired: Less than 30 days	31 days to 60 days	Over 60 days	Individually impaired
Cash and cash equivalents:						
Cash on hand and in banks	₱11,426,051	₱11,426,051	₱–	₱–	₱–	₱–
Short-term deposits	34,916,990	34,916,990	–	–	–	–
	46,343,041	46,343,041	–	–	–	–
Trade receivables:						
Power supply contracts	4,567,682	3,519,704	166,653	126,484	434,900	319,941
Spot market	2,533,211	653,426	16,619	17,070	603,359	1,242,737
Industrial	4,973,567	4,704,832	170,360	17,184	58,331	22,860
Residential	1,676,936	807,292	435,020	64,942	244,498	125,184
Commercial	778,623	477,608	157,412	19,693	88,052	35,858
City street lighting	30,006	16,495	3,121	266	6,713	3,411
	14,560,025	10,179,357	949,185	245,639	1,435,853	1,749,991
Other receivables*	12,094,831	12,074,660	–	–	20,171	–
Financial assets at FVTPL	101,441	101,441	–	–	–	–
Restricted cash	5,289,145	5,289,145	–	–	–	–
Derivative assets	292,828	292,828	–	–	–	–
Total	₱78,681,311	₱74,280,472	₱949,185	₱245,639	₱1,456,024	₱1,749,991

**Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent assets in the consolidated balance sheets.*

Capital Management

Capital includes equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio at 70% or below. The Group determines net debt as the sum of interest-bearing short-term loans, long-term loans, and lease liabilities less cash and short-term deposits (including restricted cash).

Gearing ratios of the Group as of December 31, 2019 and 2018 are as follows:

	2019	2018
Short-term loans	**₱10,335,420**	₱11,546,560
Long-term debt	**222,761,266**	204,952,046
Cash and cash equivalents	**(37,433,929)**	(46,343,041)
Restricted cash	**(9,121,747)**	(5,289,145)
Net debt (a)	**186,541,010**	164,866,420
Equity	**133,643,011**	136,576,667
Equity and net debt (b)	**320,184,021**	301,443,087
Gearing ratio (a/b)	**58.26%**	54.69%

Part of the Group's capital management is to ensure that it meets financial covenants attached to long-term borrowings. Breaches in meeting the financial covenants would permit the banks to immediately call loans and borrowings. The Group is in compliance with the financial covenants attached to its long-term debt as of December 31, 2019 and 2018 (see Note 17).

Certain entities within the Group that are registered with the BOI are required to raise a minimum amount of capital in order to avail of their registration incentives. As of December 31, 2019 and 2018, these entities have complied with the requirement as applicable (see Note 37).

No changes were made in the objectives, policies or processes during the years ended December 31, 2019 and 2018.

34. Financial Instruments

Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be sold in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with no active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price.

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments whose fair values are different from their carrying amounts.

	2019		2018	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial Asset				
PSALM deferred adjustment	**₱3,183,080**	**₱2,846,279**	₱4,225,950	₱3,889,099
Financial Liabilities				
Lease liabilities	**₱44,789,644**	**₱38,495,450**	₱46,894,355	₱40,495,647
Long-term debt - fixed rate	**148,642,748**	**152,786,437**	141,802,994	138,103,091
PSALM deferred adjustment	**3,183,080**	**2,846,279**	4,225,950	3,889,099
Long-term obligation on power distribution system	**199,350**	**320,194**	213,496	297,790
	₱196,814,822	**₱194,448,360**	₱193,136,795	₱182,785,627

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade and other receivables, short-term loans and trade and other payables. The carrying amounts of cash and cash equivalents, trade and other receivables, short-term loans and trade and other payables approximate fair value due to the relatively short-term maturity of these financial instruments.

Fixed-rate borrowings. The fair value of fixed rate interest-bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Interest-bearing loans were discounted using credit-adjusted interest rates ranging from 3.47% to 6.52% in 2019 and 3.15% to 7.53% in 2018.

Floating-rate borrowings. Since repricing of the variable-rate interest bearing loan is done on a quarterly basis, the carrying value approximates the fair value.

Lease liabilities. The fair value of lease liabilities was calculated by discounting future cash flows using discount rates of 3.10% to 4.13% for dollar payments and 6.68% to 7.04% for peso payments in 2019 and 2.33% to 2.73% for dollar payments and 5.26% to 6.67% for peso payments in 2018.

Long-term obligation on PDS and PSALM deferred adjustment. The fair value of the long-term obligations on power distribution system and PSALM deferred adjustment is calculated by discounting expected future cash flows at prevailing market rates. Discount rates used in discounting the obligation ranges from 4.32% to 7.49% in 2018 and 2.70% to 4.66% in 2017.

Customers' deposits. The fair value of bill deposits approximates the carrying values as these deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines. The timing and related amounts of future cash flows relating to transformer and lines and poles deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

Financial assets at FVTPL. These equity securities are carried at fair value.
Derivative financial instruments. The fair value of forward contracts is calculated by reference to prevailing interest rate differential and spot exchange rate as of valuation date, taking into account its remaining term to maturity. The fair value of the embedded prepayment options is determined using Binomial Option Pricing Model which allows for the specification of points in time until option expiry date. This valuation incorporates inputs such as interest rates and volatility. The fair value of the IRS and interest rate cap are determined by generally accepted valuation techniques with reference to observable market data such as interest rates.

The Group entered into an IRS agreement to fully hedge its floating rate exposure on its foreign currency-denominated loan and par forward contracts to hedge the floating rate exposure on foreign-currency denominated payments.

The Group also entered into deliverable and non-deliverable short-term forward contracts with counterparty banks to manage its foreign currency risks associated with foreign currency-denominated liabilities, purchases and highly probable forecasted purchases.

The Group also entered into commodity swap contracts to hedge the price volatility of its forecasted coal purchases.

IRS
In August 2012, LHC entered into an IRS agreement effective October 31, 2012 to fully hedge its floating rate exposure on its US Dollar-denominated loan. Under the IRS agreement, LHC, on a semi-annual basis, pays a fixed rate of 1.505% per annum and receives variable interest at 6-month LIBOR plus margin. The interest payments and receipts are based on the outstanding USD notional amount simultaneous with the interest payments on the hedged loan. Similar with the hedged loan, the IRS has amortizing notional amounts which cover a period up to final maturity. LHC designated the swap as a cash flow hedge.

As of December 31, 2019, the outstanding notional amount and derivative asset as a result of the swap amounted to $11.2 million and ₱2.2 million, respectively. As of December 31, 2018, the outstanding notional amount and derivative asset as a result of the swap amounted to $16.6 million and ₱19.6 million, respectively.

GMCP has an IRS agreement to hedge the variability in the interest cash flows on the entire amount of its Onshore - Tranche B loans. Under the swap agreement, GMCP pays a fixed rate of 4.37% and receives 6-month LIBOR, semi-annually from January 29, 2010 until March 29, 2021. GMCP designated the swap as a cash flow hedge. On September 29, 2017, the IRS agreement was terminated following the prepayment of the loan (see Note 17). As a result of the termination, the outstanding value of the derivative liability amounting to $4.5 million was derecognized in cumulative translation adjustments.

On September 29, 2017, GMCP entered into an IRS agreement to hedge the variability in the interest cash flows on the entire amount of its LIBOR Loan (see Note 17), which bears interest based on six-month US LIBOR. Under the swap agreement, GMCP pays a fixed rate of 2.18% and receives six-month US LIBOR, semi-annually from March 29, 2018 until September 27, 2024. The IRS settlement dates coincide with the semi-annual interest payment dates of the NFA. GMCP designated the swap as a cash flow hedge.

As of December 31, 2019, the outstanding notional amount and derivative liability as a result of the swap amounted to $267.5 million and ₱252.3 million, respectively. As of December 31, 2018, the outstanding notional amount and derivative asset as a result of the swap amounted to $288.5 million and ₱272.2 million, respectively.

In September 2019, the Company entered into an interest rate swap agreement effective September 30, 2019 to hedge $150 million of its floating rate exposure on its loan (see Note 17). Under the interest rate swap agreement, the Company, on a quarterly basis, pays a fixed rate of 1.449300% per annum and received variable interest at 3-month LIBOR, subject to a floor of 0%. The interest payments and receipts are based on the outstanding USD notional amount simultaneous with the interest payments on the hedged loan. Similar with the hedged loan, the interest rate swap has amortizing notional amounts which cover a period up to April 30, 2024. The Company designated the swap as a cash flow hedge.

As of December 31, 2019, the outstanding notional amount and fair value of the swap amounted to ₱7.60 billion and ₱80.1 million, respectively.

Foreign currency forward contracts

On November 26, 2015, Hedcor Bukidnon entered into a deliverable forward contract to manage its foreign currency risks associated with its Euro denominated purchases. As of December 31, 2018 and 2017, the outstanding sell U.S. Dollar buy Euro forward contract has an aggregate notional of €1.0 million and €2.5 million, respectively. The maturity of the derivatives begins on December 21, 2015 until April 25, 2018.

On November 26, 2015, Hedcor Bukidnon also entered into a non-deliverable forward contract to manage its exposure to exchange rate fluctuations associated with US dollar denominated purchases. As of December 31, 2018 and 2017, the contract has an aggregate notional amount of $1.2 million and US$2.6 million, respectively. The contracts were fully settled in January 2019.

Hedcor Bukidnon designated these foreign currency hedging transactions as cash flow hedges.

TLI entered into forward contracts to hedge the foreign currency risk arising from forecasted US dollar denominated coal purchases. These forecasted transactions are highly probable, and they comprise about 20% of the TLI's total expected coal purchases. The forward contracts were designated as cash flow hedges. As of December 31, 2019, the aggregate notional amount of the forward contracts is ₱13.09 billion.

In 2015, TVI entered into par forward contracts to hedge the foreign currency risk arising from the forecasted US Dollar denominated payments under the Engineering Procurement Construction (EPC) contract related to the construction of a power plant. As of December 31, 2019 and 2018, the aggregate notional amount of the par forward contracts is $16.8 million (₱0.9 billion) and $25.2 million (₱1.3 billion), respectively.

In 2014, the Group's Joint Operation entered into par forward contracts to hedge the foreign currency risk arising from the forecasted US Dollar denominated payments under the EPC contract related to the construction of a power plant. The par forward contracts were designated as cash flow hedges. As of December 31, 2017, the aggregate notional amount of the par forward contracts is ₱254.3 million, these were fully settled in 2018.

The Company enters into short-term forward contracts with counterparty banks to manage foreign currency risks associated with foreign currency-denominated liabilities and purchases. As of December 31, 2017, the aggregate notional amount of the par forward contract is US$39.0 million, these were fully settled in 2018.

Commodity swap contracts

In 2018, TLI entered into commodity swap contracts to hedge the price volatility of forecasted coal purchases. The commodity swaps do not result in physical delivery of coal, but are designated as cash flow hedges to offset the effect of price changes in coal. TLI hedges approximately 30% of its expected coal purchases considered to be highly probable. There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign currency forward and commodity swap contracts match the terms of the expected highly probable forecasted transactions.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign currency forward, IRS and commodity swap contracts match the terms of the expected highly probable foreign currency denominated forecasted purchases and floating rate loans. The Group has established a hedge ration of 1:1 for the hedging relationships as the underlying risk of the foreign currency forward, IRS and commodity swap contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative technique and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The hedge ineffectiveness can arise from:

- Different reference prices linked to the hedged risk of the hedged items and hedging instruments
- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

The Group is holding the following hedging instruments designated as cash flow hedges:

December 31, 2019

	Maturity					
	Less than 3 months	**3 to 6 months**	**6 to 12 months**	**1 to 2 years**	**More than 2 years**	**Total**
IRS - Derivative Assets						
Notional amount (in PHP)	**–**	**111,397**	**167,096**	**278,493**	**7,602,845**	**8,159,831**
Average fixed interest rate (%)	**1.45%-1.51%**	**1.45%-1.51%**	**1.45%-1.51%**	**1.45%-1.51%**	**1.45%-1.51%**	
IRS - Derivative Assets						
Notional amount (in PHP)	**505,084**	**–**	**319,001**	**744,335**	**11,973,912**	**13,542,332**
Average fixed interest rate (%)	**2.18%**	**2.18%**	**2.18%**	**2.18%**	**2.18%**	
Foreign Currency Forward Contracts - Derivative Assets						
Notional amount (in PHP)	**35,448**	**–**	**–**	**–**	**–**	**35,448**
Average forward rate (in PHP)	**51**	**–**	**–**	**–**	**–**	
Foreign Currency Forward Contracts - Derivative Liability						
Notional amount (in PHP)	**2,549,299**	**2,459,085**	**4,447,858**	**2,809,170**	**861,922**	**13,127,334**
Average forward rate (in PHP)	**53**	**53**	**53**	**55**	**54**	
Commodity swaps - Derivative Liability						
Notional amount (in metric tonnes)	**361,500**	**328,500**	**447,500**	**651,500**	**269,000**	**2,058,000**
Notional amount (in PHP)	**1,659,132**	**1,494,677**	**2,008,052**	**2,873,693**	**1,147,704**	**9,183,258**
Average hedged rate (in PHP per metric tonne)	**4,590**	**4,550**	**4,487**	**4,411**	**4,267**	

December 31, 2018

	Maturity					
	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 years	More than 2 years	Total
IRS - Derivative Assets						
Notional amount (in PHP)	552,090	115,676	725,604	1,144,930	13,503,859	16,042,159
Average fixed interest rate (%)	2.18%	1.51%-2.18%	1.51%-2.18%	1.51%-2.18%	1.51%-2.18%	
Foreign Currency Forward Contracts - Derivative Assets						
Notional amount (in PHP)	–	61,118	–	–	–	61,118
Average forward rate (in PHP)	54	55	55	56	57	
Foreign Currency Forward Contracts - Derivative Liability						
Notional amount (in PHP)	975,740	752,345	933,916	1,372,435	798,837	4,833,273
Average forward rate (in PHP)	54	55	55	56	57	
Commodity swaps - Derivative Asset						
Notional amount (in metric tonnes)	47,000	103,000	161,000	150,000	70,000	531,000
Notional amount (in PHP)	212,949	484,425	749,278	695,381	330,607	2,472,640
Average hedged rate (in PHP per metric tonne)	4,531	4,703	4,654	4,636	4,723	
Commodity swaps - Derivative Liability						
Notional amount (in metric tonnes)	86,000	44,000	289,000	150,000	151,000	720,000
Notional amount (in PHP)	486,652	248,709	1,608,393	800,799	775,024	3,919,577
Average hedged rate (in PHP per metric tonne)	5,659	5,652	5,565	5,339	5,133	

The impact of the hedged items and hedging instruments in the consolidated balance sheet as of December 31, 2019 and 2018, and consolidated statements of income and comprehensive income for the years ended December 31, 2019 and 2018, is as follows:

	As at 31 December 2019			
	Carrying amount	**Change in fair value used for measuring ineffectiveness**	**Total hedging gain (loss) recognized in OCI**	**Ineffectiveness recognized in other comprehensive income (charges)**
IRS				
Derivative asset	**₱82,328**	**₱80,134**	**₱63,429**	**₱–**
Derivative liability	**(252,327)**	**–**	**(515,811)**	**–**
Forward exchange currency forwards				
Derivative asset	**13,116**	**13,116**	**13,116**	**–**
Derivative liability	**(521,528)**	**(521,528)**	**(405,516)**	**–**
Commodity swaps				
Derivative asset	**–**	**–**	**(195,428)**	**–**
Derivative liability	**(1,689,952)**	**(1,689,952)**	**(1,461,259)**	**(8,430)**

	As at 31 December 2018			
	Carrying amount	Change in fair value used for measuring ineffectiveness	Total hedging gain (loss) recognized in OCI	Ineffectiveness recognized in other comprehensive income (charges)
IRS				
Derivative asset	₱291,764	₱272,185	₱168,841	₱2,095
Forward exchange currency forwards				
Derivative asset	210	(539)	–	–
Derivative liability	(118,596)	(228,658)	(117,304)	(1,292)
Commodity swaps				
Derivative asset	1,200	22,141	195,428	1,003
Derivative liability	(40,311)	(154,829)	(235,351)	(8,141)

The movements in fair value changes of all derivative instruments for the year ended December 31, 2019 and 2018 are as follows:

	2019	2018
At beginning of year	**₱132,902**	₱294,364
Net changes in fair value of derivatives designated as cash flow hedges	**(2,515,732)**	(125,642)
Net changes in fair value of derivatives not designated as accounting hedges	**(3,889)**	(72,252)
Fair value of settled instruments	**722**	36,432
At end of year	**(₱2,385,997)**	₱132,902

The net gains and losses from the net fair value changes of derivatives not designated as accounting hedges are included under “Net foreign exchange gain (losses)” in Note 28.

The changes in the fair value of derivatives designated as cash flow hedges were deferred in equity under “Cumulative translation adjustments.”

The net movement of changes to Cumulative translation adjustment is as follows:

	2019	2018
Balance at beginning of year (net of tax)	**₱261,378**	₱139,879
Changes in fair value recorded in equity	**(2,495,146)**	203,751
	(2,233,768)	343,630
Transfer to construction in progress	**–**	(77,180)
Changes in fair value transferred to profit or loss	**(8,218)**	(7,579)
Balance at end of year before deferred tax effect	**(2,241,986)**	258,871
Deferred tax effect	**(15,303)**	2,507
Balance at end of year (net of tax)	**(₱2,257,289)**	₱261,378

Fair Value Hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2019 and 2018, the Group held the following financial instruments that are measured and carried or disclosed at fair value:

December 31, 2019

	Total	**Level 1**	**Level 2**	**Level 3**
Carried at fair value:				
Derivative assets	**₱110,576**	**₱–**	**₱110,576**	**₱–**
Derivative liabilities	**2,468,324**	**–**	**2,468,324**	**–**
Disclosed at fair value:				
Lease liabilities	**38,495,450**	**–**	**–**	**38,495,350**
Long-term debt - fixed rate	**152,786,437**	**–**	**–**	**152,786,437**
Long-term obligation on PDS	**320,194**	**–**	**–**	**320,194**

December 31, 2018

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative assets	₱292,828	₱–	₱292,828	₱–
Derivative liabilities	159,926	–	159,926	–
Disclosed at fair value:				
Lease liabilities	40,495,647	–	–	40,495,647
Long-term debt - fixed rate	138,103,091	–	–	138,103,091
Long-term obligation on PDS	297,790	–	–	297,790

The fair values of the Group's investment properties were determined as follows:

- In valuing the land, the Group used the Sales Comparison Approach. This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison.

- The appraiser gathers data on actual sales and/or listings, offers, and renewal options, and identifies the similarities and differences in the data, ranks the data according to their relevance, adjusts the sales prices of the comparable to account for the dissimilarities with the unit being appraised, and forms a conclusion as to the most reasonable and probable market value of the subject property.

The elements of comparison include location, physical characteristics, available utilities, zoning, and highest and best use. The most variable elements of comparison are the site's physical characteristics, which include its size and shape, frontage, topography and location.

Fair value investment properties are estimated under Level 3 inputs.

During the years ended December 31, 2019 and 2018, there were no transfers between level 1 and level 2 fair value measurements and transfers into and out of level 3 fair value measurement.

35. Lease Agreements

TLI

TLI was appointed by PSALM as Administrator under the IPP Administration Agreement, giving TLI the right to receive, manage and control the capacity of the power plant for its own account and at its own cost and risk; and the right to receive the transfer of the power plant at the end of the IPP Administration Agreement for no consideration.

In view of the nature of the IPP Administration Agreement, the arrangement has been considered as a finance lease. Accordingly, TLI recognized the capitalized asset and related liability of ₱44.79 billion (equivalent to the present value of the minimum lease payments using TLI's incremental borrowing rates of 10% and 12% for dollar and peso payments, respectively) in the consolidated financial statements as "Power plant" and "Lease liabilities" accounts, respectively. The discount determined at inception of the IPP Administration Agreement is amortized over the period of the IPP Administration Agreement and is recognized as interest expense in the consolidated statements of income. Interest expense in 2019, 2018 and 2017 amounted to ₱4.14 billion, ₱4.66 billion, and ₱4.76 billion, respectively (see Note 33).

Future minimum monthly dollar and peso payments under the IPP Administration Agreement and their present values as of December 31, 2018 are as follows:

	Dollar payments	Peso equivalent of dollar payments[1]	Peso payments	2018 Total
Within one year	$90,000	₱4,732,200	₱4,320,000	₱9,052,200
After one year but not more than five years	415,500	21,846,990	19,944,000	41,790,990
More than five years	155,000	8,149,900	7,440,000	15,589,900
Total contractual payments	660,500	34,729,090	31,704,000	66,433,090
Unamortized discount	193,770	9,516,320	10,022,415	19,538,735
Present value	466,730	25,212,770	21,681,585	46,894,355
Less current portion				4,131,059
Noncurrent portion of finance lease obligation				₱42,763,296

[1]US$1 = ₱52.58 in 2018

APRI

On May 25, 2009, APRI entered into a lease agreement with PSALM for a parcel of land owned by the latter on which a portion of the assets purchased under the APA is situated. The lease term is for a period of 25 years commencing from the Closing Date as defined in the APA which falls on May 25, 2009. The rental fees for the whole term of 25 years amounting to ₱492.0 million were paid in full after the receipt by APRI of the Certificate of Effectivity on the lease (see Notes 8 and 14). Total lease charged to operations amounted to ₱19.7 million in 2018 and 2017 (see Note 25).

GMCP

In August 2007, a 25-year lease agreement with Authority of the Freeport Area of Bataan for land at Bataan Economic Zone, used as an access road and right of way for electric power transmission lines.

January 2010, a 50-year land lease agreement with PMR Group Retirement Plan, Inc. (PGRPI), used for its power plant facilities. GMCP, upon mutual agreement of PGRPI, has the right and on to extend the lease for a period of twenty-five years. In August 2016, GMCP entered into another lease agreement with PGRPI for land to be used for staff house.

HI, HTI and HSI

HI, HTI and HSI entered into contracts with various lot owners for lease of land where their power plants are located. Terms of contract are for a period of 1 to 50 years renewable upon mutual agreement by the parties.

Sacasun

Sacasun entered into a contract for lease of land where the power plant is located. The contract pertains to rent for 25 years renewable upon mutual agreement by the parties. Prepaid rent amounts to ₱51.5 million as of December 31, 2018 (see Note 8).

Therma Mobile

On April 26, 2014, a 10-year lease for portions of the breakwater area of the Navotas Fishport Complex (NFPC), including the mooring facility, marine and land transmission lines.

EAUC

Lease agreement with PEZA for a piece of land located inside Mactan Economic Zone for its power plant facilities for a period of 25 years.

TPVI

TPVI entered into a contract for lease of land where the power plant is located. The contract pertains to rent for 25 years renewable upon mutual agreement by the parties. Prepaid rent amounts to ₱516.0 million as of December 31, 2018. (see Notes 8, 14 and 40e).

Lease Disclosure in Accordance with PAS 17 (applicable prior to January 1, 2019)

Future minimum lease payments under the non-cancellable operating leases of GMCP, Sacasun, HI, HTI, HSI, Therma Mobile, EAUC and TPVI as of December 31, 2018 are as follows (amounts in millions):

Not later than 1 year	₱292.9
Later than 1 year but not later than 5 years	749.5
Later than 5 years	6,039.2
	₱7,081.6

Total lease charged to operations related to these contracts amounted to ₱263.5 million in 2018 and ₱163.7 million in 2017 (see Note 25).

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

Lease Disclosure in Accordance with PFRS 16 (applicable beginning January 1, 2019)

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the year ended December 31, 2019:

	Right-of-use assets					
	Land	Building	Power plant	Equipment and others	Total	Lease liability
As at January 1, as previously stated	₱–	₱–	₱–	₱–	₱–	₱–
Effect of adoption - PFRS 16 (see Note 3)	2,804,819	249,400	34,669,713	116,437	37,840,369	49,190,986
As at January 1, 2019, as restated	2,804,819	249,400	34,669,713	116,437	37,840,369	49,190,986
Additions	24,249	–	–	–	24,249	–
Amortization expense	(98,992)	(19,166)	(1,094,513)	(10,402)	(1,223,073)	–
Interest expense	–	–	–	–	–	4,350,043
Payments	–	–	–	–	–	(7,424,990)
Others	–	–	–	11,567	11,567	(1,326,395)
As at December 31	₱2,730,076	₱230,234	₱33,575,200	₱117,602	₱36,653,112	₱44,789,644

The carrying amount of the Group's right-of-use assets as of December 31, 2019 is presented as part of "Property, plant and equipment".

The Group also has certain leases of equipment, meeting rooms and event sites with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemption of these leases.

Set out below, are the amounts recognized in the consolidated statements of income for the year ended December 31, 2019:

Amortization expense of right-of-use assets	₱1,223,073
Interest expense on lease liabilities	4,350,043
Rent expense - short-term leases	58,896
	₱5,632,012

36. Agreements

Pagbilao IPP Administration Agreement

TLI and PSALM executed the IPP Administration Agreement wherein PSALM appointed TLI to manage the 700MW contracted capacity (the "Capacity") of NPC in the coal-fired power plant in Pagbilao, Quezon.

The IPP Administration Agreement includes the following obligations TLI would have to perform until the transfer date of the power plant (or the earlier termination of the IPP Administration Agreement):

a. Supply and deliver all fuel for the power plant in accordance with the specifications of the original Energy Conservation Agreement (ECA); and
b. Pay to PSALM the monthly payments (based on the bid) and energy fees (equivalent to the amount paid by NPC to the IPP).

TLI has the following rights, among others, under the IPP Administration Agreement:

a. The right to receive, manage and control the Capacity of the power plant for its own account and at its own cost and risk;
b. The right to trade, sell or otherwise deal with the Capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and its own risk and cost. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
c. The right to receive the transfer of the power plant at the end of the IPP Administration Agreement (which is technically the end of the ECA) for no consideration; and
d. The right to receive an assignment of NPC's interest to existing short-term bilateral Power Supply Contract from the effective date of the IPP Administration Agreement the last of which were scheduled to end in November 2011.

In view of the nature of the IPP Administration Agreement, the arrangement has been accounted for as a finance lease (see Note 35).

Agreements with Contractors and Suppliers

a. APRI total steam supply cost reported as part of "Cost of generated power" amounted to ₱5.01 billion in 2019, ₱5.23 billion in 2018, and ₱4.98 billion in 2017 (see Note 23).

On May 26, 2013, APRI's steam supply contract with Chevron Geothermal Philippines Holdings, Inc. (CGPHI) shifted to a GRSC. The change is due to an existing provision under the government's existing contract with CGPHI when the Tiwi-Makban facilities were bidded out under the former's privatization program. Under the GRSC, the effective steam price of APRI payable to PGPC will be a premium to coal.

To ensure that APRI will continue to remain competitive in the market, a two-month interim agreement supplementing the GRSC was implemented on August 14, 2013 and extended until August 25, 2018. On August 24, 2018, a new contract was signed by the Company and Philippine Geothermal Production Company, Inc. which aims to ensure long-term operations of both parties. The Geothermal Resources Supply and Services Agreement took effect August 26, 2018 and shall continue in effect until October 22, 2034, unless earlier terminated or extended by mutual agreement of the Parties.

b. Construction of civil and electromechanical works, procurement and installation of solar panels and project management related to the construction of the San Carlos Solar Plant. Total purchase commitments entered into by Sacasun from its contracts amounted nil and ₱526.7 million as of December 31, 2019 and 2018, respectively. Total payments made for the commitments amounted to $5.7 million and nil as of December 31, 2019 and 2018.

c. TLI enters into short-term coal supply agreements. Outstanding coal supply agreements as of December 31, 2019 have aggregate supply amounts of 560,000 MT (equivalent dollar value is estimated to be at $28.6 million), which are due for delivery from January 2020 to April 2020. Outstanding coal supply agreements as of December 31, 2018 have aggregate supply amounts of 1,840,000 MT (equivalent dollar value is estimated to be at $210 million), which are due for delivery from January 2019 to December 2019. Terms of payment are by letter of credit where payment is due at sight against presentation of documents, and by telegraphic transfer where payment is due within 7 days from receipt of original invoice.

d. GMCP has a current Coal Supply Agreement (CSA) with PT Arutmin Indonesia (Seller) for the delivery of coal, which is effective until November 2, 2019. The agreement was extended for two (2) months ending on December 31, 2019. In addition a supply backstop deed was included in the coal supply agreement wherein PT Kaltim Prima Coal (Obligor) irrevocably and unconditionally undertakes for the benefit of GMCP the due and punctual performance of the Seller each and all of their obligations, duties and undertakings pursuant to the CSA, when and such obligations, duties and undertakings shall become due and performable according to the terms of the CSA; provided that the undertaking of the Obligor hereunder shall be limited to 1,000,000 tonnes of substitute coal per delivery year.

e. PEC enters into EPC contracts with suppliers relating to the construction of the 400MW coal fired power plant. Total EPC contract price for the complete performance of these contracts amount to US$398.0 million and ₱7.00 billion. The joint operation has a retention payable amounting to ₱280.3 million as of December 31, 2019 and 2018, which is presented as part of "Trade and other payables" in the consolidated balance sheets.

37. Registration with the Board of Investments (BOI)

Certain power generation subsidiaries in the Group have been registered with the BOI. The following are the incentives granted by the BOI:

a. ITH for a period of four (4) to seven (7) years, as follows:

Subsidiary/Joint operation	BOI Approval Date	Start of ITH Period	ITH Period
Hedcor Sibulan[3]	December 27, 2005	March 1, 2010	7 years
APRI[2]	June 19, 2009	June 1, 2009	7 years
GMCP	January 29, 2010	July 1, 2013	6 years
TSI	July 15, 2011	February 1, 2016[1]	4 years
TVI	August 28, 2012	January 1, 2017[1]	4 years
Hedcor Tudaya	January 31, 2013	August 1, 2014[1]	7 years
Hedcor, Inc. [5]	February 20, 2013	February 1, 2013	7 years
Hedcor Sibulan[4]	April 23, 2013	September 1, 2014[1]	7 years
Hedcor Sabangan	October 23, 2013	February 1, 2015[1]	7 years
Hedcor Bukidnon	January 7, 2015	July 2, 2018[6]	7 years
PEC	June 26, 2014	March 7, 2018	6 years
Sacasun	October 26, 2015	Start of commercial operations	7 years

[1] Or actual start of commercial operations, whichever is earlier.
[2] Expired ITH: APRI - June 2016
[3] For Sibulan hydroelectric plants with 1 year extension.
[4] For Tudaya-1 hydroelectric plant.
[5] For Irisan-1 hydroelectric plant.
[6] For Manolo-1 hydroelectric plant.

The ITH shall be limited only to sales/revenue generated from the sales of electricity of the power plant and revenues generated from the sales of carbon emission reduction credits.

b. For the first five (5) years from date of registration, the registrant shall be allowed an additional deduction from taxable income of fifty percent (50) of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by BOI of US$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH.

c. Employment of foreign nationals may be allowed in supervisory, technical or advisory positions for five (5) years from date of registration.

d. Importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond.

e. Special realty tax rates on equipment and machinery and tax credit on domestic capital equipment and services.

f. For APRI, it may qualify to import capital requirement, spare parts and accessories at zero (0%) duty rate from the date of registration to June 16, 2011 pursuant to Executive Order No. 528 and its Implementing Rules and Regulations.

As a requirement for availment of the incentives, the registrant is required to maintain a minimum equity requirement.

As of December 31, 2019 and 2018, the power generation subsidiaries referred to above, which are currently availing the incentives, have complied with the requirements.

38. Notes to Consolidated Statement of Cash Flows

The following are the cash flow movements of the Group's financing liabilities:

December 31, 2019

			Non-cash Changes							
	January 1, 2019	Net cash flows	Effect of Adoption - PFRS 16 (see Note 3)	Dividend declaration	Amortized deferred financing costs	Foreign exchange movement	Changes in Fair values	Accreted interest	Others	December 31, 2019
Current interest-bearing loans and borrowings, excluding obligations under finance leases	**₱20,243,964**	**(₱9,885,204)**	**₱–**	**₱–**	**₱–**	**(₱23,340)**	**₱–**	**₱–**	**₱10,386,311**	**₱20,721,731**
Non-current interest-bearing loans and borrowings, excluding obligations under finance leases	**149,360,287**	**30,378,265**	**–**	**–**	**231,245**	**(1,506,799)**	**–**	**–**	**(10,877,687)**	**167,585,311**
Current obligations under lease liabilities	**–**	**(7,424,990)**	**7,424,990**	**–**	**–**	**–**	**–**	**–**	**5,486,745**	**5,486,745**
Non-current obligations under lease liabilities	**–**	**–**	**41,765,996**	**–**	**–**	**(2,018,791)**	**–**	**4,350,043**	**(4,794,349)**	**39,302,899**
Current obligations under finance leases	**4,131,059**	**–**	**(4,131,059)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Non-current obligations under finance leases	**42,763,296**	**–**	**(42,763,296)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends payable	**–**	**(10,817,148)**	**–**	**10,817,148**	**–**	**–**	**–**	**–**	**–**	**–**
Derivatives	**159,926**	**–**	**–**	**–**	**–**	**–**	**2,308,398**	**–**	**–**	**2,468,324**
Total liabilities from financing activities	**₱216,658,532**	**₱2,250,923**	**₱2,296,631**	**₱10,817,148**	**₱231,245**	**(₱3,548,930)**	**₱2,308,398**	**₱4,350,043**	**₱201,020**	**₱235,565,010**

December 31, 2018

			Non-cash Changes						
	January 1, 2018	Net cash flows	Dividend declaration	Amortization of deferred financing costs	Foreign exchange movement	Changes in fair values	Accreted interest	Others	December 31, 2018
Current interest-bearing loans and borrowings, excluding obligations under finance leases	₱25,410,051	(₱14,075,303)	₱–	₱260,372	(₱48,560)	₱–	₱–	₱8,697,404	₱20,243,964
Non-current interest-bearing loans and borrowings, excluding obligations under finance leases	131,360,749	24,772,719	–	118,840	1,800,851	–	–	(8,692,872)	149,360,287
Current obligations under finance leases	3,316,165	(7,804,460)	–	–	–	–	–	8,619,354	4,131,059
Non-current obligations under finance leases	45,909,089	–	–	–	873,546	–	4,600,015	(8,619,354)	42,763,296
Dividends payable	–	(10,228,460)	₱10,228,460	–	–	–	–		–
Derivatives	47,577	–	–	–	–	112,349	–	–	159,926
Total liabilities from financing activities	₱206,043,631	(₱7,335,504)	₱10,228,460	₱379,212	₱2,625,837	₱112,349	₱4,600,015	₱4,532	₱216,658,532

Others includes the effect of reclassification of noncurrent portion of interest-bearing loans and borrowings

39. Contingencies

The Group is a party to certain proceedings and legal cases with other parties in the normal course of business. The ultimate outcome of these proceedings and legal cases cannot be presently determined. Management, in consultation with its legal counsels, believes that it has substantial legal and factual bases for its positions and is currently of the opinion that the likely outcome of these proceedings and legal cases will not have a material adverse effect on the Group's financial position and operating results. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these proceedings and legal cases.

The Company obtained SBLC and is acting as surety for the benefit of certain associates and joint ventures in connection with loans and credit accommodations. The Company provided SBLC for STEAG, CEDC, SNAP M and SNAP B in the amount of ₱958.3 million in 2019, ₱1.02 billion in 2018 and ₱1.04 billion in 2017 (see Note 32).

40. Other Matters

a. Temporary Restraining Order (TRO) affecting power generation companies trading in WESM

On December 19, 2013, Bayan Muna representatives filed a Petition for Certiorari against the ERC and MERALCO with the Supreme Court (SC). On December 20, 2013, National Association of Electricity Consumers for Reforms filed a Petition for Certiorari and/or Prohibition against MERALCO, ERC and Department of Energy (DOE). These cases raised and questioned, among others, the alleged substantial increase in MERALCO's power rates for the billing period of November 2013, the failure of the ERC to protect consumers from high energy prices and perceived market collusion of the generation companies.

These cases were consolidated by the SC which issued a TRO for a period of 60 days from December 23, 2013 to February 21, 2014, preventing MERALCO from collecting the increase in power rates for the billing period of November 2013. The TRO was subsequently extended for another 60 days ending April 22, 2014 by the SC. Thereafter, the TRO was extended indefinitely.

MERALCO, in turn, filed a counter-petition impleading generation companies supplying power to the WESM. The SC also ordered all the parties in the consolidated cases to file their respective pleadings in response to MERALCO's counter-petition. The SC set the consolidated cases for oral arguments last January 21, 2014, February 4 and 11, 2014. After hearing, all parties were directed to file their comments and/or memorandum. The case is now submitted for resolution.

As a result of the TRO, MERALCO has not been able to fully bill its consumers for the generation costs for the supply month of November 2013; and in turn, it has not been able to fully pay its suppliers of generation costs. As of December 31, 2019, the SC has not lifted the TRO.

b. Imposition of financial penalties on Therma Mobile by PEMC

This case involves an investigation of Therma Mobile in the dispatch of its power barges during the November and December 2013 supply periods. As a result of the MERALCO price hike case brought before the SC, the SC ordered the ERC to investigate anti-competitive behavior and abuse of market power allegedly committed by some WESM participants.

PEMC conducted the investigation under the "Must-Offer" rules of the WESM Rules.

PEMC initially found that Therma Mobile violated the "Must-Offer Rule" during the period under investigation. In its letter dated January 30, 2015, the PEM Board imposed financial penalties amounting to ₱234.9 million on Therma Mobile. According to the PEM Board, the penalties will be collected from Therma Mobile through the WESM settlement process.

Therma Mobile maintains that there is no basis for the PEMC decision. It did not violate the Must-Offer Rule for the period covered, as it was physically impossible for Therma Mobile to transmit more than 100MW to MERALCO. Although Therma Mobile's rated capacity is 234 MW (Net), it could only safely, reliably and consistently deliver 100MW during the November and December 2013 supply period because of transmission constraints. Therma Mobile's engines and transmission lines were still undergoing major repairs to address issues on post rehabilitation.

On February 13, 2015, Therma Mobile filed a notice of dispute with the PEMC to refer the matter to dispute resolution under the WEM Rules and the WESM Dispute Resolution Market Manual.

Therma Mobile also filed a Petition for the Issuance of Interim Measures of Protection with the Regional Trial Court (RTC) of Pasig to hold off enforcement of the payment of the penalties during the pendency of the Therma Mobile and PEMC dispute resolution proceedings. On February 24, 2015, the RTC issued in favor of Therma Mobile an ex parte 20-day Temporary Order of Protection directing PEMC to refrain from (a) demanding and collecting from Therma Mobile the ₱234.9 million financial penalty; (b) charging and accruing interest on the financial penalty; and (c) transmitting the PEMC-ECO investigation report to the ERC.

On April 1, 2015, the RTC granted the prayer for the issuance of Writ of Preliminary Injunction, which ruling was assailed by the PEMC and elevated to the Court of Appeals (CA) via Petition for Review. On December 15, 2015, the CA issued a Decision confirming the RTC's findings. PEMC filed a Motion for Reconsideration, and in compliance with a Resolution of the CA, has filed a comment on the said motion.

On June 6, 2016, PEMC filed a petition before the SC questioning the CA's Decision. TMO also filed its Comment on the Petition on November 14, 2016. On June 1, 2017, TMO received the SC Notice dated March 29, 2017. In the Resolution, the SC noted TMO's Comment and PEMC's Reply. As of December 31, 2019, the petition is still pending resolution with the SC.

c. Therma Marine Cases

In 2013, ERC issued Final Approval of various ESAs of Therma Marine with some modifications on ERC's provisionally approved rates which directed both parties to devise a scheme for the refund of the difference between the final and the provisionally approved rates.

On November 25, 2013, ERC issued its order for Therma Marine to refund the amount of ₱180.0 million to its customers for a period of 6 months with equal installments per month.

On August 27, 2014, ERC issued an order directing NGCP to refund its customers the amount of ₱12.7 million and the corresponding VAT for a period of twelve months. As such, Therma Marine will refund the said amount to NGCP and the latter will refund the same to its customers. In 2015, ERC issued Provisional Approvals (PA) on ESA contracts extensions with capacity fees lower than the previously approved rates. Therma Marine filed MRs on these PAs. During the last quarter of 2015, ERC issued Final Approvals on some of these ESA's sustaining the decision in the PA's, thus Therma Marine filed MRs on the final decisions. As of December 31, 2019, there is no resolution yet on the MRs on the Final Approvals.

d. ERC Case No. 2013-077 MC

On August 29, 2013, MERALCO filed a petition for dispute resolution against TLI/APRI, among other Successor Generating Companies ("SGCs") under ERC Case No. 2013-077 MC. The case arose from a claim of refund of the alleged over charging of transmission line losses pursuant to the ERC Order dated March 4, 2013 and July 1, 2013 in ERC Case No. 2008-083 MC.

On September 20, 2013, TLI, together with the other SGCs, filed a Joint Motion to Dismiss arguing that MERALCO's petition should be dismissed for failure to state a cause of action and ERC's lack of jurisdiction over the subject matter of the case. The SGCs and Meralco have filed their respective comments, reply, rejoinder and sur-rejoinder after the filing of the Joint Motion to Dismiss. The Joint Motion to Dismiss has since then been submitted for resolution with the ERC. As of December 31, 2019, the ERC has yet to render its decision on the Joint Motion to Dismiss.

e. Sergio Osmena III vs. PSALM, Emmanuel R. Ledesma, Jr., SPC Power Corporation (SPC) & Therma Power Visayas, Inc. (TPVI)

In 2009, SPC acquired through a negotiated bid the 153.1MW Naga Land-Based Gas Turbine Power Plant ("Naga Plant") in Naga, Cebu. In the same year, it entered into a Land Lease Agreement (LLA) with PSALM, which includes SPC's right to top (RTT) the price of a winning bidder for the sale of any property in the vicinity of the leased premises.

PSALM subsequently bid out the Naga Plant located in the leased premises. On April 30, 2014 and after two failed biddings, PSALM issued a Notice of Award to TPVI for submitting the highest bid for the Naga Plant. SPC wrote PSALM of its intent to exercise its RTT the winning bid, on the condition that the LLA would be for a term of 25 years from closing date.

Senator Sergio Osmeña III filed with the SC a Petition for Certiorari and Prohibition with prayer for issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction dated June 16, 2014 (the "Case") with PSALM, Emmanuel R. Ledesma, SPC and TPVI as respondents to enjoin PSALM from making the award of the Naga Plant to SPC. In his petition, Sen. Osmeña argued that the RTT should be held invalid as it defeats the purpose of a fair and transparent bidding for a government asset and it discourages interested bidders considering the unfair advantage given to SPC.

On July 25, 2014, PSALM awarded the contract to SPC, despite TPVI's objection on the ground that SPC did not validly exercise its right to top because of its qualified offer. Thereafter, an APA for the Naga Plant was executed between PSALM and SPC.

On September 28, 2015, the SC declared in the Case that the RTT and the APA executed in favor of SPC are null and void. The parties thereafter filed various motions for reconsideration which the SC subsequently denied.

On March 16, 2016, TPVI filed its Manifestation/Motion praying that the Notice of Award dated April 30, 2014 be reinstated and that respondent PSALM be ordered to execute the Asset Purchase Agreement ("NPPC-APA"), Land Lease Agreement ("NPPC-LLA") and other documents to implement TPVI's acquisition of the Naga Plant.

On April 6, 2016, the SC issued a Resolution that required PSALM and SPC to comment on TPVI's Manifestation/Motion. In the same Resolution, the SC denied the motion for leave to file and admit SPC's second motion for reconsideration and referral to the SC en banc.

On July 19, 2016, TPVI filed its Manifestation with Omnibus Motion to clarify the motion dated March 16, 2016 and for early resolution. TPVI prayed that the SC Decision dated

September 28, 2015 be clarified, and if necessary, be amended to include in its "fallo" that the Notice of Award in favor of TPVI be reinstated.

In response to various motions, the SC issued a Notice of Judgment and Resolution dated October 5, 2016 clarifying that the nullification of SPC's right to top did not invalidate the entire bidding process. Thus, the SC ordered the reinstatement of the Notice of Award dated April 30, 2014 in favor of TPVI. Further, the SC annulled and set aside the APA and the LLA executed between SPC and PSALM and directed PSALM to execute with dispatch the NPPC-APA and the NPPC-LLA in favor of TPVI.

On October 26, 2016, SPC filed an Urgent Motion for Reconsideration with Alternative Motion to Refer to the En Banc of the SC. SPC reiterated its prayer for the reversal of the October 5, 2016 Resolution, denial of TPVI's Manifestation/Motion and for the conduct of a new round of bidding for the Naga Plant. PSALM also filed its Motion for Reconsideration with Leave and prayed that the SC's October 5, 2016 Resolution be re-examined and/or reconsidered.

In its Resolution dated November 28, 2016, the SC denied SPC's and PSALM's motions for reconsideration (of the October 5, 2016 Resolution) with finality. The SC ordered that no further pleadings, motions, letters, or other communications shall be entertained in the Case, and it ordered the issuance of Entry of Judgment.

Notwithstanding the above SC Resolution, SPC filed its Motion for Leave to File and Admit (Motion for Reconsideration dated 9 December 2016) with attached Motion for Reconsideration dated December 9, 2016. Thereafter, SPC filed its Supplemental Motion/Petition for Referral to the Banc dated January 16, 2017.

On February 14, 2017, TPVI received a copy of the Entry of Judgment which states that the October 5, 2016 Resolution of the SC has become final and executory on November 28, 2016.

In May 2018, TPVI received the Certificate of Effectivity (COE) from PSALM initiating the purchase of the facility. The COE implements the September 28, 2015 decision of the SC, which upheld the April 30, 2014 award of the facility to TPVI. Pursuant to the NPPC-APA, on July 16, 2018 ("Closing date"), the Joint Certificate of Turn-Over was signed and issued and the facility was formally turned-over to TPVI.

In 2018, TPVI paid a total amount ₱1.03 billion for the NPPC-APA and NPPC-LLA and ₱495.97 million for the inventories upon implementation of the acquisition of the Naga Power Plant.

f. DLP Case

On December 7, 1990, certain customers of DLP filed before the then Energy Regulatory Board (ERB) a letter-petition for recovery claiming that with the SC's decision reducing the sound appraisal value of DLP's properties, DLP exceeded the 12% Return on Rate Base (RORB). The ERB's order dated June 4, 1998, limited the computation coverage of the refund from January 19, 1984 to December 14, 1984. No amount was indicated in the ERB order as this has yet to be recomputed.

The CA, in Court of Appeals General Register Special Proceeding (CA-GR SP) No. 50771, promulgated a decision dated February 23, 2001 which reversed the order of the then ERB, and expanded the computation coverage period from January 19, 1984 to September 18, 1989.

The SC in its decision dated November 30, 2006 per GR150253 reversed the CA's decision CA-GR SP No. 50771 by limiting the period covered for the refund from January 19, 1984 to December 14, 1984, approximately 11 months. The respondent/customers filed a Motion for Reconsideration with the SC, which was denied with finality by the SC in its Order dated July 4, 2007.

The SC, following its decision dated November 30, 2006, ordered the ERC to proceed with the refund proceedings instituted by the respondents with reasonable dispatch.

On March 17, 2010, the ERC directed DLP to submit its proposed scheme in implementing the refund to its customers. In compliance with the order, the DLP filed its compliance stating that DLP cannot propose a scheme for implementing a refund as its computation resulted to no refund.

A clarificatory meeting was held where DLP was ordered to submit its memoranda.

On October 4, 2010, in compliance with the ERC directive, DLP submitted its memoranda reiterating that no refund can be made. After which, no resolution has been received by DLP from the ERC as of December 31, 2019.

g. LHC Franchise Tax Assessment

In 2007, the Provincial Treasurer of Benguet issued a franchise tax assessment against LHC, requiring LHC to pay franchise tax amounting to approximately ₱40.4 million, inclusive of surcharges and penalties covering the years 2002 to 2007. In 2008, LHC has filed for a petition for the annulment of the franchise tax assessment, based primarily on the fact that LHC is not liable for franchise tax because it does not have a franchise to operate the business. Section 6 of R.A. No. 9136 provides that power generation shall not be considered a public utility operation. As such, an entity engaged or which shall engage in power generation and supply of electricity shall not be required to secure a national franchise. Accordingly, no provision has been made in the consolidated financial statements. The case remains pending as of December 31, 2019.

h. EPIRA of 2001

R.A. No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. The law provides for the privatization of NPC and the restructuring of the electric power industry. The IRR were approved by the Joint Congressional Power Commission on February 27, 2002.

R.A. No. 9136 and the IRR impact the industry as a whole. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

R.A. No. 9136, the EPIRA, and the covering IRR provides for significant changes in the power sector, which include among others:

i. The unbundling of the generation, transmission, distribution and supply and other disposable assets of a company, including its contracts with IPPs and electricity rates;
ii. Creation of a WESM; and
iii. Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effectivity date of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

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

i. Retail Competition and Open Access

The EPIRA mandates the implementation of Retail Competition and Open Access (RCOA) subject to the fulfilment of the conditions as provided in the EPIRA. The ERC was tasked under the EPIRA Implementing Rules and Regulations to declare, after due notice and public hearing, the initial

implementation of RCOA. Through the RCOA, eligible customers will have the option to source their electricity from eligible suppliers that have secured Retail Electricity Supplier (RES) licenses from the ERC. End users with a monthly average peak demand of at least 1 Megawatt (MW) for the preceding 12 months are eligible to be contestable customers. The 1 MW qualification would gradually be reduced upon evaluation of the ERC.

In June 2011, after due notice and public hearings, the ERC declared December 26, 2011 as the date to mark the commencement of the full operation of RCOA in Luzon and Visayas. However, due to deficiencies in the rules and guidelines governing the RCOA at that time, the December 26, 2011 commencement date was deferred several times until an interim system commenced on July 26, 2013.

The DOE and ERC have issued and revised several circulars, rules and resolutions on the implementation of the RCOA and the issuance of RES licences, including a Code of Conduct, Rules on Contestability, and Rules on RES Licencing.

On February 21, 2017, the SC issued a TRO enjoining the DOE and ERC from implementing the following issuances:

1. DOE Circular No. DC-2015-06-0010 or the DOE Circular Providing Policies to Facilitate the Full Implementation of RCOA in the Philippine Electric Power Industry;
2. ERC Resolution No. 5, Series of 2016 or the Rules Governing the Issuance of Licenses to RES and Prescribing the Requirements and Conditions Therefor;
3. ERC Resolution No. 10, Series of 2016 or a Resolution adopting the Revised Rules for Contestability;
4. ERC Resolution No. 11, Series of 2016 or a Resolution Imposing Restrictions on the Operations of DUs and RES in the Competitive Retail Electricity Market; and
5. ERC Resolution No. 28, Series of 2016 or the Revised Timeframe for Mandatory Contestability, Amending Resolution No. 10, Series of 2016, entitled Revised Rules of Contestability.

The TRO effectively enjoined the DOE and the ERC from imposing the mandatory migration of end-users with average monthly peak demand of at least 1MW and 750 kW on 26 February 2017 and 26 June 2017, respectively, and barring Local RESs and DUs from supplying electricity to the Contestable Market.

Due to the TRO, no new or renewed RES licenses were issued by the ERC due to the perceived risk of being declared in contempt by the SC. The renewal of PEI, AEI and AESI's RES licenses remain pending before the ERC. The application for RES licenses of TLI and APRI are likewise pending.

On November 29, 2017, DOE issued Department Circular No. 2017-12-0013, which provides, among other things, for voluntary participation of Contestable Customers in the Retail Market. On the same date, DOE issued Department Circular No. 2017-12-0014, which provides, among other things, the guidelines on the licensing of RES. Both DOE Circulars enjoin the ERC to promote the supporting guidelines to the DOE Circulars. Once the ERC promulgates these rules, approval of RES license applications and renewals can be expected.

j. Renewable Energy Act of 2008

On January 30, 2009, R.A. No. 9513, An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective. The Act aims to (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, renewable energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the BOI, shall be entitled to incentives, such as, income tax holiday, duty-free importation of RE machinery, equipment and materials, zero percent VAT rate on sale of power from RE sources, and tax exemption of carbon credits, among others.

k. PSALM deferred adjustment

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

Upon Private Electric Power Operators Association's (PEPOA) motion, the ERC, in an Order dated October 19, 2017, deferred the implementation of the approved DAA pending clarification by the ERC of the queries raised in the motion for clarification.

In its Order dated December 19, 2017, the ERC clarified that the GRAM and ICERA DAA are deferred adjustments, which were incurred by PSALM/NPC in supplying energy during the corresponding period; thus, it should be recovered/refunded by PSALM/NPC to its customers. Hence, the Distribution Utilities (DUs) are not just mere collectors of the said DAA but these are charges that they should pay to NPC/PSALM and charged to their customers as part of their generation charge. In the same Order, the ERC directed the DUs to resume the implementation of the GRAM and ICERA starting the January 2018 billing period.

Automatic Cost Recovery Mechanism (ACRM)
On June 20, 2017, the ERC issued its Decision, authorizing PSALM to recover/refund the True-up Adjustments of Fuel and Purchased Power Costs and Foreign Exchange-Related Costs effective its next billing period.

In an Order dated October 19, 2017, the implementation of the ACRM was deferred to the January 2018 billing period pending the evaluation of the clarifications raised in PEPOA's letter and motion and on 19 December 2017, the Commission issued an Order directing PSALM and the DUS to abide with the clarifications issued by the Commission.

l. CSR Projects
The Group has several CSR projects in 2019, 2018 and 2017 which are presented as part of "General and administrative expenses" (see Note 24).

ANNEX A

AboitizPower

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of Aboitiz Power Corporation is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

ERRAMON I. ABOITIZ
Chairman of the Board

EMMANUEL V. RUBIO
President & Chief Executive Officer

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

Signed this 6th day of March 2020.

Aboitiz Power Corporation
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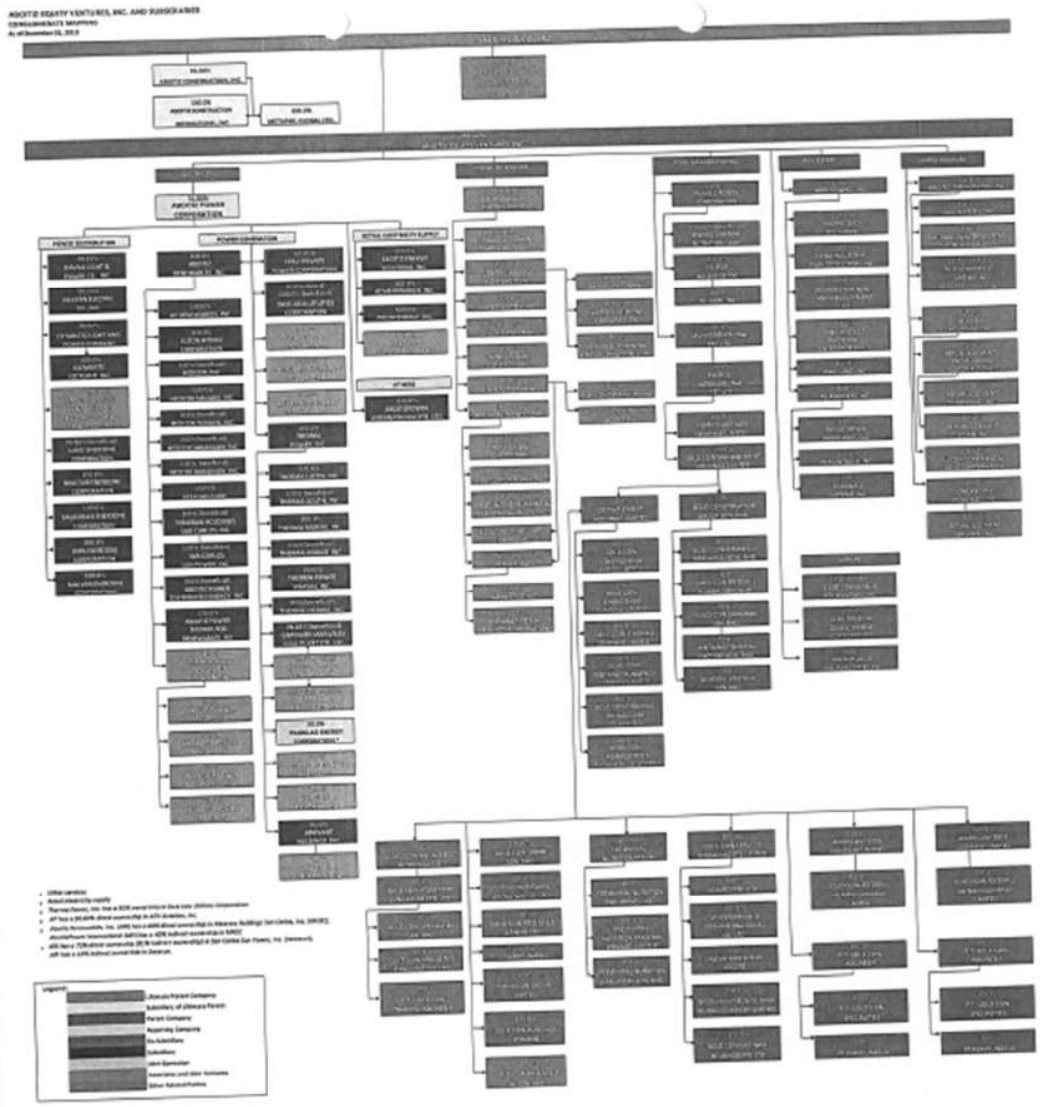
ANNEX B



ANNEX C

Aboitiz Power Corporation
Reconciliation of Retained Earnings Available for Dividend Declaration
For the Year Ended December 31, 2019
(Amount in Philippine Currency)

Unappropriated Retained Earnings, *beginning*		P21,658,436,837
Less:		
Reversal of appropriation for the year 2019		400,000,000
Effect of adoption – PFRS 16		(22,665,932)
		22,035,770,905
Net income based on face of audited financial statements	P12,304,362,581	
Less: Non-actual/unrealized income (net of tax)	-	
Add: Non-actual loss (net of tax)	-	
Net income actual/realized for the period		12,304,362,581
Less:		
Dividend declaration during the period		(10,817,148,331)
UNAPPROPRIATED RETAINED EARNINGS, AS ADJUSTED, ENDING		**P23,522,985,155**

ANNEX D

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

	FORMULA	2019	2018
LIQUIDITY RATIOS			
Current ratio	Current assets / Current liabilities	**1.50**	1.89
Acid test ratio	(Cash + Marketable securities + Accounts receivable + Other liquid assets) / Current liabilities	**1.15**	1.46
SOLVENCY RATIOS			
Debt to equity ratio	Total liabilities / Total equity	**2.07**	1.85
Asset to equity ratio	Total assets / Total equity	**3.07**	2.85
Net debt to equity ratio	(Debt - Cash & cash equivalents) / Total equity	**1.40**	**1.21**
Gearing ratio	(Debt - Cash & cash equivalents) / (Total equity + (Debt - Cash & cash equivalents))	**58.26%**	**54.69%**
Interest coverage ratio	EBIT / Interest expense	**2.83**	3.53
PROFITABILITY RATIOS			
Operating margin	Operating profit / Total revenues	**23.0%**	27.7%
Return on equity	Net income after tax / Total equity adjusted for cash dividends	**14.48%**	20.20%

ANNEX E

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

AS OF DECEMBER 31, 2019
(Amounts in Thousands except number of shares)

Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Income received and accrued
CASH IN BANK			
ANZ		P126	P-
Banco de Oro		6,730,415	258,580
Bank of Commerce		956	-
Bank of the Philippine Islands		570,521	37,409
Bank of Tokyo - Mitsubishi UFJ		91	-
Citibank		8,924	-
Development Bank of the Philippines		5,152	3
EPCI Bank		51	-
ING Bank N.V.		3,491	-
Land Bank of the Philippines		2,989	8
Metropolitan Bank and Trust Company		223,040	977
Philippine National Bank		99,107	54
Rizal Commercial Banking Corporation		2,445	19
Rural Bank of Davao		9,856	-
Security Bank Corporation		108,961	247
Standard Chartered Bank		50,988	681
Union Bank of the Philippines		8,211,548	125,567
Cash on Hand, Cash in Vault and Revolving Fund		146,428	-
TOTAL		P14,177,919	P404,955
MONEY MARKET PLACEMENT			
Banco de Oro		P1,644,117	P56,739
Bank of the Philippine Islands		690,133	36,936
China Trust Banking Corporation		-	9,707
City Savings Bank		14,167,875	482,210
First Metro Investment Corporation		700,000	3,455
Metropolitan Bank and Trust Company		909,716	18,087
Philippine National Bank		6,884	189
Security Bank Corporation		6,415,086	48,960
Mizuho Corporate Bank, Ltd.		-	67,222
Union Bank of the Philippines		1,908,200	152,353
TOTAL		P23,236,010	P887,148
TRADE AND OTHER RECEIVABLES			
Trade Receivables (net of allowance):			
Residential		P1,725,934	P-
Commercial		417,715	-
Industrial		5,529,607	-
City street Lighting		110,542	-
Spot market		331,745	-
Power supply contracts		4,942,814	-
Dividends Receivable		1,193,068	-
Advances to contractors		63,339	-
Accrued Revenues		3,482,529	-
Non-trade Receivables		2,480,933	-
Interest receivable		48,644	-
PSALM Adjustment		1,042,861	
Other Receivables		522,225	-
TOTAL		P21,747,422	P-
Financial assets at FVTPL			
Apo Golf & Country Club	3	P2	P-
Banco De Oro	8,090	793	-
Philippine Long Distance Telephone Co.	36,469	458	-
PICOP Resources, Inc.	164	8	-
Alta Vista Golf & Country Club	1	2,265	-
Philex Mining Corp	3,168	5	-
Others	375,000	375	-
TOTAL		P3,906	P-

ANNEX F

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

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

AS OF DECEMBER 31, 2019
(Amounts in Thousands)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Non-Current	Ending Balance
			Amounts Collected	Amounts Written-Off			
Davao Light & Power Co., Inc.	P673,852	P7,220,068	(P7,148,780)	P-	P745,140	P-	P745,140
Therma Power, Inc. and Subsidiaries	12,956	823,006	(185,943)	-	650,019	-	650,019
Cotabato Light & Power Company	14,137	278,549	(268,619)	-	24,067	-	24,067
Aboitiz Renewables, Inc. and Subsidiaries	2,654	111,744	(108,666)	-	5,732	-	5,732
Subic Enerzone Corporation	170,171	381,307	(376,888)	-	174,590	-	174,590
Visayan Electric Co., Inc.	617,691	6,888,229	(6,682,757)		823,163	-	823,163
Aboitiz Energy Solutions, Inc.	1,329,516	9,330,541	(9,313,479)	-	1,346,578	-	1,346,578
Mactan Enerzone Corporation	1,052	5,430	(6,482)	-	0	-	0
Balamban Enerzone Corporation	1,134	4,848	(5,982)	-	0	-	0
Cebu Private Power Corporation	62,974	20,901	(1,162)	-	82,713	-	82,713
Lima Enerzone Corporation	33,338	353,996	(315,758)	-	71,576	-	71,576
East Asia Utilities Corporation	365.00	3,191	(2,772)	-	784	-	784
Prism Energy, Inc.	96,469.00	1,036,535	(1,048,652)	-	84,352	-	84,352
San Carlos Sun Power, Inc.	-	11	-	-	11	-	11
Adventenergy, Inc.	1,314,209	6,896,867	(7,533,449)	-	677,627	-	677,627
TOTAL	P4,330,518	P33,355,223	(P32,999,389)	P-	P4,686,352	P-	P4,686,352

ANNEX G

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS

AS OF DECEMBER 31, 2019
(Amount in Thousands)

Description	Beginning Balance	Additions At Cost	DEDUCTIONS		Other Changes Additions (Deductions)	Ending Balance
			Charged to Costs and Expenses	Charged to Other Accounts		
A. Intangibles						
Goodwill	P40,224,411	P-	P-	P-	P651,671	P40,876,082
Service concession rights	2,789,610	60,625	(361,599)	-	(82,316)	2,406,320
Project development costs	388,468	234,023	-	-		622,491
Franchise	2,648,732	-	(76,960)	-	-	2,571,772
Customer contracts	8,582	-	(8,582)	-	-	-
Software and licenses	105,691	160,785	(30,640)	-	-	235,836
Total	P46,165,494	P455,433	(P477,781)	P-	P569,355	P46,712,501
B. Other Noncurrent Assets						
Restricted cash	P-	P-	P-	P-	P4,672,031	P4,672,031
Input vat and tax credit receivable	5,276,346		-	-	(841,997)	4,434,349
PSALM adjutment - net of current	3,183,089	-	-	-	(1,042,870)	2,140,219
Prepaid taxes	159,942		-	-	719,497	879,439
Advances to contractors and projects	464,139	-	-	-	89,141	553,280
Receivable from NGCP	-	-	-	-	-	-
Refundable deposits	375,014	-	-	-	(48,164)	326,850
Investment properties	3,300	-	-	-	129,000	132,300
Prepaid rent	1,051,102	-	-	-	(1,051,102)	-
Others	147,247	-	-	-	233,597	380,844
Total	P10,660,179	P-	P-	P-	P2,859,133	P13,519,312
Total	**P56,825,673**	**P455,433**	**(P477,781)**	**P-**	**P3,428,488**	**P60,231,813**

ANNEX H

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE E - LONG-TERM DEBT

AS OF DECEMBER 31, 2019
(Amounts in Thousands)

Name of Issuer and Type of Obligation	Amount Authorized by Indentures	Amount Shown as Current	Amount Shown as Long-Term	Remarks
Parent:				
Aboitiz Power Corporation	P50,079,825	P-	P50,079,825	
Subsidiaries:	-	0		
Hedcor, Inc.	1,739,170	118,729	1,620,441	
Subic Enerzone Corporation	113,000	56,500	56,500	
Luzon Hydro Corporation	563,664	277,839	285,825	
Davao Light & Power Co., Inc.	582,000	147,750	434,250	
Cotabato Light & Power Company	116,400	29,550	86,850	
Therma South, Inc.	19,893,083	1,283,069	18,610,014	
Pagbilao Energy Corp. (Joint Operation)	13,163,854	1,111,887	12,051,967	
Visayan Electric Co., Inc.	774,732	196,476	578,256	
GNPower Mariveles Coal Plant Ltd. Co.	37,044,441	3,219,539	33,824,902	
Therma Visayas, Inc.	31,229,677	2,065,254	29,164,423	
Therma Power - Visayas, Inc.	1,290,250	-	1,290,250	
AP Renewables, Inc.	7,997,979	1,215,355	6,782,624	
Hedcor Sibulan, Inc.	3,770,735	93,171	3,677,564	
Hedcor Bukidnon, Inc.	9,312,812	571,192	8,741,620	
Total	P177,671,622	P10,386,311	P167,285,311	

ANNEX I

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE F - INDEBTEDNESS TO AFFILIATES
(LONG-TERM LOANS FROM AFFILIATED COMPANIES)

AS OF DECEMBER 31, 2019
(Amounts in Thousands)

Name of Affiliate	Beginning Balance	Ending Balance
Aboitiz Equity Ventures, Inc.	P-	P300,000
	-	-
	-	-
Total	P -	P300,000

ANNEX J

ABOITIZ POWER CORPORATION

SCHEDULE H - CAPITAL STOCK

AS OF DECEMBER 31, 2019
(Amounts in Thousands)

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
COMMON SHARES	16,000,000	7,358,604	-	5,818,935	140,087	1,399,582
PREFERRED SHARES	1,000,000	-	-	-	-	-

ANNEX K

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE I - TRADE AND OTHER RECEIVABLES FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019
(Amounts in Thousands)

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Davao Light & Power Co., Inc.	P713,780	P31,360	P745,140	P7,220,068	P-	P-	30 days
Therma Power, Inc. and Subsidiaries	-	650,019	650,019	287,006	-	-	30 days
Cotabato Light & Power Company	21,849	2,218	24,067	278,549	-	-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	-	5,732	5,732	111,744	-	-	30 days
Subic Enerzone Corporation	174,590	-	174,590	381,307	-	-	30 days
Visayan Electric Co., Inc.	704,355	118,808	823,163	6,888,229	-	-	30 days
Aboitiz Energy Solutions, Inc.	1,341,295	5,283	1,346,578	9,330,541	-	-	30 days
Mactan Enerzone Corporation	-	-	-	5,430	-	-	30 days
Balamban Enerzone Corporation	-	-	-	4,848	-	-	30 days
Cebu Private Power Corporation	-	82,713	82,713	20,901	-	-	30 days
Lima Enerzone Corporation	71,576	-	71,576	353,996	-	-	30 days
East Asia Utilities Corporation	-	784	784	3,191	-	-	30 days
Prism Energy, Inc.	84,296	56	84,352	1,036,535	-	-	30 days
San Carlos Sun Power, Inc.	-	11	11	-	-	-	30 days
Adventenergy, Inc.	670,390	7,237	677,627	6,896,867	-	-	30 days
TOTAL	P3,782,131	P904,221	P4,686,352	P32,819,212	P-	P-	

ANNEX L

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE J - TRADE AND OTHER PAYABLES FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019
(Amounts in Thousands)

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Parent Company	P-	P904,221	P904,221	P1,151,221	P-	P-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	679,120	-	679,120	6,253,401	-	-	30 days
Cebu Private Power Corporation	122,370	-	122,370	1,346,687	-	-	30 days
Therma Power, Inc. and Subsidiaries	2,691,944	-	2,691,944	20,660,912	-	-	30 days
Aboitiz Energy Solutions, Inc.	206,125	-	206,125	1,760,211	-	-	30 days
East Asia Utilities Corporation	13,867	-	13,867	319,021	-	-	30 days
Subic Enerzone Corporation	18,427	-	18,427	262,946	-	-	30 days
Balamban Enerzone Corporation	4,987	-	4,987	55,143	-	-	30 days
Mactan Enerzone Corporation	6,938	-	6,938	78,566	-	-	30 days
Lima Enerzone Corporation	38,353	-	38,353	478,694	-	-	30 days
Visayan Electric Co., Inc.	-	-	-	452,410	-	-	30 days
TOTAL	P3,782,131	P904,221	P4,686,352	P32,819,212	P-	P-	

ANNEX M

Use of Proceeds

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

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

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

On June 19, 2017, SEC issued an Order of Registration and a Certificate of Permit to Offer Securities for AboitizPower's ₱30 bn fixed-rate corporate retail bonds in the aggregate amount of up to ₱30 bn ("2017 Bonds"). The 2017 Bonds were registered under the shelf registration program of the SEC and are to be issued in tranches.

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

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

AboitizPower received the aggregate amount of ₱2.97 bn as proceeds from the offer and sale of the Series "A" bonds. AboitizPower has been paying interest to its bond holders since October 2017.

Use of Proceeds

As of December 31, 2017, the proceeds of the Series "A" bonds were fully utilized for the following projects:

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

Note: Amounts are in thousands.

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

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

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

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

Use of Proceeds

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

Name of Project	Projected Usage (Per Prospectus)	Actual Usage
Refinancing of the Medium-Term Loan of Therma Power, Inc.	₱8,700,000	₱8,700,000
Bond issuance costs	118,868	121,924
General corporate purposes	1,381,132	1,378,076
TOTAL	**₱10,200,000**	**₱10,200,000**

Note: Amounts are in thousands

Series "D" Bonds issued in October 2019

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

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

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

Use of Proceeds

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

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

Note: Amounts are in thousands

ANNEX N

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Aboitiz Power Corporation and Subsidiaries as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-4 (Group A),
November 21, 2019, valid until November 20, 2022
Tax Identification No. 164-533-282
BIR Accreditation No. 08-001998-71-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125281, January 7, 2020, Makati City

March 6, 2020

ANNEX O

Net Debt-to-Consolidated Equity Ratio not to exceed 3:1

Long-term Debt	₱50,131,427
Less: Cash and Cash Equivalent	4,210,064
Net Debt	45,921,363
Total Consolidated Equity	133,643,011
Net Debt-to-Equity Ratio	0.34:1

Net Consolidated Debt-to-Consolidated Equity Ratio not to exceed 3:1

Consolidated Bank loans	₱10,335,420
Consolidated Long-term Debt	220,616,984
Less: Consolidated Cash and Cash Equivalent	37,433,929
Net Consolidated Debt	193,518,475
Total Consolidated Equity	133,643,011
Net Debt-to-Equity Ratio	1.45:1

Leverage Ratio not to exceed 5.50:1

Consolidated Bank loans	₱10,335,420
Consolidated Long-term Debt	220,616,984
Less: Consolidated Cash and Cash Equivalent	37,433,929
Net Consolidated Debt	193,518,475
Total Consolidated EBITDA	45,005,022
Net Debt-to-Equity Ratio	4.30:1

ANNEX P

ABOITIZ POWER CORPORATION

PARENT COMPANY BALANCE SHEETS

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱4,210,064,412	₱11,875,188,311
Trade and other receivables (Note 5)	1,073,494,475	981,463,758
Derivative asset (Note 19)	–	855,000
Other current assets (Note 6)	889,854,388	941,778,180
Total Current Assets	6,173,413,275	13,799,285,249
Noncurrent Assets		
Investments and advances (Note 7)	120,634,208,641	88,931,823,265
Project development costs (Note 10)	623,339,367	388,468,001
Property and equipment (Note 8)	105,024,712	65,585,230
Derivative asset - net of current portion (Note 19)	80,134,271	–
Pension asset (Note 15)	–	38,061,504
Deferred income tax assets (Note 16)	–	101,466,266
Fair value through profit or loss (FVTPL) investment	–	97,535,436
Other noncurrent assets (Note 9)	16,375,794	89,121,203
Total Noncurrent Assets	121,459,082,785	89,712,060,905
TOTAL ASSETS	127,632,496,060	103,511,346,154
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 11)	627,503,138	356,110,573
Current portion of lease liabilities (Note 20)	13,886,300	–
Bank loans	–	4,700,000,000
Total Current Liabilities	641,389,438	5,056,110,573
Noncurrent Liabilities		
Long-term debts - net of deferred financing cost (Note 12)	50,079,825,067	22,997,821,292
Pension liability (Note 15)	219,744,469	–
Lease liabilities - net of current portion (Note 20)	37,715,847	–
Total Noncurrent Liabilities	50,337,285,383	22,997,821,292
Total Liabilities	50,978,674,821	28,053,931,865
Equity		
Capital stock (Note 13a)	7,358,604,307	7,358,604,307
Additional paid-in capital (Note 13a)	12,588,894,332	12,588,894,332
Cash flow hedge reserve (Note 19)	80,134,271	–
Actuarial losses on defined benefit plan (Note 15)	(556,796,826)	(208,521,187)
Retained earnings (Note 13b)		
Appropriated	35,660,000,000	34,060,000,000
Unappropriated	23,522,985,155	21,658,436,837
Total Equity	76,653,821,239	75,457,414,289
TOTAL LIABILITIES AND EQUITY	₱127,632,496,060	₱103,511,346,154

See accompanying Notes to Parent Company Financial Statements

Malvar Enerzone Corporation

A Wholly Owned Subsidiary of Aboitiz Power Corporation

Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report

SGV

Building a better working world

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	1	7	1	8	9	8	4

COMPANY NAME

MALVAR ENERZONE CORPORATION

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

Lot 2, Block 11, Palm Avenue,
Administration Compound, Light
Industry & Science Park IV, B
rgy. Bulihan Malvar, Batangas
4233

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
N/A	(032) 411-1800	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
6	2nd Wednesday of May	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ma. Chona Y. Tiu	ma.chona.tiu@aboitiz.com	(032) 411-1800	N/A

CONTACT PERSON's ADDRESS

#20 Pinnata St., North Town Homes Subd., Cabancalan, Mandaue City

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Malvar Enerzone Corporation
Lot 2, Block 11, Palm Avenue, Administration Compound,
Light Industry & Science Park IV, Barangay Bulihan,
Malvar, Batangas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Malvar Enerzone Corporation (a wholly owned subsidiary of Aboitiz Power Corporation) (the Company), which comprise the balance sheets as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for 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 Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the 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 Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 18 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Malvar Enerzone Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

SYCIP GORRES VELAYO & CO.

Ma. Genalin Q. Arevalo
Partner
CPA Certificate No. 108517
SEC Accreditation No. 1613-AR-1 (Group A),
November 11, 2019, valid until November 10, 2022
Tax Identification No. 224-024-926
BIR Accreditation No. 08-001998-123-2019,
November 27, 2019, valid until November 26, 2022
PTR No. 8125207, January 7, 2020, Makati City

March 3, 2020

SGV
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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
Malvar Enerzone Corporation
Lot 2, Block 11, Palm Avenue, Administration Compound,
Light Industry & Science Park IV, Barangay Bulihan,
Malvar, Batangas

We have audited the financial statements of Malvar Enerzone Corporation (a wholly owned subsidiary of Aboitiz Power Corporation) (the Company) as at and for the year ended December 31, 2019, on which we have rendered the attached report dated March 3, 2020.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the above Company has only one (1) stockholder owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Ma. Genalin Q. Arevalo
Partner
CPA Certificate No. 108517
SEC Accreditation No. 1613-AR-1 (Group A),
November 11, 2019, valid until November 10, 2022
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November 27, 2019, valid until November 26, 2022
PTR No. 8125207, January 7, 2020, Makati City

March 3, 2020

MALVAR ENERZONE CORPORATION
(A Wholly Owned Subsidiary of Aboitiz Power Corporation)

BALANCE SHEETS

	December 31	
	2019	2018
ASSETS		
Noncurrent Assets		
Property and equipment (Note 6)	**₱127,546,055**	₱27,275,027
Recoverable deposits (Note 15)	**500,000**	500,000
Total Noncurrent Assets	**128,046,055**	27,775,027
Current Assets		
Cash (Note 7)	**32,339,872**	3,305,278
Trade and other receivables (Note 8 and Note 15)	**155,215**	242,835
Supplies and materials inventory - at cost (Note 9)	**94,216,730**	2,692,537
Prepayments	**188,822**	155,419
Total Current Assets	**126,900,639**	6,396,069
TOTAL ASSETS	**₱254,946,694**	₱34,171,096
EQUITY AND LIABILITIES		
Equity (Note 11)		
Common stock	**₱7,040,000**	₱1,600,000
Preferred stock	**63,360,000**	–
Deposit for future stock subscription	**–**	16,300,000
Deficit	**(8,249,096)**	(5,633,464)
Total Equity	**62,150,904**	12,266,536
Noncurrent Liability		
Customer bill deposits (Note 10)	**110,139,737**	–
Current Liability		
Trade payables and other current liabilities (Note 10)	**82,656,053**	21,904,560
Total Liabilities	**192,795,790**	21,904,560
TOTAL EQUITY AND LIABILITIES	**₱254,946,694**	₱34,171,096

See accompanying Notes to Financial Statements.

MALVAR ENERZONE CORPORATION
(A Wholly Owned Subsidiary of Aboitiz Power Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
OPERATING REVENUES (Note 15)	**₱721,879**	₱403,821
COSTS AND EXPENSES		
General and administrative expenses (Note 12)	**2,439,649**	3,337,612
Operations and maintenance expenses (Note 12)	**902,518**	872,516
Purchased power (Note 15)	**746,182**	366,730
Depreciation (Note 6)	**371,623**	30,367
	4,459,972	4,607,225
OTHER INCOME (EXPENSES)		
Temporary power installation income (Note 15)	**1,730,792**	–
Bank charges	**(203,066)**	(825)
Interest income (Note 7)	**34,588**	2,673
Interest expense on bill deposit	**(105)**	–
Surcharges	**–**	1,008
	1,562,209	2,856
LOSS BEFORE INCOME TAX	**(2,175,884)**	(4,200,548)
PROVISION FOR INCOME TAX (Note 14)	**38,748**	535
TOTAL COMPREHENSIVE LOSS	**(₱2,214,632)**	(₱4,201,083)

See accompanying Notes to Financial Statements.

MALVAR ENERZONE CORPORATION
(A Wholly Owned Subsidiary of Aboitiz Power Corporation)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Common Stock	Preferred Stock	Deposit for Future Stock Subscription	Deficit	Total
At January 1, 2019	**₱1,600,000**	**₱–**	**₱16,300,000**	**(₱5,633,464)**	**₱12,266,536**
Issuance of stocks	**4,890,000**	**47,610,000**	**–**	**–**	**52,500,000**
Deposit for future stock subscription	**550,000**	**15,750,000**	**(16,300,000)**	**–**	**–**
Share issuance costs	**–**	**–**	**–**	**(401,000)**	**(401,000)**
Total comprehensive loss	**–**	**–**	**–**	**(2,214,632)**	**(2,214,632)**
At December 31, 2019	**₱7,040,000**	**₱63,360,000**	**₱–**	**(₱8,249,096)**	**62,150,904**
At January 1, 2018	₱100,000	₱–	₱–	(₱511,393)	(₱411,393)
Issuance of common stock	1,500,000	–	–	–	1,500,000
Deposit for future stock subscription	–	–	16,300,000	–	16,300,000
Share issuance costs	–	–		(920,988)	(920,988)
Total comprehensive loss	–	–	–	(4,201,083)	(4,201,083)
At December 31, 2018	₱1,600,000	₱–	₱16,300,000	(₱5,633,464)	₱12,266,536

See accompanying Notes to Financial Statements.

MALVAR ENERZONE CORPORATION
(A Wholly Owned Subsidiary of Aboitiz Power Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱2,175,884)**	(₱4,200,548)
Adjustments for:		
Depreciation (Note 6)	**371,623**	30,367
Interest income (Note 7)	**(34,588)**	(2,673)
Interest expense	**105**	–
Operating loss before working capital changes	**(1,838,744)**	(4,172,854)
Decrease (Increase) in:		
Trade and other receivables	**87,620**	(242,835)
Supplies and materials inventory	**(91,524,193)**	(2,692,537)
Prepayments	**(33,403)**	(96,391)
Increase in:		
Trade payables and other current liabilities	**60,751,388**	21,334,139
Customer bill deposits	**110,139,737**	–
Net cash generated from operations	**77,582,405**	14,129,522
Interest received	**34,588**	2,673
Final taxes paid	**(38,748)**	(535)
Net cash flows from operating activities	**77,578,245**	14,131,660
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 6)	**(100,642,651)**	(27,305,394)
Recoverable deposits made (Note 15)	–	(500,000)
Net cash flows used in investing activities	**(100,642,651)**	(27,805,394)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock (Note 11)	**52,500,000**	1,500,000
Share issue costs	**(401,000)**	(920,988)
Deposit for future stock subscription (Note 11)	–	16,300,000
Net cash flows from financing activities	**52,099,000**	16,879,012
NET INCREASE IN CASH	**29,034,594**	3,205,278
CASH AT BEGINNING OF YEAR	**3,305,278**	100,000
CASH AT END OF YEAR (Note 7)	**₱32,339,872**	3,305,278

See accompanying Notes to Financial Statements.

MALVAR ENERZONE CORPORATION
(A Wholly Owned Subsidiary of Aboitiz Power Corporation)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Malvar Enerzone Corporation (the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on June 9, 2017. The Company is engaged in power distribution to locators inside the Light Industry & Science Park (LISP) IV in Malvar, Batangas.

The Company is a wholly owned subsidiary of Aboitiz Power Corporation (APC), a publicly-listed company in the Philippines. APC is a subsidiary of another publicly-listed company, Aboitiz Equity Ventures, Inc. (AEV). The Company's ultimate parent company is Aboitiz & Company, Inc. (AC). The Company's registered principal office address is Lot 2, Block 11, Palm Avenue, Administration Compound, Light Industry & Science Park IV, Barangay Bulihan, Malvar Batangas 4233.

The Company is registered with the Philippine Economic Zone Authority (PEZA) in accordance with Republic Act (R.A.) No. 7916, otherwise known as *The Special Economic Zone Act* of 1995 (the Act). As a registered enterprise, the Company is entitled to incentives provided for under the Act and is exempted from national and local taxes. In lieu thereof, the Company is liable to pay a gross income tax of 5% on gross revenues less allowable deductions as defined under the Act.

The financial statements of the Company as of December 31, 2019 and 2018 were approved and authorized for issue by the Board of Directors (BOD) on February 5, 2019.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The financial statements have been prepared using the historical cost basis and are presented in Philippine Peso (₱), which is also the Company's functional currency. All amounts are rounded off to the nearest peso unit except when otherwise indicated.

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

The Company qualifies as a small and medium-sized entity (SME) under the PFRS for SMEs. The Company availed of the exemption from mandatory adoption of the PFRS for SMEs granted by the SEC in its Securities Regulation Code Rule 68, As Amended, dated October 20, 2011, on the basis that the Company is a subsidiary of a parent company reporting under full PFRSs.

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the new and revised standards and Philippine Interpretations which were applied starting January 1, 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Company applied PFRS 16, *Leases*, for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. Several other amendments and interpretations apply for the first time in 2019, but did not have any significant impact on the financial statements:

- PFRS 16, *Leases*

  PFRS 16 was issued in January 2016 and it replaces Philippine Accounting Standard (PAS) 17, *Leases*, IFRIC-4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17.

  Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

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

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

  The amendment does not have an impact on the Company's financial statements since the Company does not have an outstanding lease commitment.

- Amendments to PFRS 9, *Financial Instruments*, 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.

  These amendments do not have an impact on the financial statements since the Company do not have financial instruments with prepayment features.

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

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

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

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

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

  Since the Company does not have any pension asset or liability, these amendments do not have any effect on its financial statements.

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests. The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, Investments in Associates and Joint Ventures.

  Since the Company does not have such long-term interests in associates and joint ventures, the amendments do not have an impact on its financial statements.

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

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

The interpretation specifically addresses the following:

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

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

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

- *Annual Improvements to PFRSs* 2015–2017 Cycle

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

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

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

    These amendments are currently not applicable to the Company but may apply to future transactions.

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

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

These amendments are not relevant to the Company because any dividends declared by the Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs*, Income Tax Consequences of Borrowing Costs, Borrowing Costs Eligible for Capitalization

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

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

New Standards and Interpretation Issued and Effective after December 31, 2019
The Company will adopt the standards enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRSs, PAS and Philippine Interpretations to have significant impact on its financial statements.

Effective Beginning on or After January 1, 2020

- Amendments to PFRS 3, Definition of a Business

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

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

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

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

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

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

Effective Beginning on or After January 1, 2023

- PFRS 17, *Insurance Contracts*

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

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

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

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

Deferred Effectivity

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

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

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

4. **Summary of Significant Accounting Policies**

Current versus Noncurrent Classification
The Company presents assets and liabilities in the balance sheet based on current/noncurrent classification. An asset as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after reporting period.

All other assets are classified as noncurrent.

A liability is current when:
- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as noncurrent.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Land is carried at cost less any accumulated impairment loss, if any.

The initial cost of property and equipment comprises its purchase price, including import duties 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 and equipment when the recognition criteria are met. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged against income in the year 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 and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment. The carrying amount of the replaced part regardless of whether the replaced part had been depreciated and amortized separately is derecognized if an entity recognizes in the carrying amount of an item of property and equipment the cost of a replacement for part of the item. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

When each major inspection is performed, its cost is recognized in the carrying amount of the item of property and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation are computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

Category	Number of Years
Transmission and distribution equipment	20–50
Computer equipment	5
Transportation equipment	5

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any allowance for impairment losses are removed from the accounts. Any resulting gain or loss is credited or charged against current operations.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

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

Construction in progress represents on-going construction of the corporate office and substation building. Cost of construction in progress includes billings from the contractor 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.

Impairment of Property and Equipment

The Company assesses at each balance sheet date whether there is an indication that property and equipment may be impaired. If any such indication exists, or when annual impairment testing for a nonfinancial asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment loss, if any, is recognized in the profit or loss in the expense category consistent with the function of the impaired asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment

loss been recognized for the asset in prior years. Such reversal is recognized in the statements of comprehensive income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial Instruments

Classification and Measurement

Classification of Financial Assets. Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Company's business model for managing the financial assets. The Company classifies its financial assets into the following measurement categories:

- assets measured at amortized cost
- financial assets measured at fair value through profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Contractual Cash Flows Characteristics. If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Company assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Company determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business Model. The Company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Company's business model does not depend on management's intentions for an individual instrument.

The Company's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Company in determining the business model for a Company of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial Assets at Amortized Cost. A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Provision for impairment losses' in the statement of comprehensive income.

As of December 31, 2019 and 2018, the Company has financial assets at amortized cost consisting of cash on hand and in bank, trade and other receivables and recoverable deposits.

There are no financial assets measured at fair value through profit or loss (FVPL) or fair value through other comprehensive income (FVOCI) as of December 31, 2019 and 2018.

Classification of Financial Liabilities
Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Company retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or

- if a Company of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

As at December 31, 2019 and 2018, the Company's financial liabilities include trade payables and other current liabilities and customer bill deposits.

Reclassifications of Financial Instruments. The Company reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. The Company does not reclassify its financial liabilities.

The Company does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at fair value through profit or loss.

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset expires;

- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Company treats the transaction as a transfer of a financial asset if the Company:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it retains control over the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. The extent of the Company's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Company's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Company's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Company could be required to repay ('the guarantee amount'). When the Company's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase. However, in

the case of a written put option on an asset that is measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Company's continuing involvement takes the form of a cash- settled option or similar provision on the transferred asset, the extent of the Company's continuing involvement is measured in the same way as that which results from non-cash settled options.

Modification of Contractual Cash Flows. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

Financial Liabilities. A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the statement of income. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original EIR, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Impairment of Financial Assets. The Company recognizes ECL for the following financial assets that are not measured at FVPL:

- debt instruments that are measured at amortized cost and FVOCI;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL. For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL - not Credit-impaired. For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL - Credit-impaired. Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted EIR to the amortized cost of the financial asset.

Determining the Stage for Impairment. At each reporting date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; or
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’ or when the exposure is less than 30 days past due.

The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to ‘Trade and other receivables’. The Company has established a provision matrix for customer segments that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Fair Value Measurement

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

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

The principal or the most advantageous market must be accessible to the Company.

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

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the 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 financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cash

Cash includes cash on hand and in bank. Cash in bank earns interest at the prevailing bank deposit rates.

Supplies and Materials Inventory

Supplies and materials are valued at the lower of cost or net realizable value (NRV). Costs, which include all costs directly attributable to acquisition, such as purchase price and transport costs, are accounted for using the moving average method. NRV is the spare parts and supplies' current replacement cost.

Equity

Capital Stock. Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value for all issued shares. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Capital stock includes common stock and redeemable preferred stock.

Deficit. Deficit represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Deposit for Future Stock Subscription. Deposit for future stock subscription is recognized as an equity instrument if elements below are all present:

- There is lack or insufficiency of authorized unissued shares of stock to cover the deposit;
- The BOD and stockholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and
- An application for the approval of the increase in capital stock has been presented for filing or filed with the SEC.

If any or all of the above elements are not present, deposit for future stock subscription should be recognized as liability.

Share Issue Costs. Share issue costs shall be debited to share premium arising from the share issuance. If the share premium is insufficient to absorb such expenses, equity issuance costs are reported as a contra equity account as a deduction from the following in the order of priority:

- Share premium from previous share issuance
- Retained earnings

Revenue from Contracts with Customers

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

Operating Revenue. The Company concluded that operating revenue from power distribution is to be recognized over time, since the customer simultaneously receives and consumes the benefits as the Company supplies power. The Company uses the actual kilowatt hours consumed, which are also billed on a monthly basis, in measuring the progress of the revenue recognized over time.

Interest Income. Revenue is recognized as interest accrues taking into account the effective yield on the assets.

Cost and Expense Recognition
Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are recognized in the statement of income when incurred.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingencies
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Reporting Period
Post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed when material.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's financial statements in compliance with PFRS requires management to make judgments and estimates that affect certain reported amounts and disclosures. However, uncertainty about these judgments and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Estimates and assumptions

Estimating Useful Lives of Property and Equipment. The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors and circumstances mentioned above. As of December 31, 2019 and 2018, the aggregate net book values of property and equipment amounted to ₱127.5 million and ₱27.3 million, respectively (see Note 6).

Assessing Impairment of Property and Equipment. Impairment review is performed when certain impairment indicators are present. Determining the fair value of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. No impairment losses were recognized on the Company's property and equipment whose carrying values amounted to ₱127.5 million and ₱27.3 million as of December 31, 2019 and 2018, respectively (see Note 6).

Estimating Realizability of Deferred Income Tax Assets. The Company reviews the carrying amounts of deferred income tax assets 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 income tax assets to be realized. The Company's assessment on the recognition of deferred income tax assets on nondeductible temporary differences is based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

As of December 31, 2019 and 2018, the Company did not recognize deferred income tax asset on NOLCO amounting to nil and ₱0.9 million, respectively, since management believes that no sufficient taxable income will be available in the year these are expected to be reversed, settled or realized (see Note 14).

6. Property and Equipment

	2019					
	Land	**Transmission and Distribution**	**Computer Equipment**	**Transportation Equipment**	**Construction in Progress**	**Total**
Cost						
At January 1, 2019	**₱21,073,938**	**₱5,021,084**	**₱30,000**	**₱–**	**₱1,180,372**	**₱27,305,394**
Additions	**–**	**–**	**–**	**–**	**100,642,651**	**100,642,651**
Reclassifications	**–**	**–**	**140,557**	**873,000**	**(1,013,557)**	**–**
At December 31,2019	**21,073,938**	**5,021,084**	**170,557**	**873,000**	**100,809,466**	**127,948,045**
Accumulated Depreciation						
At January 1, 2019	**–**	**27,867**	**2,500**	**–**	**–**	**30,367**
Depreciation	**–**	**167,369**	**44,204**	**160,050**	**–**	**371,623**
At December 31, 2019	**–**	**195,236**	**46,704**	**160,050**	**–**	**401,990**
Net Book Value	**₱21,073,938**	**₱4,825,848**	**₱123,853**	**₱712,950**	**₱100,809,466**	**₱127,546,055**

	2018				
	Land	Transmission and Distribution	Computer Equipment	Construction in Progress	Total
Cost					
At January 1, 2018	₱–	₱–	₱–	₱–	₱–
Additions	21,073,938	5,021,084	30,000	1,180,372	27,305,394
At December 31,2018	21,073,938	5,021,084	30,000	1,180,372	27,305,394
Accumulated Depreciation					
At January 1, 2018	–	–	–	–	–
Depreciation	–	27,867	2,500	–	30,367
At December 31, 2018	–	27,867	2,500	–	30,367
Net Book Value	₱21,073,938	₱4,993,217	₱27,500	₱1,180,372	₱27,275,027

Construction in progress pertains to on-going construction of the corporate office and substation building which are expected to be completed in 2020.

7. Cash

	2019	2018
Cash in bank	**₱32,289,872**	₱3,280,278
Cash on hand	**50,000**	25,000
	₱32,339,872	₱3,305,278

Cash in bank earns interest at the prevailing bank deposit rates. Interest income earned from deposits in banks amounted to ₱34,588 and ₱2,673 in 2019 and 2018, respectively.

8. Trade and Other Receivables

	2019	2018
Trade receivables	**₱60,077**	₱242,835
Other receivables	**95,138**	–
	₱155,215	₱242,835

Trade receivables are outstanding amounts for electric billings to LISP IV Administration Building and Pump House which started in April 2018. Trade receivables are noninterest-bearing and are generally on an 11-day term.

Other receivables generally pertain to receivables from contractors. These are collectible within the Company's normal operating cycle.

9. Supplies and Materials Inventory - at Cost

The Company's inventories are composed of project supplies and materials. No allowance for impairment was recognized as of December 31, 2019 and 2018

Supplies and materials recognized as part of "Operations and maintenance expenses" in the statements of comprehensive income amounted to ₱4,841 and ₱0.5 million in 2019 and 2018, respectively (see Note 12).

10. Trade Payables and Other Current Liabilities and Customer Bill Deposits

Trade Payables and Other Current Liabilities

	2019	2018
Trade payables	**₱82,139,139**	₱21,143,215
Government payables	**466,009**	715,181
Others	**50,905**	46,164
	₱82,656,053	₱21,904,560

Trade payables are noninterest-bearing and are normally on 15 to 30-day terms.

Others pertain to accrued payroll and accrued interest on bill deposit.

Customer Bill Deposits

Customer bill deposits serve to guarantee payment of bills by a customer. The amount of bill deposit is equivalent to the estimated monthly billing of the customer and is subject to annual adjustments when the actual monthly bill increases or decreases by more than ten percent (10%) of the bill deposit. The Amended DSOAR and the Amendments to the Magna Carta provide that cash bill deposits shall earn interest equivalent to the Peso Savings Account Interest Rate of the Land Bank of the Philippines on the first working day of the year, or other government banks subject to the approval of the ERC. The interests shall be credited yearly to the bills of the registered customer. The deposit will be returned only upon end of the contract with the customer.

This amounted to ₱110.1 million and nil as of December 31, 2019 ad 2018.

11. Equity

As of December 31, 2019 and 2018, below are the authorized shares and capital of the Company:

	2019		2018	
	Number of Shares	**Amount**	Number of Shares	Amount
Common shares at ₱1 par in 2019 and 2018	**11,050,000**	**₱11,050,000**	1,600,000	₱1,600,000
Redeemable preferred shares (RPS) at ₱1 par	**99,450,000**	**99,450,000**	–	–

Capital stock issued and outstanding as at December 31, 2019 and 2018 follows:

	Number of shares	**Amount**
Common Shares - ₱100 par value		
At January 1, 2019	**1,600,000**	**₱1,600,000**
Deposit for future stock subscription	**550,000**	**550,000**
Additions for the year	**4,890,000**	**4,890,000**
At December 31, 2019	**7,040,000**	**₱7,040,000**
At January 1, 2018	100,000	₱100,000
Additions for the year	1,500,000	1,500,000
At December 31, 2018	1,600,000	₱1,600,000
Preferred Shares - ₱100 par value		
At January 1, 2019	–	₱–
Deposit for future stock subscription	15,750,000	15,750,000
Additions for the year	47,610,000	47,610,000
At December 31, 2019	63,360,000	₱63,360,000
At January 1 and December 31, 2018	–	₱–

The RPS are nonvoting, noncumulative, re-issuable, participating as to dividends with the same right as common shares, and redeemable at amounts not less than the subscription price on such dates and upon such terms as may be determined by the Company.

The BOD is expressly authorized to issue the RPS in one or more series, and to fix the terms and conditions for redemption and all designations, relative rights, preferences and limitation of the RPS, subject to the provisions of the AOI and the Corporation Code.

In the event of any liquidation or dissolution of the Company, the holders of the preferred shares shall be entitled to be paid in full the par value and additional paid-in capital, if any, of their shares before any payment in liquidation is made upon the common shares. The remaining assets and funds of the Company, after payment of the par value and additional paid-in capital relating to the common shares, shall be divided pro-rata among the holders of the common shares.

Deposit for Future Stock Subscription (DFFS)
Deposit for future stock subscription represents funds received by the Company from its Parent, AP, with a view of applying the same as payment for additional issuance of stock.

The Company's BOD and stockholders approved on August 14, 2018, the amendment of its Articles of Incorporation for the increase of its authorized capital stock from to ₱1.6 million of 1.6 million common shares to ₱110.5 million divided into 11.0 million common shares and 99.5 million redeemable preferred shares with a par value of ₱1 per share

On September 24, 2018, the Company has filed with SEC its application for the increase in authorized capital stock.

As of December 31, 2018, the Company presented the deposit for future stock subscription as equity as it complies with all the requirements set forth in SEC Financial Reporting Bulletin No. 6 (as revised) dated May 11, 2017 for a deposit for future stock subscription to be classified as equity. The DFFS outstanding as of December 31, 2019 amounted to ₱16.3 million.

On February 28, 2019, SEC approved the increase of the Company's authorized capital.

12. Expenses

General and Administrative Expenses

	2019	2018
Personnel cost	**₱1,486,548**	₱661,431
Maintenance	**357,836**	5,076
Taxes and licenses (see Note 13)	**232,234**	12,195
Transportation	**148,175**	70,714
Professional fees (see Note 13)	**50,561**	2,536,826
Outside services	**27,667**	6,450
Office supplies (see Note 13)	**10,701**	16,892
Others (see Note 13)	**125,927**	28,028
	₱2,439,649	₱3,337,612

Professional fees pertain to legal and audit fees incurred by the Company.

Others include payment for various services incurred by the Company such as freight and handling, insurance in transportation, communication expenses, branding, representation and entertainment and other miscellaneous administrative expenses.

Operations and Maintenance Expenses

	2019	2018
Personnel cost	**₱744,453**	₱250,515
Transportation	**101,444**	74,560
Office supplies	**17,134**	–
Professional fees	**16,665**	–
Supplies and materials (see Note 9)	**4,841**	544,743
Taxes and licenses	**4,822**	–
Others	**13,159**	2,698
	₱902,518	₱872,516

Others pertain to communication and other miscellaneous fees incurred by the Company.

13. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence.

Management, Professional, Technical Fees, Service Fees and Construction Costs

	Expense	Income	Outstanding Payable (see Note 10)	Terms	Conditions
Parent Company					
AEV					
2019	**₱10,460**	₱–	₱–	Noninterest-bearing; On demand	Unsecured
2018	6,450	–	–	Noninterest-bearing; On demand	Unsecured
APC					
2019	**45,274**	–	–	Noninterest-bearing; On demand	Unsecured
2018	1,047	–	–		
Under Common Ownership					
Union Bank of the Philippines (UBP)					
2019	**–**	–	–	Noninterest-bearing; On demand	Unsecured
2018	–	2,673	–	Noninterest-bearing; On demand	Unsecured
Aboitiz Construction, Inc. (AC)					
2019	**89,531,144**	–	–	Noninterest-bearing; On demand	Unsecured
2018	–	–	–	Noninterest-bearing; On demand	Unsecured

The Company earned interest income from its cash in bank maintained under UBP (see Note 7). Transactions with other related parties pertain to costs incurred by the Company but initially shouldered by its related parties. These include taxes and licenses to various regulatory agencies, consultancy fees, office supplies and other costs necessary for the Company's operations (see Note 12). The Company also engaged AC in the construction of its corporate office and substantion building (see Note 6).

The above transactions were all settled in cash (see Note 10).

Compensation and Benefits of Key Management Personnel
Financial and operating decisions are carried out by the key management personnel of AP.

14. Income Taxes

As discussed in Note 1, the Company, as a PEZA-registered entity, is liable to pay the 5% gross income tax (GIT), net of certain deductions, in lieu of all national and local taxes. Income derived from non-PEZA registered activities is taxed at regular corporate income tax rate (RCIT).

	2019	2018
Corporate income tax	**₱31,830**	₱–
Final tax	**6,918**	535
	₱38,748	₱535

The reconciliation of income tax expense computed at the statutory income tax rates to provision for income tax reported in the Company's statements of income follows:

	2019	2018
Income (loss) before income tax:		
Under 5% GIT	**(₱2,210,472)**	(₱4,203,221)
Under 30% RCIT	**34,588**	2,673
	(₱2,175,884)	(₱4,200,548)
Benefit from income tax computed at 5% GIT	**(₱110,524)**	(₱210,161)
Provision for income tax computed at 30% RCIT	**10,376**	802
Adjustments to income tax resulting from:		
Nondeductible expenses	**142,354**	167,047
Interest income subjected to final tax income	**(10,376)**	(802)
Final income tax paid	**6,918**	535
Unrecognized deferred income tax assets from net operating loss carry-over (NOLCO)	**–**	43,114
	₱38,748	₱535

The Company incurred NOLCO in 2018 which amounted to ₱0.9 million. No deferred tax asset was recognized from the NOLCO since management believes that no sufficient taxable income will be available in the year these are expected to be reversed, settled or realized. The NOLCO will expire on December 31, 2021.

Tax Reform for Acceleration and Inclusion Act (TRAIN)
R.A. No. 10963 or TRAIN 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 the existing tax laws and includes several provisions that have generally affected businesses on a prospective basis, management assessed that the same did not have any significant impact on the financial statement balances as of the reporting date.

15. Significant Agreements

Power Utility Provider Agreement (PUPA)
On October 16, 2018, the Company and Science Park of the Philippines, Inc. (SPPI), entered into a twenty five-year PUPA that appoints the Company as the Zone's exclusive power distribution utility, to install, construct, operate and maintain the power distribution system of LISP IV.

The Company in return shall pay SPPI the monthly concession fee of fifteen centavos per kilowatt-hour (P0.15/kwhr) or such other rate as may be agreed by the Parties. The payment of the concession fee will commence upon completion and full operation of the facilities within the Zone which is initially targeted on February 2020.

Temporary Power Agreement
On January 24, 2018, the Company entered into a temporary power agreement with SPPI and Batangas II Electric Cooperative, Inc. (BATELEC II) to address the urgent need of the locators of the Zone for the temporary power supply and distribution of power.

The Company shall continue to be responsible for the operation and maintenance of the facilities, including the facilities connecting the Zone to the 13.2kV Line of BATELEC II, until the completion of the construction, successful commissioning and energization and commercial operations of the facilities.

The non-recoverable temporary power poles, lines and meters were installed to supply locator's construction power needs inside the park. These charges are nonrefundable and were presented as part of the Company's other income amounting to ₱1.7 million and nil in 2019 and 2018.

Revenue from Contract with Customer. Operating revenue from distribution of power as of December 31, 2019 all pertains to SPPI, which is categorized as an industrial customer. Total revenue in 2019 and 2018 amounted to ₱0.7 million and ₱0.4 million, respectively.

The table below shows the purchased and the outstanding payables for the comparative years 2019 and 2018.

	Purchased Power		Outstanding Payables	
	2019	2018	**2019**	2018
BATELEC II	**₱746,182**	₱366,730	**₱15,310,591**	₱33,261

The timing of revenue recognition did not result in any contract asset or liability as there are no unfulfilled performance obligations as of December 31, 2019 and 2018. As at December 31, 2019 and 2018, the Company has trade receivables arising from contracts with customers amounting to ₱60,078 and ₱242,835 respectively, included as part of "Trade Receivables".

Tripartite Memorandum of Agreement (MOA)

The Company have entered into a MOA executed on January 23, 2018, January 31, 2018 and February 26, 2018, with BATELEC II, which owns, operate and maintain the 13.2 kV and 69 kV Lines or facilities to which the sLISP IV Areas is proposed to be connected at different stages of its development and operations, pursuant to which BATELEC II recognizes the responsibility and authority of the Company to provide the power distribution services within the LISP IV Area.

The Company shall pay BATELEC II the approved ERC 69kV Line Rate or fifteen centavos per kilowatt-hour (P0.15/kwhr), whichever is higher, for the connection and use of the 69kV Line by the LISP IV Area.

Total amount incurred under the contract amounted to ₱0.7 million in 2019 and ₱0.4 million in 2018 recorded as "Purchased power" in the statements of comprehensive income. The Company also made a recoverable deposit to BATELEC II amounting to ₱0.5 million which is refundable at the end of the agreement. This remained outstanding as of December 31, 2019 and 2018.

16. Financial Risk Management Objectives and Policies and Fair Value of Financial Instruments

Financial Risk Management Objectives

The Company's principal financial instruments comprise cash, trade and other receivables, recoverable deposits, trade payables and other current liabilities and customer bill deposits. The main purpose of these financial instruments is to raise finances for the Company's operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The Company is not exposed to significant foreign currency risk given that substantial portion of its monetary assets and liabilities are denominated in Philippine peso, its functional currency. The BOD reviews and approves policies for managing each of abovementioned risks and they are summarized below.

Credit Risk. Credit risk is the risk that the Company will incur a loss because its customers or counterparties failed to discharge their contractual obligations. The Company manages and controls credit risk by trading only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

The Company's credit risk is concentrated on its cash on hand and in bank, which are deposited in a reputable and creditworthy financial institution and on its trade receivables and recoverable deposit.

As at December 31, 2019 and 2018, the credit quality of the Company's cash in bank amounting to ₱32.3 million and ₱3.3 million, respectively, is high grade, since these are deposited in a reputable bank. Trade and other receivables amounting to ₱.1 million and ₱0.2 million and recoverable deposit amounting to ₱0.5 million and ₱0.5 as of December 31, 2019 and 2018, respectively, are considered as high-grade since these are due from operating third parties with no history of default on its account with the Company.

The Company has the following financial assets that are subject to the expected credit loss model using the General Approach and are categorized under Stage 1 12-month ECL:

- *Cash*. As of December 31, 2019 and 2018, the ECL relating to the cash on hand and in bank of the Company is minimal as these are deposited in reputable banks which have good bank standing, and is considered to have lower credit risk.

- *Trade and Other Receivables and Recoverable Deposits*. The Company did not recognize any allowance relating to trade and other receivables and recoverable deposits as there were no history of default payments. This assessment is undertaken each financial year through examination of the financial position of the customer and supplier and the market in which the they operate.

The aging analysis per class of financial assets that are past due but not impaired as of December 31, 2019 and 2018 are as follows:

	2019					
	Neither Past Due nor Impaired	**Past Due But not Impaired**			**Past Due and Individually Impaired**	**Total**
		Less than 30 Days	**31 to 60 Days**	**Over 90 Days**		
Cash*	**₱32,289,872**	**₱–**	**₱–**	**₱–**	**₱–**	**₱32,289,872**
Trade and other receivables	**155,215**	**–**	**–**	**–**	**–**	**155,215**
Recoverable deposits	**500,000**	**–**	**–**	**–**	**–**	**500,000**
	₱32,945,087	**₱–**	**₱–**	**₱–**	**₱–**	**₱32,945,087**

**Excluding cash on hand.*

	2018					
	Neither Past Due nor Impaired	Past Due But not Impaired			Past Due and Individually Impaired	Total
		Less than 30 Days	31 to 60 Days	Over 90 Days		
Cash*	₱3,280,278	₱–	₱–	₱–	₱–	₱3,280,278
Trade and other receivables	242,835	–	–	–	–	242,835
Recoverable deposits	500,000	–	–	–	–	500,000
	₱4,023,113	₱–	₱–	₱–	₱–	₱4,023,113

**Excluding cash on hand.*

The maximum exposure to credit risk, net of allowance for impairment, amounted to ₱32.9 million and ₱4.0 million as at December 31, 2019 and 2018, respectively.

Liquidity Risk. Liquidity risk is the risk the Company will not be able to meet its payment obligations when they fall under normal and stress circumstances. To limit this risk, the Company closely monitors its cash flows and ensures that credit facilities are available to meet its obligations as and when they fall due.

The following tables below summarize the Company's financial assets that can be used to manage its liquidity risk and the maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of December 31:

	2019						
	Total	**On Demand**	**1 to 30 Days**	**31 to 60 Days**	**61 to 90 Days**	**Over 90 Days**	**Over 1 Year**
Financial Assets at Amortized Cost							
Cash	**₱32,339,872**	**₱32,339,872**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Trade and other receivables	**155,215**	**–**	**155,215**	**–**	**–**	**–**	**–**
Recoverable deposits	**500,000**	**–**	**–**	**–**	**–**		**500,000**
	32,995,087	**32,339,872**	**155,215**	**–**	**–**		**500,000**
Financial Liabilities at Amortized Cost							
Trade payables and other current liabilities*	**82,190,044**	**–**	**82,190,044**	**–**	**–**	**–**	**–**
Customer bill deposits	**110,139,737**	**–**	**–**	**–**	**–**	**–**	**110,139,737**
	192,329,781	**–**	**82,190,044**	**–**	**–**	**–**	**110,139,737**
Net Financial Assets (Liabilities)	**(₱159,334,694)**	**₱32,339,872**	**(₱82,034,829)**	**₱–**	**₱–**	**₱–**	**(₱109,639,737)**

**Excluding statutory payables.*

	2018						
	Total	On Demand	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Over 1 Year
Financial Assets at Amortized Cost							
Cash	₱3,305,278	₱3,305,278	₱–	₱–	₱–	₱–	₱–
Trade and other receivables	242,835	–	242,835	–	–	–	–
Recoverable deposits	500,000	–	–	–	–	–	500,000
	4,048,113	3,305,278	242,835	–	–	–	500,000
Financial Liabilities at Amortized Cost							
Trade payables and other current liabilities*	21,189,379	–	21,189,379	–	–	–	–
Net Financial Assets (Liabilities)	(₱17,141,266)	₱3,305,278	(₱20,946,544)	₱–	₱–	₱–	₱500,000

**Excluding statutory payables.*

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The fair value of the Company's cash, trade other receivables and trade payables and other current liabilities approximate their carrying amounts due to relatively short-term maturity of these financial instruments. Recoverable deposits will be refunded at the end of the term of the agreement with BATELEC II and its carrying amount approximates its fair value. The fair value of customers' bill deposits approximates the carrying values as (1) bill deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines and (2) the timing and related amounts of future cash flows cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

17. Other Matter

Philippine Distribution Code and the Philippine Grid Code

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

On 26 February 2017, the ERC approved the 2017 Philippine Distribution Code (PDC) in Resolution No. 02, Series of 2018. Pertinent additions and revisions include:

- Establishment of connection and operational requirements for Embedded Generating plants, both conventional and variable renewable energy (VRE) source;
- Classification of Embedded Generating plants according to their characteristics and installed capacity;
- Specified procedures for new connection and modifications of existing connection to guide prospective project proponents in connecting to the distribution system;
- Application of the PDC to entities duly authorized to operate a distribution system within the Economic Zones;
- Removal of administrative loss as part of system loss and non-distinction of technical and non-technical loss caps;

- Addition of members representing the Market Operator and the largest Distribution Utility to be added to the Distribution Management Committee (DMC); and
- Harmonization of PRC with PGC 2016 Edition, the Market Rules of the WESM, and subsequent rules and guidelines issued by the ERC applicable to Distribution Systems

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

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

The RE Law offers fiscal and non-fiscal incentives to renewable energy developers, including developers of hybrid systems, subject to certification by the Department of Energy (DOE) in consultation with the Board of Investments. These incentives include an income tax holiday for the first seven (7) years of commercial operations; duty-free importations of renewable energy machinery, equipment and materials effective within ten (10) years upon issuance of certification, provided, said machinery, equipment and materials are directly and actually needed and exclusively used in renewable energy facilities; special realty tax rates on civil works, equipment, machinery and other improvements of a registered renewable energy developer not exceeding 1.50% of the net book value; net operating loss carry-over; corporate tax rate of 10% after the seventh year; accelerated depreciation; zero-percent value added tax (VAT) on sale of fuel or power generated from renewable energy sources and other emerging sources using technologies such as fuel cells and hydrogen fuels and on purchases of local supply of goods, properties and services needed for the development, construction and installation of renewable energy facilities; cash incentives for missionary electrification; tax exemption on the sale of carbon emission credits; and tax credit on domestic purchases of capital equipment and services.

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

Pursuant to Department Circular No. DO2009-05-008 dated May 25, 2009 (Rules and Regulations Implementing the Renewable Energy Act of 2008), the DOE, the Bureau of Internal Revenue (BIR), and the Department of Finance shall, within six (6) months from its issuance, formulate the necessary mechanism and/or guidelines to implement the entitlement to the general incentives and privileges of qualified renewable energy developers. However, as of this date, no specific guidelines or regulations have been issued by the relevant implementing agencies. To date, the said request is still pending with the BIR Law Division.

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

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

In line with the increase in installation target for solar energy from 50 MW to 500 MW and wind energy from 200 MW to 400 MW, the ERC issued Resolution No. 6, Series of 2015 approving the Solar FIT 2 rate of ₱8.69/kWh for the second set of installation target. On October 6, 2015, the ERC issued Resolution No. 14, Series of 2015 adopting the Wind FIT 2 rate of ₱7.40/kWh. On September 29, 2016, a Petition for Rule Making was filed by Alternergy Wind One Corporation, Petrowind Energy, Inc., and Trans-Asia Renewable Energy Corporation seeking to amend Resolution No. 14, Series of 2015, and praying to increase the Wind FIT2 rate of ₱7.40/kWh to ₱7.93/kWh. A public consultation was held on the Petition for Rule Making on January 6, 2017. Through a letter dated February 23, 2018, the DOE informed the ERC of its resolution extending the FIT for Biomass and ROR Hydro until December 31, 2019, which prompted the ERC to undergo public consultations for the amendments to the ERC Resolution No. 10, series of 2012.

Acting upon the application of Transco as Fund Administrator of the FIT Allowance (FIT-All), the ERC issued its final approval for the FIT-All of ₱0.0406 per kWh, for calendar years 2014 and 2015. Subsequently, Transco filed an application for approval of the FIT-All for calendar year 2016. In an Order dated February 16, 2016, the ERC provisionally approved a FIT-All of ₱0.1240 per kWh. In a Decision dated May 9, 2017, the ERC authorized Transco to collect an additional FIT- All of ₱0.0590 per kWh, thereby bringing the FIT-All to ₱0.1830 per kWh.

In 2013, the ERC had issued the rules enabling the net metering program for renewable energy. The rules, among others, seek to encourage end-users to participate in renewable energy generation by requiring distribution utilities, upon the request of a distribution end-user with an installed renewable energy system, to enter into a net metering agreement with such end-user, subject to technical considerations and without discrimination.

In early 2014, the ERC issued the guidelines on the collection of the FIT-All and the disbursement of the FIT-All Fund by Transco. The FIT-All shall be a uniform charge to be collected for the guaranteed payment of the FIT for electricity generator from emerging renewable energy technologies and actually delivered to the transmission and/or distribution network by RE developers. The distribution utilities and RES entities started collecting the FIT-All from their respective customers in February 2015.

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

On January 15, 2018, the DOE released a draft circular prescribing the guidelines to govern the establishment of the Green Energy Option Program (GEOP). Under the RE Law, the GEOP will provide end-users the option to choose renewable energy resources as their sources of energy. The DOE is still in the process of finalizing the DOE circular establishing the GEOP.

ERC Regulation on Systems Loss Cap Reduction

Under ERC Resolution No. 17, Series of 2008, the actual recoverable systems losses of distribution utilities were reduced from 9.50% to 8.50%. The new systems loss cap was implemented in January 2010. Under this regulation, actual company use of electricity shall be treated as an expense of the distribution utilities, particularly, as an operations and maintenance expense in the PBR applications.

On December 5, 2017, the ERC issued the Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency. These rules adjusted the manner on which system losses shall be set by private distribution utilities and electric cooperatives. Public consultations were held on various dates in different locations in the country. Also, there are proposed Senate and House bills seeking to revisit the level of allowable system losses passed on to end-users. Information gathering is currently being done to study the proposed bills further.

In February 2018, the ERC issued Resolution No. 20, Series of 2017 (ERC Resolution No. 20-2017) entitled “A Resolution Adopting the ERC Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency”. This set of rules provide for the new Distribution System Loss (DSL) cap that can be recovered and charged by distribution utilities to its customers, beginning in the May 2018 billing period. Private distribution utilities shall charge a 6.50% DSL cap for 2018, which shall be reduced gradually on an annual basis until a DSL cap level of 5.50% is achieved by the year 2021. The aforementioned caps are exclusive of sub-transmission and substation losses.

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

Proposed Power Supply Agreement (PSA) Rules

In October 2013, ERC introduced the draft "Rules Governing the Execution, Review and Evaluation of Power Supply Agreements Entered into by Distribution Utilities for the Supply of Electricity to their Captive Market". In the proposed rules, a distribution utility is required to undertake a competitive selection process before contracting for supply of electricity to its captive market, and ERC shall establish a benchmark rate that shall serve as reference price to assess the price that a generation company may offer. The draft rules also provide that the ERC's decision on a power supply agreement shall be binding on the parties and any termination or "walk-away" clause shall not be allowed. AboitizPower submitted its position paper to the ERC stating that the proposed rules will violate the equal protection clause of the 1987 Philippine Constitution and the mandate and intent of the EPIRA in connection with the ERC's regulatory power. To date, public consultations on the proposed rules were concluded and the Company is still awaiting the final rules from the ERC.

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

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

On February 9, 2018, the DOE issued Department Circular No. DC2018-02-0003, modifying the existing policy on CSP of power supply contracting, followed by all distribution utilities.

Distribution utilities are now mandated by the DOE to undertake the creation of an independent, five-man third-party bids and awards committee (TPBAC) that will manage the CSP. The circular also allows the distribution utilities to conduct CSP through an accredited third-party auctioneer.

The ERC is currently revising its Rules Governing the Execution, Review and Evaluation of Power Supply Agreements Entered into by Distribution Utilities for the Supply of Electricity to their Captive Market, under ERC Case No. 2018-002 RM. To date, the rules have undergone public consultation and is currently on the second draft. The Company has submitted its comments and still awaiting for the final rules from the ERC. This is still under ERC evaluation as of December 31, 2019.

Independent Electricity Market Operator (IEMOP)

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

18. Supplementary Information Required Under Revenue Regulations No. 15-2010

The Company reported and/or paid the following types of taxes for the year ended December 31, 2019:

Value Added Tax (VAT)
The Company's sales to locators inside LISP IV, a PEZA-registered ecozone, are zero-rated sales and not subject to output VAT. Also, as PEZA-registered service provider with fiscal incentives, the Company's importations as well as purchases from other VAT- registered individuals or corporations are subject to zero percent (0%) input VAT pursuant to Section 24 of R.A. 7916, *The Special Economic Zone Act of 1995*. The VAT rate is 12.0%. In 2019, the Company do not have VATable sales.

	Net Sales/ Receipts	Output VAT
Taxable Sales:	₱–	₱–
Exempt Sales	–	–
Zero-rated Sales	904,647	–
Total	₱904,637	₱–

The Company's sales of services are based on actual collections received on distribution income and other charges, hence, may not be the same as the amounts accrued in the statement of income.

Zero-rated sales consist of those rendered to persons or entities whose exemptions are provided under PEZA Law or with fiscal incentives.

Input VAT for 2019

At January 1	₱155,419
Current year's domestic purchases of services	–
	155,419
Input VAT applied against output VAT	–
At December 31	₱155,419

Taxes and Licenses
Taxes and licenses include all other taxes, local and national, including documentary stamp taxes, registration fees and others as follows:

License and permit fees	₱178,519
Real Estate Tax	45,866
Documentary stamps tax	5,788
Registration fees	5,010
Others	1,873
	₱237,056

The SEC filing fees were recorded as part of the share issue costs incurred in 2019.

Withholding Taxes

Final withholding taxes	₱1,794,033
Compensation	191,052
Expanded withholding taxes	135,798
	₱2,120,883

Tax Assessment and Cases

As at December 31, 2019, the Company has no outstanding tax assessment and case.

Hedcor, Inc.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report

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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
Hedcor, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hedcor, Inc. (a subsidiary of Aboitiz Renewables, Inc.), the Company, which comprise the balance sheets as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for 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 Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the 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 Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Hedcor, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Margem A. Tagalog

Margem A. Tagalog
Partner
CPA Certificate No. 0098098
SEC Accreditation No. 1741-A (Group A),
February 26, 2019, valid until February 25, 2022
Tax Identification No. 206-544-506
BIR Accreditation No. 08-001998-138-2018,
December 17, 2018, valid until December 16, 2021
PTR No. 8125305, January 7, 2020, Makati City

March 2, 2020

HEDCOR, INC.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

BALANCE SHEETS

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱343,553,761**	₱1,129,714,367
Trade and other receivables (Note 6)	**184,552,482**	116,134,775
Materials and supplies (net of allowance for inventory obsolescence amounting to ₱11.75 million)	**–**	3,826,246
Prepayments and other current assets (Note 7)	**90,937,362**	148,375,595
Total Current Assets	**619,043,605**	1,398,050,983
Noncurrent Assets		
Property, plant and equipment (Notes 8 and 24)	**3,829,550,426**	2,898,660,237
Pension asset (Note 16)	**–**	10,849,482
Other noncurrent assets (Note 9)	**248,520,718**	212,990,464
Total Noncurrent Assets	**4,078,071,144**	3,122,500,183
TOTAL ASSETS	**₱4,697,114,749**	₱4,520,551,166
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 10)	**₱355,466,132**	₱247,765,796
Current portion of long-term debt (Note 11)	**118,728,655**	88,648,826
Current portion of lease liabilities (Note 24)	**2,276,043**	–
Total Current Liabilities	**476,470,830**	336,414,622
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 11)	**1,620,441,026**	1,739,136,568
Deferred income tax liabilities - net (Note 17)	**113,997,751**	121,537,787
Long term lease liabilities - net of current portion (Note 24)	**23,871,094**	–
Pension liability (Note 16)	**7,519,586**	–
Total Noncurrent Liabilities	**1,765,829,457**	1,860,674,355
Total Liabilities	**2,242,300,287**	2,197,088,977
Equity		
Capital stock - subscribed and paid (Note 12)	**1,090,704,309**	720,954,309
Additional paid-in capital	**332,712,758**	336,410,258
Other comprehensive income (loss):		
Revaluation surplus (Note 8)	**1,076,513,903**	1,137,565,059
Remeasurement losses on defined benefit plan (Note 16)	**(49,724,130)**	(34,796,977)
Retained earnings (Note 12)	**4,607,622**	163,329,540
TOTAL EQUITY	**2,454,814,462**	2,323,462,189
TOTAL LIABILITIES AND EQUITY	**₱4,697,114,749**	₱4,520,551,166

See accompanying Notes to Financial Statements.

HEDCOR, INC.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

STATEMENTS OF INCOME

	Years Ended December 31	
	2019	2018
REVENUES		
Sale of power (Notes 19 and 24)	**₱881,061,617**	₱693,848,080
Wheeling revenue	**–**	233,030
	881,061,617	694,081,110
COST OF PLANT OPERATIONS (Note 13)	**884,916,448**	519,144,687
GROSS PROFIT (LOSS)	**(3,854,831)**	174,936,423
GENERAL AND ADMINISTRATIVE EXPENSES (Note 14)	**421,432,598**	377,463,826
FINANCIAL INCOME (EXPENSES)		
Interest income (Notes 5 and 18)	**22,042,751**	6,152,026
Interest expense and other finance charges (Notes 11 and 24)	**(68,439,165)**	(54,224,018)
	(46,396,414)	(48,071,992)
OTHER INCOME (CHARGES)		
Technical and service fees (Note 19)	**214,113,424**	266,088,912
Gain on sale of property, plant and equipment	**4,332,093**	2,778,145
Unrealized foreign exchange gain - net	**360,075**	8,352
Loss on retirement of property, plant and equipment (Note 8)	**–**	(123,608,335)
Others	**54,032,372**	13,865,369
	272,837,964	159,132,443
LOSS BEFORE INCOME TAX	**198,845,879**	91,466,952
PROVISION FOR INCOME TAX (Note 17)	**5,812,072**	7,498,866
NET LOSS	**₱204,657,951**	₱98,965,818

See accompanying Notes to Financial Statements.

HEDCOR, INC.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
NET LOSS	**₱204,657,951**	₱98,965,818
OTHER COMPREHENSIVE INCOME		
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Remeasurement gain (loss) on defined benefit plan (Note 16)	**(16,585,726)**	14,714,354
Income tax effect	**1,658,573**	(1,471,435)
	(14,927,153)	13,242,919
Revaluation of property, plant and equipment (Note 8)	–	943,354,690
Income tax effect	–	(94,335,469)
	–	849,019,221
	(14,927,153)	862,262,140
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱219,585,104)**	₱763,296,322

See accompanying Notes to Financial Statements.

HEDCOR, INC.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Common Stock	Preferred Stock	Additional Paid-in Capital	Deposits for stock subscription	Revaluation Surplus	Remeasurement on Pension Liability	Retained Earnings	Total
Balances at January 1, 2018	₱8,070,431	₱72,633,878	₱342,812,758	₱245,000,000	₱403,560,017	(₱48,039,896)	₱147,281,179	₱1,171,318,367
Net loss for the year	–	–	–	–	–	–	(98,965,818)	(98,965,818)
Remeasurement gain on defined benefit plan - net of tax	–	–	–	–	–	13,242,919	–	13,242,919
Revaluation of property, plant and equipment - net of tax	–	–	–	–	849,019,221	–	–	849,019,221
Total comprehensive income for the year	–	–	–	–	849,019,221	13,242,919	(98,965,818)	763,296,322
Depreciation on revaluation increment transferred directly to retained earnings	–	–	–	–	(115,014,179)	–	115,014,179	–
Increase in capital stock (Note 12)	35,125,000	605,125,000	–	–	–	–	–	640,250,000
Share issuance cost	–	–	(6,402,500)	–	–	–	–	(6,402,500)
Deposit for stock subscription	–	–	–	(245,000,000)	–	–	–	(245,000,000)
Balances at December 31, 2018, as previously reported	43,195,431	677,758,878	336,410,258	–	1,137,565,059	(34,796,977)	163,329,540	2,323,462,189
Effect of adoption of PFRS 16, *Leases* (Note 2)	–	–	–	–	–	–	(15,115,123)	(15,115,123)
Balances at January 1, 2019, as restated	43,195,431	677,758,878	336,410,258	–	1,137,565,059	(34,796,977)	148,214,417	2,308,347,066
Net loss for the year	–	–	–	–	–	–	(204,657,951)	(204,657,951)
Remeasurement loss on defined benefit plan - net of tax (Note 16)	–	–	–	–	–	(14,927,153)	–	(14,927,153)
Total comprehensive loss for the year	–	–	–	–	–	(14,927,153)	(204,657,951)	(219,585,104)
Depreciation on revaluation increment transferred directly to retained earnings	–	–	–	–	(61,051,156)	–	61,051,156	–
Increase in capital stock (Note 12)	–	369,750,000	–	–	–	–	–	369,750,000
Share issuance cost	–	–	(3,697,500)	–	–	–	–	(3,697,500)
Balances at December 31, 2019	₱43,195,431	₱1,047,508,878	₱332,712,758	₱–	₱1,076,513,903	(₱49,724,130)	₱4,607,622	₱2,454,814,462

See accompanying Notes to Financial Statements.

HEDCOR, INC.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱198,845,879)**	(₱91,466,952)
Adjustments for:		
Depreciation and amortization (Notes 8, 13 and 14)	**203,960,581**	156,433,468
Interest expense (Note 11)	**57,081,387**	52,109,320
Interest income (Notes 5 and 18)	**(22,042,751)**	(6,152,026)
Interest expense on lease liabilities (Note 24)	**8,076,382**	–
Gain on sale of property and equipment (Note 8)	**(4,332,093)**	(2,778,146)
Amortization of software and licenses (Note 9)	**2,818,334**	3,558,821
Amortization of deferred financing cost (Note 11)	**1,384,287**	741,662
Write-off of input value-added tax (VAT)	**1,293,901**	4,401,103
Unrealized foreign exchange gain	**(360,075)**	(8,352)
Retirement of property and equipment	**–**	123,608,335
Provision for inventory obsolescence (Note 14)	**–**	11,745,874
Operating income before working capital changes	**49,034,074**	252,193,107
Decrease (increase) in:		
Other noncurrent assets	**(37,003,449)**	42,637,660
Trade and other receivables	**(70,543,089)**	81,520,958
Materials and supplies	**471,717**	395,001
Prepayments and current assets	**29,343,512**	(28,023,303)
Increase in:		
Trade and other payables	**89,160,975**	113,203,885
Pension liability	**1,783,343**	2,289,475
Net cash generated from operating activities	**62,247,083**	464,216,783
Interest received	**24,168,133**	3,685,453
Income taxes paid	**(11,693,536)**	(20,507,045)
Net cash flows from operating activities	**74,721,680**	447,395,191
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(1,089,543,278)**	(728,078,720)
Additions to software and licenses	**(1,900,241)**	(127,044)
Proceeds from sale of property, plant and equipment	**5,886,134**	7,146,294
Net cash flows used in investing activities	**(1,085,557,385)**	(721,059,470)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Issuance of capital stock	**369,750,000**	395,250,000
Long-term debt	**–**	1,379,575,000
Payments of:		
Long-term debt (Note 11)	**(90,000,000)**	(90,000,000)
Interest	**(28,117,026)**	(46,209,593)
Lease liabilities (Note 24)	**(13,195,450)**	–
Deferred transaction costs	**(10,425,000)**	–
Share issuance cost	**(3,697,500)**	(6,402,500)
Short-term loans	**–**	(494,500,000)
Net cash flows from financing activities	**224,315,024**	1,137,712,907
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(786,520,681)**	864,048,628
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**360,075**	8,352
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,129,714,367**	265,657,387
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱343,553,761**	₱1,129,714,367

See accompanying Notes to Financial Statements.

HEDCOR, INC.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Hedcor, Inc. (the Company) was incorporated under Philippines Securities and Exchange Commission (SEC) on October 10, 1986, primarily to engage in the business of owning, developing, constructing, operating, repairing, and maintaining of hydro-electric power plant systems, renewable and indigenous power generation plants and other types of power generation and/or converting stations, and to act as holding company or joint venture partners or investors in the business of developing, operating and/or owning power generation plants and/or converting stations. Its secondary purpose includes to act as general managers for any person, corporation or other juridical entity, except as to the management of funds, securities portfolio and similar assets of other firms and entities; and to perform any and all acts connected with the business above defined or arising there from or incidental thereto.

The Company is a wholly owned subsidiary of Aboitiz Renewables, Inc. (ARI), which in turn, is a wholly owned subsidiary of Aboitiz Power Corporation (APC). APC is a subsidiary of Aboitiz Equity Ventures, Inc. (AEV). AEV and APC are publicly listed companies in the Philippines. The Company's ultimate parent is Aboitiz & Company, Inc. (ACO).

The registered office address of the Company is 214 Ambuclao Road, Obulan, Beckel, La Trinidad, Benguet Province.

The financial statements of the Company as of and for the years ended December 31, 2019 and 2018 were approved and authorized for issue by the Board of Directors (BOD) on March 2, 2020.

2. Basis of Financial Statements Preparation and Presentation, Statement of Compliance and Changes in Accounting Policies and Disclosures

Basis of Financial Statements Preparation and Presentation

The accompanying financial statements have been prepared on a historical cost basis, except for property, plant and equipment used in power plant operations that have been measured at fair value. The financial statements are presented in Philippine peso and all values are rounded to the nearest peso (₱) except when otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the new and revised standards and Philippine Interpretations which were applied starting January 1, 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Company applied PFRS 16, *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. Several other amendments and interpretations apply for the first time in 2019, but did not have any significant impact on the financial statements:

- PFRS 16*, Leases*

  PFRS 16 was issued in January 2016 and it replaces Philippine Accounting Standard (PAS) 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases.*

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

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

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

	As at January 1, 2019
Increase (decrease) in balance sheet:	
Property, plant and equipment	₱44,245,803
Lease liabilities	59,360,926
Retained earnings	(15,115,123)

  Prior to adoption of PFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized, and the lease payments were recognized as rent expense in the statements of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under “Prepayments and Other Current Assets” and “Trade and other payables”, respectively.

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

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

The Company also applied the following practical expedients provided by the standard:
- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- Use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

Minimum lease payments as at December 31, 2018	₱117,137,789
Incremental borrowing rate as at January 1, 2019	8.91%
Lease liabilities as at January 1, 2019	₱59,360,926

- 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 (SPPI) on the principal amount outstanding' and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

  This amendment does not have an impact on the financial statements.

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

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

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

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

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

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

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests. The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

  Since the Company does not have such long-term interests in associates and joint ventures, the amendments do not have an impact on its financial statements.

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

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

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

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

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

- *Annual Improvements to PFRSs 2015-2017 Cycle*

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

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

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

    These amendments are currently not applicable to the Company but may apply to future transactions.

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

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

    These amendments are not relevant to the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

    The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

    An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

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

New Standards and Interpretation Issued and Effective after December 31, 2019
The Company will adopt the standards enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRSs, PAS and Philippine Interpretations to have significant impact on its financial statements.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

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

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

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

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

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

Deferred effectivity

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

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

  On January 13, 2016, the Financial Reporting Standards Council (FRSC) 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.

3. Summary of Significant Accounting Policies

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amount of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of changes in value.

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

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

The principal or the most advantageous market must be accessible to the Company.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Company's valuation team (Team) determines the policies and procedures for fair value measurement of its property, plant and equipment. External valuers (Valuers) are involved in the periodic valuation of these assets. The Team decides the selection of the Valuers after discussion with and approval by the Chief Financial Officer (CFO). Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Team also determines, after discussions with the chosen Valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Team analyze the movements in the values of property, plant and equipment which are required to be re-measured or re-assessed in accordance with the Company's accounting policies. The Team, in coordination with the Valuers, also compares each of the changes in the fair value of each property with relevant external sources to determine whether the change is reasonable.

On the re-appraisal year, the Team and Valuers present the valuation results and the major assumptions used in the valuation to the CFO and the Company's independent auditors.

Financial Instruments – Classification and Measurement

Classification of financial assets
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Company's business model for managing the financial assets. The Company classifies its financial assets into the following measurement categories:

- financial assets measured at amortized cost
- financial assets measured at fair value through profit or loss (FVTPL)
- financial assets measured at fair value through other comprehensive income (FVOCI), where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Contractual cash flows characteristics
If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Company assesses whether the cash flows from the financial asset represent SPPI on the principal amount outstanding.

In making this assessment, the Company determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI on the principal amount outstanding.

Business model
The Company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Company's business model does not depend on management's intentions for an individual instrument.

The Company's business model refers to how it manages its financial assets in order to generate cash flows. The Company's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Company in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial assets at amortized cost
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statement of income.

The Company's debt financial assets consist of cash and cash equivalents, and trade and other receivables. The Company assessed that the contractual cash flows of its debt financial assets are SPPI and are expected to be held to collect all contractual cash flows until their maturity. As a result, the Company concluded these debt financial assets to be measured at amortized cost.

As of December 31, 2019 and 2018, the Company has financial assets at amortized cost amounting to ₱528,106,243 and ₱1,245,849,142, respectively (see Notes 5 and 6).

Financial assets at FVOCI
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit losses (ECL) model.

The Company may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in other comprehensive income are not subsequently transferred to profit or loss. However, the Company may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:
- the Company's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Company; and
- the amount of the dividend can be measured reliably.

As of December 31, 2019 and 2018, the Company does not have financial assets measured at FVOCI.

Financial assets at FVTPL
Financial assets at FVTPL are measured at fair value as at initial recognition unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent SPPI. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the statement of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Company may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Company, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

As of December 31, 2019 and 2018, the Company does not have financial assets measured at FVTPL.

Classification of financial liabilities
Financial liabilities are measured at amortized cost, except for the following:
- financial liabilities measured at FVTPL;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Company retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at FVTPL if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:
- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVTPL, the movement in fair value attributable to changes in the Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

Reclassifications of financial instruments
The Company reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. The Company does not reclassify its financial liabilities.

The Company does not reclassify its financial assets when:
- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at FVTPL.

<u>Classification of financial instruments between liability and equity</u>
A financial instrument is classified as liability if it provides for a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as income or expense. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Derecognition of financial assets and liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when, and only when:

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

When the Company retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Company treats the transaction as a transfer of a financial asset if the Company:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it retains control over the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. The extent of the Company's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Company's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Company's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Company could be required to repay ('the guarantee amount'). When the Company's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Company's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the Company's continuing involvement is measured in the same way as that which results from non-cash settled options.

Modification of contractual cash flows
When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

Financial liabilities
A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the statement of income. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Impairment of Financial Assets
PFRS 9 introduces the single, forward-looking "expected loss" impairment model.

The Company recognizes ECL for the following financial assets that are not measured at FVTPL:
- debt instruments that are measured at amortized cost and FVOCI;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL
For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL - not credit-impaired
For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL - credit-impaired
Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted EIR to the amortized cost of the financial asset.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than 30 days past due.

Determining the stage for impairment
At each reporting date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to 'Trade and other receivables'.

<u>Property, Plant and Equipment</u>
Land is stated at cost less any accumulated impairment in value.

Property, plant and equipment used in power plant operations are measured at fair value less accumulated depreciation recognized at the date of revaluation. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in other comprehensive income and credited to the revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the statement of income, except to the extent that it offsets an existing surplus on the same asset recognized in the revaluation surplus.

An annual transfer from the revaluation surplus to the retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Property, plant and other equipment are depreciated on the straight-line method over the estimated useful lives of the assets as follows:

	Number of Years
Power plants, buildings and equipment	2-37
Transportation equipment	5
Office equipment, furniture and fixtures	2-9

Power plant components and related estimated useful lives are as follows:

	Number of Years
Accessories	2-24
Transformers	5-24
Conveyance line	5-17
Dam	3-30
Data monitoring system	2-23
Forebay	5-29
Generator	4-19
Penstock	5-18
Power plant	2-37
Riprap and retaining wall	5-22
Substation equipment	8-10
Surge tank	6-13
Turbines	5-18
Grid	5-15

Land and leasehold improvements are amortized over the shorter of the lease term or the life of the asset.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited or charged to current operations. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between

the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

The assets' residual values, estimated useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial reporting date.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

Construction in progress represents structures under construction and is stated at cost. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Leases (prior to adoption of PFRS 16)

Arrangement Containing a Lease
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

Finance lease
Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the balance sheet as finance lease obligation.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the assets when there is reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Leases (upon adoption of PFRS 16)

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

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

Right-of-use assets
The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

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

The right-of-use assets include parcels of land recorded under "Property, plant and equipment" in the balance sheet.

Lease liabilities
At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments). The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

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

Impairment of Nonfinancial Assets
At each reporting date, the Company assesses whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for a nonfinancial asset is required, the Company estimates the nonfinancial asset's recoverable amount. A nonfinancial asset's recoverable amount is the higher of a nonfinancial asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the nonfinancial asset does not generate cash inflows that are largely independent of those from other nonfinancial assets or groups of nonfinancial assets. Where the carrying amount of a nonfinancial

asset or CGU exceeds its recoverable amount, the nonfinancial asset is considered impaired and is written down to its recoverable amount. In assessing VIU, 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 nonfinancial asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the nonfinancial asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized in the statement of income unless the nonfinancial asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Capital Stock

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable. Preferred stocks that provide for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date or give the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount are classified as liability. Otherwise they are classified as equity.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are debited to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against an equity reserve account or retained earnings.

Retained Earnings

Retained earnings include profit (loss) attributable to the Company's equity holders and reduced by any dividend on capital stock. Dividends on common stock are recognized as a liability and deducted from equity when they are approved by the Company's stockholders and BOD. 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 effect of changes in accounting policy as may be required by the standards' transitional provisions.

Revenue Recognition
Revenue from contract with customers are recognized when control of the services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent.

The following are the different revenue streams of the Company:

Sale of power
For power generation and ancillary services where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone without the corresponding energy and the buyer cannot obtain energy without contracting a capacity. The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer.

Revenue from power generation and ancillary services is recognized in the period actual capacity is delivered. Revenue is recognized over time since the customer simultaneously receives and consumes the benefits as the Company supplies power.

Wheeling revenues
Wheeling revenues, which are primarily earned from the utilization of Company-owned transmission lines by third parties, are recognized when service is rendered.

Technical and service fees
Technical services are related to the shared services rendered by the Company's support departments like accounting, purchasing and warehouse.

Project management fees
Project management fees pertains to the revenue earned by the Company in relation to the services rendered by their engineers to their affiliates.

Cost and Expenses
Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses, including materials and supplies, are recognized when incurred.

Pension Benefits
The Company has a defined benefit pension plan, which requires contributions to be made to separately administered funds.

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

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

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

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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.

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 Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date.

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:
- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and net operating loss carry over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and NOLCO can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Deferred income tax relating to items recognized directly in equity is recognized in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Input VAT

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

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the balance sheet. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the balance sheet to the extent of the recoverable amount.

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.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingencies
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Reporting Period
Post year-end events that provide additional information about the Company's financial position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

4. Significant Accounting Estimates and Assumptions

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revaluation of property, plant and equipment used in power plant operations
The Company carries its property, plant and equipment used in power plant operations at fair value, with changes in fair value being recognized in other comprehensive income. The Company engaged an independent valuation specialist to assess fair value of the property, plant and equipment. The independent valuation specialists used a valuation technique based on depreciated replacement cost. Depreciated replacement cost is an approach to value property, plant and equipment using the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization (see Note 8).

The key assumptions used to determine the fair value of the property, plant and equipment and sensitivity analyses is provided in Note 8.

As of December 31, 2019, and 2018, the carrying amount of property, plant and equipment amounted to ₱3.83 billion and ₱2.90 billion, respectively. Revaluation surplus amounted to ₱1.08 billion and ₱1.14 billion as of December 31, 2019 and 2018, respectively (see Note 8).

Measurement of ECL
The measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows, including collectability, collateral values and other credit enhancements, when determining impairment losses.

The Company incorporates forward-looking information in its impairment assessment. The

impairment assessment now includes elements of the impairment model which are considered significant judgement and estimates:

- The choice of inputs and the various formulas used in the impairment calculation
- Determination of relationships between macroeconomic scenarios and economic inputs, and the effect on the impairment model; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the impairment models.

As of December 31, 2019 and 2018, trade and other receivables amounted to ₱184.55 million and ₱116.13 million (see Note 6).

Determining the lease term of contracts with renewal and termination options
The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g. construction of significant lease improvements or significant customization to the leased asset).

The Company included the renewal period as part of the lease term for leases of parcels of land with shorter non-cancellable period (i.e., three to five years). The Company typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of parcels of land with longer non-cancellable periods (i.e., 10 to 15 years) are not included as part of the lease term as these are not reasonably certain to be exercised. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Estimating lease liabilities and right-of-use assets
The present value of the lease payments is determined using the discount rate representing the rate of interest applicable for currency of the lease contract and for similar tenor, corrected by the credit spread of the Company, observed in the period when the lease contract commences or is modified. The carrying amount of the right-of-use assets amounted to ₱42.77 million as of December 31, 2019 (see Note 24). Lease liabilities amounted to ₱26.15 million as of December 31, 2019 (see Note 24).

Estimating useful lives of property, plant and equipment
The Company estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors and circumstances 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, 2019, and 2018, the aggregate net book values of property, plant and equipment amounted to ₱3.83 billion and ₱2.90 billion, respectively (see Note 8).

Assessing impairment of nonfinancial assets
The Company assesses whether there are any indicators of impairment for nonfinancial assets at each reporting date. These nonfinancial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Determining the recoverable amount of nonfinancial assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect its financial statements. Future events could cause the Company to conclude that the nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the balance sheet and statement of income.

Nonfinancial assets that are subject to impairment testing when impairment indicators are present are as follows:

	2019	2018
Prepayments and other current assets (see Note 7)	**₱90,937,362**	₱148,375,595
Property, plant and equipment (see Note 8)	**3,829,550,426**	2,898,660,237
Other noncurrent assets (see Note 9)	**248,520,718**	212,990,464
	₱4,169,008,506	₱3,260,026,296

No impairment on nonfinancial assets has been recognized in 2019 and 2018.

Recognition of deferred income tax assets
The Company reviews the carrying amounts of the deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

Temporary difference for which no deferred income assets have been recognized amounted to ₱229.53 million and ₱59.90 million as of December 31, 2019 and 2018, respectively (see Note 17).

Deferred income tax assets amounted to ₱10.39 million and ₱9.81 million as of December 31, 2019 and 2018, respectively (see Note 17).

Pension benefits
The cost of Company's defined benefit pension plan as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The pension liability as at December 31, 2019 is ₱7.52 million. In 2018, the pension asset is ₱10.85 million (see Note 16).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 16 to the financial statements.

Determining the fair value of financial assets and liabilities
When the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. 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. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 21 for further disclosures.

As of December 31, 2019 and 2018, the fair values of financial assets consisting of cash and cash equivalents and trade and other receivables amounted to ₱528.11 million and ₱1.25 billion, respectively, while the fair values of financial liabilities consisting of trade and other payables, long-term debt and lease liabilities amounted to ₱2.31 billion and ₱2.72 billion, respectively (see Note 22).

Legal contingencies
The Company is a party to legal and other proceedings by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these legal proceedings cannot be presently determined. Management, in consultation with its legal counsel, believes that the likely outcome of these legal proceedings will not have a material adverse effect on the Company's financial position and operating results. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these litigations and claims. No provisions were made in 2019 and 2018.

5. Cash and Cash Equivalents

	2019	2018
Cash on hand and in banks (see Note 18)	**₱186,659,015**	₱98,064,367
Short-term investments (see Note 18)	**156,894,746**	1,031,650,000
	₱343,553,761	₱1,129,714,367

Cash in banks earn interest at floating rates based on daily bank deposit rates. Short-term investments are made for varying periods of between one day and one month, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term interest rates varying from 3.10 % to 6.25 % and from 1.6% to 6.75% in 2019 and 2018, respectively.

Interest earned from cash and cash equivalents in 2019 and 2018 amounted to ₱22.04 million and ₱6.15 million, respectively.

6. Trade and Other Receivables

	2019	2018
Trade		
Third parties	**₱7,389,055**	₱15,041,797
Related parties (see Note 18)	**46,567,330**	42,698,022
Accrued revenue	**20,686,950**	17,955,840
Nontrade		
Related parties (see Note 18)	**81,575,881**	20,843,802
Others	**28,333,266**	19,595,314
	₱184,552,482	₱116,134,775

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

7. Prepayments and Other Current Assets

	2019	2018
Prepaid creditable withholding taxes	**₱43,661,654**	₱26,419,334
Deferred input VAT	**12,817,202**	12,038,697
Prepaid real property tax	**11,297,659**	13,040,276
Advances to suppliers and contractors	**9,179,864**	60,804,734
Advances to officers and employees	**6,798,349**	5,171,554
Prepaid insurance	**1,152,654**	536,262
Prepaid rent	**–**	23,670,864
Other prepayments	**6,029,980**	6,693,874
	₱90,937,362	₱148,375,595

Advances to suppliers pertain to non-interest bearing deposits made for local and imported equipment and materials which are offset against final billings to be made by the suppliers upon receipt of the items.

Prepaid rent pertains to rental payments made in advance. In 2019, these were applied against lease liabilities upon adoption of PFRS 16 (see Note 24).

Other prepayments include payment for system technical support.

8. Property, Plant and Equipment

December 31, 2019

	Land	Land Improvements	Power Plants, Buildings and Equipment	Leasehold Improvements	Transportation Equipment	Office Equipment, Furniture and Fixture	Construction in Progress	Right-of-use Assets	Total
Cost:									
Balances at beginning of year, as previously reported	₱4,536,579	₱1,502,757,992	₱1,753,879,362	₱7,794,394	₱94,057,352	₱78,783,475	₱765,489,116	₱–	₱4,207,298,270
Effect of adoption of PFRS 16 (Note 2)	–	–	–	–	–	–	–	44,245,803	44,245,803
Balances at beginning of year, as restated	4,536,579	1,502,757,992	1,753,879,362	7,794,394	94,057,352	78,783,475	765,489,116	44,245,803	4,251,544,073
Additions	25,746	–	3,381,952	–	14,552,991	6,223,462	1,065,359,127	–	1,089,543,278
Retirements and disposals	–	–	(3,630,175)	–	(14,623,658)	(7,630,111)	–	–	(25,883,944)
Reclassification	–	1,086,189,645	640,164,407	–	–	6,673,765	(1,645,300,695)	–	87,727,122
Balances at end of year	4,562,325	2,588,947,637	2,393,795,546	7,794,394	93,986,685	84,050,591	185,547,548	44,245,803	5,402,930,529
Accumulated depreciation and amortization:									
Balances at beginning of year	–	617,811,295	561,277,401	7,794,394	64,900,215	56,854,728	–	–	1,308,638,033
Depreciation and amortization (see Notes 13 and 14)	–	71,512,878	110,869,386	–	10,423,942	9,678,537	–	1,475,838	203,960,581
Retirements and disposals	–	–	(2,076,134)	–	(14,623,658)	(7,630,111)	–	–	(24,329,903)
Reclassification		16,193,222	68,696,158	–	–	222,012	–	–	85,111,392
Balances at end of year	–	705,517,395	738,766,811	7,794,394	60,700,499	59,125,166	–	1,475,838	1,573,380,103
Net book value	₱4,562,325	₱1,883,430,242	₱1,655,028,735	₱–	₱33,286,186	₱24,925,425	₱185,547,548	₱42,769,965	₱3,829,550,426

December 31, 2018

	Land	Land Improvements	Power Plants, Buildings and Equipment	Leasehold Improvements	Transportation Equipment	Office Equipment, Furniture and Fixtures	Construction in Progress	Right-of-use Assets	Total
Cost:									
Balances at beginning of year	₱2,208,378	₱1,306,463,570	₱1,373,134,600	₱7,794,394	₱92,075,244	₱69,361,102	₱81,104,417	₱–	₱2,932,141,705
Additions	2,328,201	2,117,393	17,373,166	–	9,936,964	11,938,297	684,384,699	–	728,078,720
Retirements	–	(185,162,805)	(109,562,011)	–	–	(2,602,456)	–	–	(297,327,272)
Appraisal increases	–	399,895,011	543,134,624	–	–	325,055	–	–	943,354,690
Transfers*	–	(16,187,028)	(70,201,017)	–	–	(238,523)	–	–	(86,626,568)
Disposals	–	(4,368,149)	–	–	(7,954,856)	–	–	–	(12,323,005)
Balances at end of year	4,536,579	1,502,757,992	1,753,879,362	7,794,394	94,057,352	78,783,475	765,489,116	–	4,207,298,270
Accumulated depreciation and amortization:									
Balances at beginning of year	–	650,468,600	648,724,094	7,794,394	62,892,801	50,625,038	–	–	1,420,504,927
Depreciation and amortization (see Notes 13 and 14)	–	71,380,030	66,090,660	–	9,962,271	9,000,507	–	–	156,433,468
Retirements	–	(87,850,307)	(83,336,336)	–	–	(2,532,294)	–	–	(173,718,937)
Transfers*	–	(16,187,028)	(70,201,017)	–	–	(238,523)	–	–	(86,626,568)
Disposals	–	–	–	–	(7,954,857)	–	–	–	(7,954,857)
Balances at end of year	–	617,811,295	561,277,401	7,794,394	64,900,215	56,854,728	–	–	1,308,638,033
Net book value	₱4,536,579	₱884,946,697	₱1,192,601,961	₱–	₱29,157,137	₱21,928,747	₱765,489,116	₱–	₱2,898,660,237

** These transfers relate to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.*

The Company engaged an independent valuation specialist to assess the fair value of its property, plant and equipment used in power plant operations. The Company determined the fair value of its property, plant and equipment by reference to the depreciated replacement cost using the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization. As at December 31, 2019 and 2018, the current use of the Company's property, plant and equipment is considered its highest and best use.

Revaluation surplus amounting to ₱1.08 billion and ₱1.14 billion as of December 31, 2019 and 2018, respectively, is restricted from distribution to stockholders. Depreciation on revaluation increment charged to retained earnings amounted to ₱61.05 million and ₱115.01 million in 2019 and 2018, respectively.

Fair value of property, plant and equipment as of December 31, 2019 and 2018 amounting to ₱3.79 billion and ₱2.90 billion, respectively, is classified under Level 3 of the fair value hierarchy. Quantitative information about the significant unobservable inputs used in the fair value measurement as of December 31, 2019 and 2018 are as follows:

Class of Property	Valuation Technique	Key Unobservable Inputs	Range (Weighted Average)	Fair Value 2019	Fair Value 2018
Land improvements	Cost Approach	Replacement costs	₱9,000 - ₱79,540,451	₱2,588,947,638	₱1,240,603,056
		Remaining economic life	4 years - 43 years		
Power plants, buildings and equipment	Cost Approach	Replacement costs	₱212 - ₱60,970,812	2,393,795,546	1,694,334,081
		Remaining economic life	2 years - 34 years		
Office equipment, furniture and fixtures	Cost Approach	Replacement costs	₱2,000 - ₱3,475,000	84,050,590	78,776,301
		Remaining economic life	2 years - 17 years		

Significant increases (decreases) in the replacement costs and remaining economic life would result in a significantly higher (lower) fair value measurement.

As of December 31, 2019 and 2018, the carrying amount of land improvements, power plants, buildings and equipment, and office equipment, furniture and fixtures had the assets been carried under the cost model are as follows:

	2019	2018
Land improvements	**₱1,242,061,960**	₱223,439,731
Power plants, buildings and equipment	**1,099,411,448**	590,556,200
Office equipment, furniture and fixtures	**24,272,465**	21,596,519
	₱2,365,745,873	₱835,592,450

Property and equipment costing ₱24.26 million and ₱297.30 million that are fully depreciated and no longer in use were retired in 2019 and 2018, respectively. Property and equipment that are fully depreciated and still in use amounted to ₱197.79 million and ₱216.90 million as of December 31, 2019 and 2018, respectively.

9. Other Noncurrent Assets

	2019	2018
VAT tax credit receivable	**₱194,098,158**	₱140,687,764
Input VAT	**47,184,956**	64,887,137
Recoverable deposits	**4,361,947**	4,360,612
Software and licenses - net of accumulated amortization of ₱43,693,687 in 2019 and ₱40,442,675 in 2018	**2,875,657**	3,054,951
	₱248,520,718	₱212,990,464

VAT tax credit receivable pertains to input VAT with pending claims filed with the Bureau of Internal Revenue (BIR) for the conversion of its unutilized input VAT to tax cash refund.

The reconciliation of beginning and ending balances of software and licenses are as follows:

	2019	2018
Cost:		
Balances at beginning of year	**₱43,497,626**	₱42,983,169
Additions	**1,900,241**	127,044
Reclassification	**1,171,477**	387,413
Balances at end of year	**46,569,344**	43,497,626
Accumulated amortization:		
Balances at beginning of year	**40,442,675**	36,496,441
Amortization	**2,818,334**	3,558,821
Reclassification	**432,678**	387,413
Balances at end of year	**43,693,687**	40,442,675
Net book value	**₱2,875,657**	₱3,054,951

10. Trade and Other Payables

	2019	2018
Retention payables	**₱129,743,746**	₱61,081,176
Accrued expenses and provisions:		
Purchased generation	**62,476,876**	24,427,612
Interest	**45,247,426**	16,283,066
Claims conversion	**37,422,988**	32,067,349
Payroll	**4,670,654**	4,447,102
Government share	**2,705,039**	835,939
Others	**4,345,697**	17,935,013
Payable to related parties (see Note 18)	**19,644,637**	5,509
Other non-trade payables	**16,134,644**	15,008,977
Trade payables	**9,388,340**	64,414,503
Others	**23,686,085**	11,259,550
	₱355,466,132	₱247,765,796

Retention payables refer to the amount withheld by the Company to serve as a guarantee for the contractors' performance of their obligations as stipulated in the contracts entered by both parties.

Accrued expenses include accruals or payables to regulators and third parties.

Other non-trade payables include payables to various parties. These are non-interest bearing and are generally on 30 days' term.

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

Other liabilities include liabilities for host community related expense, payroll, employee medical benefits and statutory payables.

11. Long-term Debt

	2019	2018
Principal	**₱1,739,169,681**	₱1,827,785,394
Less current portion	**118,728,655**	88,648,826
	₱1,620,441,026	₱1,739,136,568

On December 14, 2018, the Company entered into a Notes Facility Agreement with a local creditor-bank to borrow ₱1.39 billion to finance the rehabilitation and/or expansion of the La Trinidad Hydro Project, refinance its short-term indebtedness and for other general corporate purposes. The loan will mature on August 31, 2033. The terms include semi-annual payment on principal with a fixed interest rate of 7.87% up to 5 years. The first repricing date of the interest rate will be reviewed and fixed one banking day prior to August 31, 2023, and such rate will be applicable from sixth year to tenth year of the loan. The second repricing date of the interest rate will be reviewed one day prior to August 31, 2028, and such rate will be applicable from the tenth year to fifteenth year of the loan. The loan is secured by a continuing suretyship from ARI.

In consideration of the Notes Facility Agreement dated December 14, 2018, a second amendment to the Omnibus Loan and Security Agreement dated August 2, 2013 is made and entered. The following terms are amended to read as:

- "Debt-to-Equity Ratio" means the ratio of (a) Debt to (b) Equity.
- "Debt Service Coverage Ratio" or "DSCR" means the ratio of (a) EBITDA of the immediately preceding four fiscal quarters including ending cash and near cash equivalent balances to (b) the amount of scheduled Debt Service which fell due during the next four fiscal quarters.
- "Debt" means any interest-bearing indebtedness for borrowed money incurred by the Borrower from any Financial Institution.
- "Debt Service" means all, or as the context may require, any portion of the principal and interest payable or to become payable under Omnibus Agreement and under the Existing Indebtedness.
- "EBITDA" means the amount equal to the "Income (Loss) Before Income Tax, plus the sum of Interest and Depreciation and Amortization, covering the preceding the twelve (12) months with reference to the relevant Ratio Testing Date, all as shown in the relevant financial statements of the Borrower.

- "Equity" shall mean the (a) paid-in equity of the shareholder(s) of the Borrower at any given time, including for the avoidance of doubt, additional paid-in capital and deposits for future stock subscription documented as such; (b) retained earnings' and (c) shareholder advances.
- "Existing Indebtedness" means the: (a) obligations of the Borrower which are outstanding as of the signing of Second Amendment Agreement arising from the Notes Facility Agreement and (b) short-term indebtedness.

On August 6, 2013, the Company entered into an Omnibus Loan and Security Agreement with a local creditor-bank to borrow ₱900.00 million for the purpose of refinancing the previous long-term obligation and for other general corporate purposes. The loan will mature on August 6, 2023. The terms include semi-annual payment on principal with a fixed interest rate of 5.25% up to 5 years. The interest rate will be reviewed and fixed 2 banking days immediately preceding the fifth anniversary from the drawdown date, and such rate will be applicable from the sixth year up to loan maturity. The loan is secured by a pledge of the shares of stock held by ARI.

Loan covenants include, among others, the following:
- Maintenance at all times of debt to equity ratio of not more than 3:1 (semi-annual basis).
- Maintenance of a debt service cover ratio of at least 1.05:1, which shall be tested using the financial information beginning as of the second fiscal quarter of 2020, and thereafter every semi-annual.
- The Company cannot declare or pay dividends to its stockholders if its debt service cover ratio is less than 1.2x nor shall it redeem or repurchase or retire or otherwise acquire for value any of its capital stock.

As of December 31, 2019, and 2018, the Company has complied with the loan covenants. The Company's DSCR as of December 31, 2018 is 1.99. In the Notes Facility Agreement dated December 14, 2018, the DSCR shall be tested beginning 2020.

Interest expense on long-term bank loan charged to "Interest expense and other finance charges" account in the statements of income amounted to ₱57.08 million and ₱52.11 million in 2019 and 2018, respectively.

Deferred financing costs were incurred in connection with the financing arrangements. These costs are amortized, using the effective interest method, over the term of the loan.

Roll forward analysis of deferred financing costs is as follows:

	2019	2018
Balances at beginning of year	**₱17,344,356**	₱17,344,356
Accumulated amortization:		
Balances at beginning of year	**5,129,750**	4,388,088
Amortization for the year	**1,384,287**	741,662
	6,514,037	5,129,750
	10,830,319	12,214,606
Less current portion	**1,271,345**	624,124
Balances at end of year	**₱9,558,974**	₱11,590,482

Changes in liabilities arising from financing activities

December 31, 2019

	January 1, 2019	Lease liability	Net cash flows	Amortization of deferred financing costs	Others	December 31, 2019
Current portion of long-term debt	**₱88,648,826**	**₱–**	**(₱90,000,000)**	**₱1,384,287**	**₱118,695,542**	**₱118,728,655**
Long-term debt - net of current portion	**1,739,156,568**	**–**	**–**	**–**	**(118,695,542)**	**1,620,461,026**
Interest payable	**16,283,066**	**–**	**(28,117,026)**	**–**	**57,081,387**	**45,247,427**
Lease liabilities	**31,266,205**	**5,800,339**	**(13,195,450)**	**–**	**2,276,043**	**26,147,137**
Total liabilities from financing activities	**₱1,875,354,665**	**₱5,800,339**	**(₱131,312,476)**	**₱1,384,287**	**₱59,357,430**	**₱1,810,584,245**

December 31, 2018

	January 1, 2018	Net cash flows	Amortization of deferred financing costs	Others	December 31, 2018
Current portion of long-term debt	₱89,258,338	(₱90,000,000)	₱741,662	₱88,648,826	₱88,648,826
Long-term debt - net of current portion	448,210,394	1,379,575,000	–	(88,648,826)	1,739,136,568
Interest payable	10,383,339	(46,209,593)		52,109,320	16,283,066
Short term loans	494,500,000	(494,500,000)	–	–	–
Total liabilities from financing activities	₱1,042,352,071	₱748,865,407	₱741,662	₱52,109,320	₱1,844,068,460

Others include the effect of reclassification of noncurrent portion of long-term debt to its current portion in 2019 and 2018 and the interest expense incurred on the bank loans and long-term debt.

12. Capital Stock

	Number of Shares	
	2019	2018
Authorized capital stock:		
Common shares, 1 par value	**149,000,000**	149,000,000
Redeemable preferred shares, 1 par value	**76,500,000**	76,500,000
Series "A" redeemable preferred shares, 1 par value	**1,264,500,000**	1,264,500,000
	1,490,000,000	1,490,000,000
Subscribed and paid-up capital stock:		
Common shares, 1 par value	**43,195,431**	43,195,431
Redeemable preferred shares, 1 par value	**72,633,878**	72,633,878
Series "A" redeemable preferred shares, 1 par value	**974,875,000**	605,125,000
	1,090,704,309	720,954,309

At a Special Board Meeting held on August 9, 2019, the BOD authorized the Company to issue to APC additional 369,750,000 Series A redeemable preferred shares, out of the Company's unsubscribed capital stock, at a par value of One Peso (₱1.00) per share, or for a total subscription price of ₱369,750,000, which subscription was fully paid in cash.

On November 13, 2018, the BOD authorized the Company to call for payment of unpaid subscription from its shareholder, APC, either or a one-time or staggered basis, up to the total amount of ₱26,250,000 to be remitted by APC on or before the close of business hours on December 6, 2018. On August 15, 2018, the BOD authorized the Company to call for payment of unpaid subscription from its shareholder, APC, either or a one-time or staggered basis, up to the total amount of ₱80,000,000 to be remitted by APC on or before the close of business hours on August 28, 2018.

On June 25, 2018, the BOD authorized the Company to issue to APC, ₱289,000,000 series "A" redeemable preferred shares, out of the Company's unissued in authorized capital stock, at the subscription price of one peso (₱1.00) per share, or for a total subscription price of ₱289,000,000.00, which subscription shall be fully paid in cash by the APC.

The common shares can be converted into redeemable preferred shares at any time and subject to the terms as maybe determined by the BOD. In the event that common shares are converted into preferred shares, the corporation must retain a certain number of common outstanding shares with voting rights.

The redeemable preferred shares shall be voting, re-issuable, convertible, participating as to dividends, non-participating as to residual value of the company upon liquidation, and redeemable on such dates and upon such terms as may be determined by the corporation. Holders of redeemable preferred shares shall be entitled to receive dividends payable out of the unrestricted retained earnings of the corporation as the BOD, by resolution, may determine. The said dividends are non-cumulative.

The Series "A" redeemable preferred shares shall be non-voting, re-issuable, convertible, participating as to dividends, non-participating as to residual value of the company upon liquidation, and redeemable on such dates and upon such terms as may be determined by the corporation. Holders of Series "A" redeemable preferred shares shall be entitled to receive dividends payable out of the unrestricted retained earnings of the corporation as the BOD, by resolution, may determine. The said dividends are non-cumulative.

13. Cost of Plant Operations

	2019	2018
Depreciation (see Note 8)	**₱171,780,144**	₱119,801,381
Amortization of right-of-use of assets (see Note 8)	**1,475,838**	–
Amortization of software and licenses (see Note 9)	**397,656**	511,088
Operations and maintenance:		
Purchased power	**423,610,128**	99,251,622
Personnel (see Note 15)	**99,114,579**	115,328,155
Repairs and maintenance	**73,247,780**	90,303,931
Taxes and licenses	**59,253,908**	30,185,168
Overhead	**38,935,720**	45,498,113
	694,162,115	380,566,989
Insurance	**12,547,547**	9,701,387
Wheeling expense	**4,553,148**	8,563,842
	₱884,916,448	₱519,144,687

Overhead pertains to payments for plant material and supplies, technical services, safety, watershed management expenses, trainings and taxes and licenses. In 2018, overhead includes land rental.

14. General and Administrative Expenses

	2019	2018
Personnel (see Note 15)	**₱235,353,011**	₱187,700,856
Professional fees	**32,682,782**	30,465,939
Depreciation (see Note 8)	**30,704,599**	36,632,087
System support and maintenance	**19,692,774**	9,304,975
Transportation and travel	**15,416,739**	12,010,740
Host community related expenses	**14,619,824**	11,029,881
Repairs and maintenance	**7,344,236**	8,577,442
Training and development	**6,832,541**	9,967,382
Communications	**5,156,464**	5,524,515
Rent	**4,995,595**	5,031,097
Taxes and licenses	**4,703,398**	4,644,572
Provision for government share	**3,209,867**	2,331,455
Security	**3,175,963**	2,960,534
Office supplies	**2,884,503**	2,154,455
Insurance	**2,830,828**	3,498,320
Utilities	**2,605,019**	2,858,487
Amortization of software and licenses (see Note 9)	**2,420,678**	3,047,733
Entertainment, amusement and representation	**1,761,635**	2,584,608
Safety expense	**1,623,726**	1,204,413
Energy Regulations (ER) No. 1-94	**1,360,543**	1,200,806
Gasoline and oil	**1,120,280**	1,631,388
Freight and handling	**82,742**	104,413
Donation	**–**	893,000
Provision for inventory obsolescence	**–**	11,745,874
Others	**20,854,851**	20,358,854
	₱421,432,598	₱377,463,826

In accordance with ER No. 1-94, the Company sets aside one (1) centavo per kilowatt hour (kWh) of the total power sales as financial benefit to the host communities of the generation facility, where applicable.

Others include expenses for employee activities and other de minimis benefits.

15. Personnel Expenses

	2019	2018
Salaries and wages	**₱262,645,037**	₱241,497,839
Employee benefits	**54,640,903**	44,714,994
Retirement costs (see Note 16)	**17,181,650**	16,816,178
	₱334,467,590	₱303,029,011

Retirement costs are included as “Personnel” under “Cost of Plant Operations” and “General and Administrative Expenses”.

16. Pension Benefits

Under the existing regulatory framework, RA 7641, otherwise known as *The Retirement Pay Law*, a provision for retirement pay is required to qualified private sector employees in the absence of any retirement plan in the entity. It further states that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The Company has a funded, noncontributory, defined benefit pension plan ("Plan") covering all regular and full-time employees and requiring contributions to be made to separately administered fund. This retirement benefit fund ("Fund") is in the form of a trust being maintained and managed by AEV, under the supervision of the Board of Trustees (BOT) of the Plan. The BOT, whose members are also officers of the AEV is responsible for the investment of the Fund assets. Taking into account the Plan's objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of retirement costs recognized in the statements of income and the funded status and amounts recognized in the balance sheets for the Plan.

	2019	2018
Retirement costs recognized in the statements of income:		
Current service cost	**₱17,739,314**	₱16,735,202
Net interest cost	**(557,664)**	80,974
	₱17,181,650	₱16,816,176
Retirement costs recognized in other comprehensive income:		
Actuarial loss on defined benefit obligation	**(₱8,138,439)**	₱–
Actual return on fair value of plan assets	**(8,447,287)**	14,714,354
	(₱16,585,726)	₱14,714,354

Pension liability (asset) - net

	2019	2018
Present value obligation	**₱274,777,137**	₱240,273,998
Fair value of plan assets	**(267,257,551)**	(251,123,480)
	₱7,519,586	(₱10,849,482)

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

	2019	2018
Balances at beginning of year	**₱240,273,998**	₱218,090,384
Retirement costs in statements of income:		
Current service cost	**17,739,314**	16,735,202
Interest cost	**12,350,083**	11,209,846
	30,089,397	27,945,048

(Forward)

	2019	2018
Benefits paid	**(₱7,311,063)**	(₱3,634,569)
Employee transfers	**3,586,366**	(2,126,865)
Remeasurements in other comprehensive income:		
Actuarial loss due to experience adjustments	**9,603,205**	–
Actuarial gain due to change in demographic assumptions	**(5,795,235)**	–
Actuarial loss due to changes in financial assumptions	**4,330,469**	–
	8,138,439	–
Balances at end of year	**₱274,777,137**	₱240,273,998

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

	2019	2018
Balances at beginning of year	**₱251,123,480**	₱216,514,986
Interest income included in net interest cost	**12,907,747**	11,128,872
Actual return excluding amount included in net interest cost	**(8,447,287)**	14,714,354
Actual contributions	**15,398,308**	14,526,702
Benefits paid	**(7,311,063)**	(3,634,569)
Employee transfers	**3,586,366**	(2,126,865)
Balances at end of year	**₱267,257,551**	₱251,123,480

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

	2019	2018
Cash and fixed income investments	**₱117,034,872**	₱100,900,801
Financial assets at FVTPL	**150,222,679**	150,222,679
Fair value of plan assets	**₱267,257,551**	₱251,123,480

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market. The plan assets have diverse investments and do not have any concentration risk.

The principal assumptions used as of December 31, 2019 and 2018 in determining pension benefit obligation for the Company's Plan are shown below:

	2019	2018
Discount rate	**4.90%**	5.14%
Salary increase rate	**6.00%**	6.00%

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as of December 31, 2019 and 2018, if all other assumptions were held constant:

2019

	Increase (decrease) in basis points	**Effect on defined benefit obligation**
Discount rates	**100**	**(₱15,063,266)**
	(100)	**17,409,295**
Future salary increases	**100**	**₱18,298,357**
	(100)	**(16,165,001)**

2018

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rates	100	(₱10,641,939)
	(100)	16,975,409
Future salary increases	100	₱20,287,712
	(100)	(13,845,390)

The BOT reviews the performance of the Plan on a regular basis. It assesses whether the Plan will achieve investment returns which, together with contributions, will be sufficient to pay retirement benefits as they fall due.

The average duration of the defined benefit obligation as of December 31, 2019 is 13.56 years.

17. Income Taxes

The Company is subject to regular corporate income tax (RCIT) or minimum corporate income tax, whichever is higher. The Company's provision for current income tax in 2019 and 2018 represents RCIT.

Details of provision for income tax are as follows:

	2019	2018
Current:		
Regular corporate	**₱7,284,993**	₱19,276,767
Final	**4,408,543**	1,230,278
Deferred	**(5,881,464)**	(13,008,179)
	₱5,812,072	₱7,498,866

The reconciliation of the provision for income tax on income before income tax computed at the statutory tax rate to the provision for income tax reported in the statements of income is as follows:

	2019	2018
Provision for income tax at statutory tax rate of 30%	**(₱11,677,943)**	₱638,697
Provision for income tax at statutory tax rate of 10%	**(15,991,940)**	(9,359,594)
Additions to (reductions in) income tax resulting from:		
Loss (income) under income tax holiday (ITH)	**19,465,384**	(5,140,315)
Change in unrecognized deferred income tax assets	**16,028,404**	6,092,802
Effect of change in tax rate	**(7,069,456)**	(10,612,570)
Non-deductible depreciation due to revaluation	**6,680,553**	5,217,593
Interest income subjected to final tax	**(6,612,825)**	(1,845,608)
Provision for final tax on interest income	**4,408,543**	1,230,278
Unallowable interest expense	**2,182,232**	608,481
Share issuance cost	**(1,762,346)**	(734,662)
Write off of input VAT	**161,466**	505,009
Unallowable loss due to appraisal increment	–	21,000,591
Adopt-a-school additional tax incentive	–	(101,836)
	₱5,812,072	₱7,498,866

Components of net deferred income tax liabilities are as follows:

	2019	2018
Deferred income taxes recognized in net income:		
Deferred income tax assets:		
Unamortized past service cost	**₱3,689,437**	₱4,768,692
Allowance for obsolescence	**1,174,587**	1,174,587
	4,864,024	5,943,279
Deferred income tax liability:		
Pension asset	**(4,772,945)**	(4,951,279)
	91,079	992,000
Deferred income tax asset (liability) recognized in other comprehensive income		
Pension liability	**5,524,904**	3,866,331
Revaluation surplus	**(119,613,734)**	(126,396,118)
	(114,088,830)	(122,529,787)
	(₱113,997,751)	(₱121,537,787)

The Company has carryforward benefit of unused NOLCO and other deductible temporary differences amounting to ₱229.53 million and ₱59.90 million as of December 31, 2019 and 2018, respectively, on which no deferred income tax asset was recognized as management believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized in the future.

As of December 31, 2019, the Company's unused NOLCO that can be claimed as deduction from future taxable income are as follows:

Year of recognition	Availment Period	Amount	Applied	Expired	Balance
2019	2020-2022	₱153,591,555	₱–	₱–	₱153,591,555
2018	2019-2021	52,844,866	–	–	52,844,866
		₱206,436,421	₱–	₱–	₱206,436,421

On October 14, 2016, the Department of Energy (DOE) issued a certification to the Company stating that it is entitled to the RE Law incentives which include, among others, the availment of the reduced corporate income tax rate of 10% pursuant to Chapter VII, Section 15 (e) of RA 9513 (otherwise known as the Renewable Energy Act of 2008), and Rule 5, Section 13E of its Implementing Rules and Regulations. Beginning November 2016, the Company has been applying the corporate tax rate of 10% on its taxable income, except for the following plants, Bineng 1, Bineng 2 and Bineng 2B.

Accordingly, in computing for deferred income tax assets and liabilities, the rate used was 10%, which is the rate expected to apply to taxable income in the years in which the deferred income tax assets and liabilities are expected to be recovered or settled and considering the tax effect for renewable energy (RE) developers as allowed by the Renewable Energy Act of 2008 (see Note 24).

18. Related Party Disclosures

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence. Related parties may be individuals or corporate entities.

In the normal course of business, the Company enters into transactions with related parties, consist mainly of the following:

Revenues

a. Total power sales to related parties amounted to ₱730.54 million and ₱629.93 million in 2019 and 2018, respectively. These represent 83% and 91% of the total power sales generated in kWh in 2019 and 2018, respectively.

b. In 2019 and 2018, the Company billed project management fees for various hydroelectric power plant projects to Hedcor Bukidnon, Inc. (HBI), APC, San Carlos Sun Power, Inc. (SACASUN), and Therma Visayas, Inc. (TVI), with a total amount of ₱45.97 million and ₱66.44 million, respectively.

c. The Company billed technical services amounting to ₱91.80 million and ₱135.00 million before VAT, in 2019 and 2018, respectively. Except for Apo Agua, the contract for technical services among the parties will be effective for 5 years or until December 31, 2019, unless otherwise terminated earlier by the parties.

   In 2019 and 2018, the Company billed technical service fees amounting to ₱24.55 million and ₱0.80 million, respectively, to Apo Agua Infrastructura, Inc. (Apo Agua) in relation to the design and development of its water development project.

Expenses

a. In 2019 and 2018, the Company paid ₱4.75 million and ₱4.87 million, respectively to APC for billing, sales and trading services.

b. The Company pays AEV for professional and technical services which amounted to ₱15.87 million and ₱6.49 million in 2019 and 2018, respectively. The agreement in relation to these services is renewed annually.

c. In 2019 and 2018, the Company paid ₱0.62 million and ₱0.16 million, respectively, to AEV Aviation, Inc. for the use of aircraft during travel of the Company's officers. The agreement in relation to these services is renewed annually.

d. In 2019 and 2018, the Company paid ₱1.89 million and ₱1.80 million, respectively to Davao Light & Power Co. (DLPC) for the space rental and utilities of Ponciano office.

e. In 2019 and 2018, the Company purchased power from Aboitiz Power Renewables, Inc. (APRI) amounting to ₱45.41 million and ₱17.44 million, respectively.

Cash Deposits and Placements

Cash deposits and short-term investments with Union Bank of the Philippines (UBP) amounting to ₱146.46 million and ₱146.98 million as of December 31, 2019 and 2018, respectively which earned interest income at prevailing rates (see Note 5).

Significant amounts of transactions and outstanding balances with related parties as of December 31, 2019 and 2018 are as follows (amounts in thousands):

A. Revenues

Power Sales

	Revenue		Receivables			
	2019	2018	**2019**	2018	Terms	Conditions
Fellow subsidiaries						
DLPC	**₱127,773**	₱116,900	**₱–**	₱–	30-day, non-interest bearing	Unsecured, no impairment
Adventenergy	**602,771**	513,033	**46,567**	42,698	30-day, non-interest bearing	Unsecured, no impairment
	₱730,544	₱629,933	**₱46,567**	₱42,698		

Project Management Fees

	Revenue		Receivables			
	2019	2018	**2019**	2018	Terms	Conditions
Ultimate parent						
AEV	**₱–**	₱–	**₱780**	₱798	30-day, non-interest bearing	Unsecured, no impairment
APC	**45,370**	58,109	**56,210**	5,311	30-day, non-interest bearing	Unsecured, no impairment
Fellow subsidiaries						
HBI	–	3,827	–	611	30-day, non-interest bearing	Unsecured, no impairment
SACASUN	**602**	3,578	–	1,708	30-day, non-interest bearing	Unsecured, no impairment
TVI	–	923	–	–	30-day, non-interest bearing	Unsecured, no impairment
	₱45,972	₱66,437	**₱56,990**	₱8,428		

Technical Services

	Revenue		Receivables			
	2019	2018	**2019**	2018	Terms	Conditions
Fellow subsidiaries						
Hedcor Sabangan, Inc.	**₱126**	₱38,087	**₱28**	₱16	30-day, non-interest bearing	Unsecured, no impairment
HBI	**1,765**	23,425	**21**	2,931	30-day, non-interest bearing	Unsecured, no impairment
Hedcor Tudaya, Inc. (HTI)	**2**	12,383	**2**	3,946	30-day, non-interest bearing	Unsecured, no impairment
Hedcor Sibulan, Inc. (HSI)	**47,172**	21,797	**51**	5,507	30-day, non-interest bearing	Unsecured, no impairment
Lima Water Corporation	**219**	–	–	–	30-day, non-interest bearing	Unsecured, no impairment
Luzon Hydro Corporation	**41,121**	39,399	**9**	16	30-day, non-interest bearing	Unsecured, no impairment
Aboitiz Infracapital, Inc.	**1,055**	–	**281**	–	30-day, non-interest bearing	Unsecured, no impairment
Cleanergy	**3**	–	–	–	30-day, non-interest bearing	Unsecured, no impairment
Hydroelectric Development Corporation	**3**	–	–	–	30-day, non-interest bearing	Unsecured, no impairment
Apo Agua	**24,545**	800	**24,194**	–	30-day, non-interest bearing	Unsecured, no impairment
Pilmico	**346**	–	**–**	–	30-day, non-interest bearing	Unsecured, no impairment
	₱116,357	₱135,891	**₱24,586**	₱12,416		

Purchases/Expenses

	Expenses		Payables			
	2019	2018	**2019**	2018	Terms	Conditions
Intermediate parents						
APC						
• Professional and technical services	**₱4,750**	₱4,873	**₱–**	₱–	30-day, non-interest bearing	Unsecured
AEV						
• Professional and technical services	**15,868**	6,491	**19,075**	–	30-day, non-interest bearing	Unsecured
Fellow subsidiary						
AEV Aviation, Inc.	**624**	158	**–**	–	30-day, non-interest bearing	
• Aviation services						Unsecured
DLPC						
• Space rental and utilities	**1,889**	1,801	**497**	6	30-day, non-interest bearing	Unsecured
SACASUN	**–**	–	**73**	–	30-day, non-interest bearing	Unsecured
APRI						
• Power Purchase	**45,412**	17,440	**–**	–	30-day, non-interest bearing	Unsecured
	₱68,543	₱30,763	**₱19,645**	₱6		

Cash Deposits and Placements

	Interest Income		Outstanding Balance			
	2019	2018	**2019**	2018	Terms	Conditions
UBP	**₱1,309**	₱6,086	**₱–**	₱146,976	30 days or less, interest bearing	No Impairment

The receivables from and payables to related parties shall be settled in cash.

The Company's Fund is in the form of a trust being maintained and managed by AEV. The Fund has a carrying amount and a fair value of ₱267.26 million and ₱251.12 million as of December 31, 2019 and 2018, respectively (see Note 16).

In 2019 and 2018, other than contributions to the fund and benefits paid, there is no transaction between the Company and the Fund.

The Company's loan under the December 14, 2018 Notes Facility Agreement is secured by a continuing surety from ARI (see Note 11).

Compensation of Key Management Personnel
The aggregate compensation and benefits paid to the key management personnel are as follows:

	2019	2018
Short-term benefits	**₱36.19 million**	₱35.29 million
Post-employment benefits	**2.07 million**	2.70 million

19. Revenues

Set out below is the disaggregation of the Company's revenue from contracts with customers:

Revenue streams	**2019**	2018
Revenue from power supply contracts	**₱881,061,617**	₱693,848,080
Revenue from technical and service fees	**125,662,271**	204,158,233
Revenue from project management fees	**88,451,153**	61,930,679
Revenue from wheeling fees	**–**	233,030
	₱1,095,175,041	₱960,170,022

20. Capital Management

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

The Company monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Company's policy is to keep the gearing ratio at 70% or below. Net debt is the difference between interest-bearing bank loans and cash and cash equivalents. Equity includes capital stock, additional paid-in-capital, other comprehensive income, and retained earnings.

Gearing ratios of the Company as of December 31, 2019 and 2018 are as follows:

	2019	2018
Bank loans	**₱1,739,169,681**	₱1,827,785,394
Cash and cash equivalents	**(343,553,761)**	(1,129,714,367)
Net debt (a)	**1,395,615,920**	698,071,027
Equity	**2,444,389,462**	2,323,462,189
Equity and net debt (b)	**₱3,840,005,382**	₱3,021,533,216
Gearing ratio (a/b)	**36%**	23%

The Company is subject to externally imposed capital requirements through maintenance of certain ratios as mandated by the loan covenants (see Note 11). As of December 31, 2019, and 2018, the Company has complied with the loan covenants.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2019 and 2018.

21. Financial Risk Management Objectives and Policies

The financial instruments of the Company comprise principally of cash and cash equivalents, trade and other receivables, trade and other payables, and bank loans. The main purpose of these financial instruments is to fund the Company's operations.

The main risks arising from these financial instruments are credit risk, liquidity risk and interest risk. The BOD has reviewed and set up policies to manage these risks. The Company, through its treasury operations, continuously upgrades these policies and procedures to ensure that the management of risk exposures is both progressive and reflective of the Company's financial outlook.

Credit risk
Credit risk is the risk that the Company will incur a loss because its customers or counterparties failed to discharge their contractual obligation. The Company's exposure to credit risk is minimal as its customers and debtors are subject to credit verification procedures. Furthermore, receivables are monitored in an ongoing basis resulting to insignificant exposure to bad debts.

Credit risk arising from short term investments is mitigated by the short-term nature of the investments which are placed in institutions with high credit standing. Short-term investments amounted to ₱156.89 million and ₱1.03 billion as of December 31, 2019 and 2018, respectively (see Note 5).

The following table represents the Company's maximum exposure to credit risk:

	2019	2018
Cash and cash equivalents	**₱343,553,761**	₱1,129,714,367
Trade and other receivables		
Related parties	**128,143,211**	63,541,824
Accrued revenue	**20,686,950**	17,955,840
Third parties	**7,389,055**	15,041,797
Others	**28,333,266**	19,595,314
	₱528,106,243	₱1,245,849,142

	2019			
	Stage 1 Lifetime ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
High grade	**₱–**	**₱499,772,977**	**₱–**	**₱499,772,977**
Standard grade	–	**28,333,266**	–	**28,333,266**
Substandard grade	–	–	–	–
Default	–	–	–	–
Gross carrying amount	–	**528,106,243**	–	**528,106,243**
ECL	–	–	–	–
Carrying amount	**₱–**	**₱528,106,243**	**₱–**	**₱528,106,243**

	2018			
	Stage 1 Lifetime ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
High grade	₱–	₱1,226,253,828	₱–	₱1,226,253,828
Standard grade	–	19,595,314	–	19,595,314
Substandard grade	–	–	–	–
Default	–	–	–	–
Gross carrying amount	–	1,245,849,142	–	1,245,849,142
ECL	–	–	–	–
Carrying amount	₱–	₱1,245,849,142	₱–	₱1,245,849,142

The Company's basis in grading its financial assets is as follows:

High grade - Pertain to financial assets from counterparties with good favorable credit standing. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Standard - These pertain to financial assets with counterparties who settle their obligation with tolerable delays.

Sub-standard - These are accounts with payment habits that extend beyond the approved credit limit terms and show probability of being impaired based on historical experience.

The Company evaluated its cash and cash equivalents as high-quality financial assets since these are placed in financial institutions of high credit standing.

As of December 31, 2019, and 2018, all of the Company's financial assets are considered to be high grade and are neither past due nor impaired except for other receivables which are considered to be standard grade receivables.

Interest risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to its long-term debt with a fixed interest rate. The Company makes sure that the bank fixes the interest rate of its loan in a specific period in the loan contract.

Liquidity risk

Liquidity risk is the risk of not meeting obligations as they become due because of the inability to liquidate assets or obtain adequate funding. The Company maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations.

To manage this risk, the Company regularly monitors its projected and actual cash flows, ensure that there are sufficient working capital inflows to match repayments of short-term debts.

The following table summarizes the maturity profile of the Company's financial liabilities as of December 31, 2019 and 2018 based on contractual undiscounted payments. The table also analyzes the maturity profile of the Company's financial assets in order to provide a complete view of the Company's contractual commitments.

The following table summarizes the maturity profile of the Company's financial liabilities as of December 31, 2019 and 2018 based on contractual undiscounted payments. The table also analyzes the maturity profile of the Company's financial assets in order to provide a complete view of the Company's contractual commitments.

		2019			
	Total	**On demand**	**<1 year**	**1-5 years**	**>5 years**
Cash and cash equivalents	**₱343,553,761**	**₱343,553,761**	**₱–**	**₱–**	**₱–**
Trade and other receivables					
Third parties	**7,389,055**	**–**	**7,389,055**	**–**	**–**
Related parties	**128,143,211**	**–**	**128,143,211**	**–**	**–**
Accrued revenues	**20,686,950**		**20,686,950**		
Others	**28,333,266**	**–**	**28,333,266**	**–**	**–**
Total undiscounted financial assets	**₱528,106,243**	**₱343,553,761**	**₱184,552,482**	**₱–**	**₱–**

		2019			
	Total	**On demand**	**<1 year**	**1-5 years**	**>5 years**
Trade and other payables*	**₱327,097,062**	**₱241,951,686**	**₱44,001,689**	**₱–**	**₱41,143,687**
Long-term debt	**1,750,000,000**	**–**	**90,000,000**	**510,000,000**	**1,150,000,000**
Lease liabilities	**112,148,333**	**–**	**4,906,268**	**24,734,283**	**82,507,782**
Total undiscounted financial liabilities	**₱2,189,245,395**	**₱241,951,686**	**₱138,907,957**	**₱534,734,283**	**₱1,273,651,469**

**Excludes statutory liabilities*

		2018			
	Total	On demand	<1 year	1-5 years	>5 years
Cash and cash equivalents	₱1,129,714,367	₱1,129,714,367	₱–	₱–	₱–
Trade and other receivables					
Third parties	15,041,797	–	15,041,797	–	–
Related parties	63,541,824	–	63,541,824	–	–
Accrued revenue	17,955,840	–	17,955,840	–	–
Others	19,595,314	–	19,595,314	–	–
Total undiscounted financial assets	₱1,245,849,142	₱1,129,714,367	₱116,134,775	₱–	₱–

		2018			
	Total	On demand	<1 year	1-5 years	>5 years
Trade and other payables*	₱222,608,251	₱93,775,391	₱94,792,220	₱5,189,879	₱28,850,761
Long-term debt	1,840,000,000	–	90,000,000	510,000,000	1,240,000,000
Lease liabilities	–	–	–	–	–
Total undiscounted financial liabilities	₱2,062,608,251	₱93,775,391	₱184,792,220	₱515,189,879	₱1,268,850,761

**Excludes statutory liabilities*

22. Financial Instruments

Categories of Financial Instruments

The carrying values of the Company's financial assets and liabilities are as follows:

	2019		2018	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	**₱343,553,761**	**₱343,553,761**	₱1,129,714,367	₱1,129,714,367
Trade and other receivables	**184,552,482**	**184,552,482**	116,134,775	116,134,775
	528,106,243	**528,106,243**	1,245,849,142	1,245,849,142
Financial liabilities				
Trade and other payables*	**327,097,062**	**327,097,062**	222,608,251	222,608,251
Long term debt	**1,739,169,681**	**1,915,844,448**	1,827,785,394	2,501,974,158
Lease liabilities	**26,147,137**	**70,892,310**	–	–
	₱2,092,413,880	**₱2,313,833,820**	₱2,050,393,645	₱2,724,582,409

**Excluding statutory liabilities*

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

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

Long-term debt. The fair value of fixed rate interest-bearing loan is based on the discounted value of future cash flows using the applicable rates for similar types of loan. Interest-bearing loan is discounted using credit-adjusted interest rate of 6.22% and 5.40% in 2019 and 8.5% in 2018.

Fair Value Hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs)

There were no transfers between Level 1 and Level 2 fair value measurement, and there were no transfers into and out of Level 3 fair value measurement.

23. Renewable Energy Act of 2008

On January 30, 2009, R.A. No. 9513, *An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes*, which shall be known as the "Renewable Energy Act of 2008" (the Act) became effective. The Act aims to: (a) accelerate the exploration and development of RE resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of RE by institutionalizing the development of national and local capabilities in the use of RE systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of RE resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws. As provided for in the Act, RE developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly-certified by the Department of Energy (DOE), in consultation with the Board of Investments (BOI), shall be entitled to incentives, such as, ITH; duty-free importation of RE machinery, equipment and materials; zero percent VAT rate on sale of power from RE sources; and tax exemption of carbon credits; among others.

The Company expects that the Act may have significant effect on its operating results arising from the effective reduction in tax rates. On October 23, 2009, the DOE approved the Company's registration as an RE developer.

24. **Agreements**

Electric Supply Agreements

a. The Company has a Power Supply Agreement with various corporations and cooperatives to supply or sell power and energy produced by the mini hydroelectric power plants. The maturity of these agreements vary from one off-taker to another with the nearest to mature by the end of 2015 and the farthest in 2018. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by both parties. The revenue from power sales recognized under these agreements amounted to ₱565.7 million and ₱600.8 million in 2019 and 2018, respectively.

b. On February 2007, the Company, in consortium with fellow subsidiaries, HTI, HSI, and parent, ARI, successfully bid for an agreement to supply DLPC, a fellow subsidiary, a total of 400 million kWh of new capacity per year for a 12-year period beginning January 2010. The delivery of the contracted energy under the agreement is in two phases: Phase I Supply, whereby 200 million kWh per year of net expected energy will be delivered, has a target completion date of August 1, 2009; and Phase II Supply, whereby the additional 200 million kWh per year of net expected energy will be delivered, has a target completion date of August 1, 2010. Net expected energy refers to the quantity of electricity generated by the respective projects of the parties of the consortium, net of electricity used by the project, site usage, and step up transformer and transmission losses up to the delivery per meter points, which points are to be agreed upon by the parties. The bid price for the contracted energy is ₱4.0856/kWh delivered, subject to adjustment based on changes to the Philippine consumer price index. The revenue from power sales recognized under this agreement amounted to ₱127.78 million and ₱116.90 million in 2019 and 2018, respectively (see Note 19).

c. In 2015, the Company, for its Irisan 1 plant, signed a Renewable Energy Payment Agreement (REPA) with NTC, the FIT administrator, enumerating the rights and obligations of both parties under the FIT rules and FIT-All guidelines, in respect of the full payment of the actual energy generation of the Company, at a price equivalent to the applicable FIT rate, for the entire duration of its FIT eligibility period. The FIT eligibility period means the period during which the Company is entitled to bill and collect the relevant FIT rate from the FIT administrator, which period shall commence from the commercial operations date, until 20 years from the commercial operations date or such other date as stated in the FIT Certificate of Compliance (FIT COC) (see Note 10).

d. On January 27, 2016, the Energy Regulatory Commission (ERC) issued a FIT COC granting the Company all the rights and privileges subject to such obligations appertaining consistent with the laws, rules and regulations pertinent thereto. The FIT COC shall be valid for a period of five (5) years from the date of issuance and its application for renewal shall be filed at least six (6) months before its expiration.

Lease Contracts

The Company entered into contracts with various lot owners for lease of land where power plants are located. Terms of contract are for a period of 1 to 50 years renewable upon mutual agreement by the parties.

Future minimum rental contract provisions are as follows:

	2019	2018
Not later than one year	**₱4,906,268**	₱4,989,456
Later than 1 year but not later than 5 years	**24,734,283**	24,666,920
Later than 5 years	**82,507,782**	87,481,413

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the year ended December 31, 2019:

	Right-of-use assets	Lease liabilities
As at January 1	₱–	₱–
Effect of adoption of PFRS 16 (see Note 2)	44,245,803	59,360,926
Amortization expense	(1,475,838)	–
Interest expense	–	8,076,382
Payments	–	(13,195,450)
Application of prepaid rent (see Note 7)	–	(28,094,721)
As at December 31	₱42,769,965	₱26,147,137

The carrying amount of the Company's right-of-use assets as of December 31, 2019 is presented as part of "Property, plant and equipment" in the balance sheet.

Set out below, are the amounts recognized in the statements of income for the year ended December 31, 2019:

Interest expense on lease liabilities	₱8,076,382
Amortization expense of right-of-use assets	1,475,838
	₱9,552,220

25. Registration with Board of Investments

On February 20, 2013, the BOI approved the Company's application for registration as a new operator of a 3.8 MW Irisan-1 Hydroelectric Power Plant under the Act. The BOI issued the Certificate of Registration on the same date which entitled the Company to the following incentives:

a. ITH for a period of seven (7) years from February 2013. The ITH incentives shall be limited only to the sales/revenue generated from the sales of electricity.

b. Duty-free importation of RE machinery, equipment and materials including control and communication equipment, within the first ten (10) years from the issuance of the BOI certificate of registration.

c. Tax exemption of carbon credits.

The enterprise shall also be entitled to the following incentives under the Act:

a. Special realty tax rates on equipment and machinery

Realty and other taxes on civil works, equipment and machinery and other improvements of a registered enterprise actually and exclusively used for RE facilities shall not exceed 1.5% of the original cost less accumulated depreciation or net book value.

b. NOLCO
The NOLCO during the first three (3) years from start of commercial operation shall be carried over as a deduction from gross income in the National Internal Revenue Code of 1997 (NIRC) for the next seven (7) years immediately following the year of such loss.

c. Corporate tax rate
After availment of the ITH, the enterprise shall pay a corporate tax of ten percent (10%) on its taxable income as defined in the NIRC, provided that it shall pass on the savings to the end-users in the form of lower rates.

d. Accelerated depreciation

e. Zero-percent VAT rate
The sale of power generated by the enterprise as well as its purchases of local supply of goods, properties and services needed for the development, construction, and installation of its plant facilities and the whole process of exploration and development of RE sources up to its conversion into power shall be subject to zero percent VAT pursuant to the NIRC.

f. Cash incentive of RE Developers for Missionary Electrification.

g. Tax credit on domestic capital equipment and services.

26. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

On November 25, 2010, the BIR issued RR 15-2010 which amends certain provisions of RR 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements accompanying the tax returns. It requires the disclosure of taxes, duties and licenses paid or accrued during the taxable year.

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The Company reported and/or paid the following types of taxes in 2019:

VAT
The Company's sales, other than sale of power, is subject to 12% output VAT while its sale of power generated through RE sources (i.e., hydropower) is subject to 0% VAT pursuant to Section 108 (B) (7) of the NIRC. Furthermore, the Company's importations and purchases from VAT-registered individuals or corporations are subject to 12% input VAT.

a. Net sales/receipts and output VAT declared in the Company's VAT returns for 2019

	Net Sales/ Receipts	Output VAT
Taxable sales	₱237,982,144	₱28,557,857
VAT exempt sales	1,371,321	–
Zero-rated sales	1,038,840,391	–
	₱1,278,193,856	₱28,557,857

The Company's zero-rated sales is shown as "Sale of Power" in the statement of income. The zero-rated sales per VAT return is based on the Company's gross receipts for the year, hence, may not be the same with the amounts accrued in the 2019 statement of income.

Other revenue pertains to management fees from technical services rendered, scrap sales and gain on sale of property, plant and equipment.

b. Input VAT

Balance at January 1	₱64,710,836
Input tax deferred on capital goods exceeding ₱1 million from previous quarter	10,317,327
Current year's domestic purchases/payments or importations for:	
Goods other than for resale or manufacture - local purchases	8,627,255
Goods other than for resale or manufacture - importation	17,569,737
Capital goods subject to amortization - local purchases	2,231,679
Capital goods subject to amortization - importation	–
Capital goods not subject to amortization	42,857
Services lodged under cost of plant operations and other accounts	72,060,376
Services rendered by non-residents	1,084,819
	176,644,886
Input VAT on purchase of capital goods exceeding ₱1 million deferred to succeeding periods	(9,159,270)
Output VAT	(28,557,857)
VAT Refund/ TCC claimed	(91,684,111)
Input tax allocable to VAT exempt sales	(234,992)
Balance at December 31	₱47,008,656

Information on the Company's importations for 2019	
Landed cost - excluding input VAT	₱146,356,914
Customs duties	155,105
Others	305,790
	₱146,817,809

Documentary Stamp Tax
The Company paid documentary stamp tax amounting to ₱3.63 million in 2019 for the issuance of equity shares.

Other Taxes and Licenses
Taxes and licenses, local and national, include real estate taxes, licenses and permit fees:

Included in cost of plant operations:	
Real property taxes	₱54,933,727
Business taxes	3,766,264
Water permit fees	214,161
Inspection fees	169,246
DOLE permits	141,523
Community tax certificate	10,500
Radio station licenses	9,380
Others	9,107
	59,253,908

(Forward)

Included in general and administrative expense:	
Capital gains tax	₱2,640,816
Documentary stamp tax	776,148
Real property tax	516,968
Special land use permits	262,721
Radio station licenses	186,146
LTO registration fees	152,737
Business permit and license fees	102,388
BIR registration fees	500
Others	64,974
	4,703,398
	₱63,957,305

Withholding Taxes

Withholding taxes on compensation and benefits	₱34,037,527
Expanded withholding taxes	33,367,114
	₱67,404,641

Tax Assessments and Cases
As of December 31, 2019, no Final Notice of Assessment has been received by the Company.

In addition, the Company's pending tax cases outside the administration the BIR include the following:

Nature of Tax Cases	Period Covered	Amount Involved
Court of Tax Appeals - Judicial Claim for Tax Credit or Refund	July to September 2012	₱6,149,583
Court of Tax Appeals - Judicial Claim for Tax Credit or Refund	April to June 2012	6,747,755
Court of Tax Appeals - Judicial Claim for Tax Credit or Refund	January to March 2012	10,283,416
Court of Tax Appeals - Judicial Claim for Tax Credit or Refund	2011	50,930,155
Court of Tax Appeals - Judicial Claim for Tax Credit or Refund	2010	22,610,505
Court of Tax Appeals - Judicial Claim for Tax Credit or Refund	July to September 2006	10,556,034

Hedcor Bukidnon, Inc.

(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report

SGV
Building a better working world

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Hedcor Bukidnon, Inc.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)
Maluko, Manolo Fortich
Bukidnon

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hedcor Bukidnon, Inc. (a wholly owned subsidiary of Aboitiz Renewables, Inc.) (the Company), which comprise the balance sheets as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for 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 Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the 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 audit opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 24 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Hedcor Bukidnon, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jose Rao'ul J. Balisalisa
Partner
CPA Certificate No. 109542
SEC Accreditation No. 1557-AR-1 (Group A),
May 30, 2019, valid until May 29, 2022
Tax Identification No. 931-743-705
BIR Accreditation No. 08-001998-113-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 8125209, January 7, 2020, Makati City

March 2, 2020

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Building a better working world

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Hedcor Bukidnon, Inc.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)
Maluko, Manolo Fortich
Bukidnon

We have audited the accompanying financial statements of Hedcor Bukidnon, Inc. (a wholly owned subsidiary of Aboitiz Renewables, Inc.) as at and for the year ended December 31, 2019, on which we have rendered the attached report dated March 2, 2020.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the above Company has one stockholder owning 100 or more shares.

SYCIP GORRES VELAYO & CO.

Jose Rao'ul J. Balisalisa
Partner
CPA Certificate No. 109542
SEC Accreditation No. 1557-AR-1 (Group A),
May 30, 2019, valid until May 29, 2022
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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Board of Directors and the Stockholders
Hedcor Bukidnon, Inc.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)
Maluko, Manolo Fortich
Bukidnon

We have audited in accordance with Philippine Standards on Auditing the financial statements of Hedcor Bukidnon, Inc. (a wholly owned subsidiary of Aboitiz Renewables, Inc.) as at and for the years ended December 31, 2019 and 2018 and have issued our report dated March 2, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The attached Supplementary Schedules of Income and Expenses, Cost of Plant Operations and General and Administrative Expenses for the years ended December 31, 2019 and 2018 are the responsibility of the management of Hedcor Bukidnon, Inc. These schedules are presented for purposes of complying with the requirements of the Board of Investments and are not a required part of the basic financial statements. The information in these schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jose Rao'ul J. Balisalisa
Partner
CPA Certificate No. 109542
SEC Accreditation No. 1557-AR-1 (Group A),
May 30, 2019, valid until May 29, 2022
Tax Identification No. 931-743-705
BIR Accreditation No. 08-001998-113-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 8125209, January 7, 2020, Makati City

March 2, 2020

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	1	1	2	7	0	5	5

COMPANY NAME

HEDCOR BUKIDNON, INC. (A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

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

Maluko, Manolo Fortich, Bukidnon

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CFD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
NA	(082) 282-2784	NA

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
7	2nd Monday of May	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Maria Raquel J. Bustamante	raquel.bustamante@aboitiz.com	(02) 886-2780	09178486152

CONTACT PERSON's ADDRESS

12th floor NAC Tower, 32nd Street, Bonifacio Global City, Taguig

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

HEDCOR BUKIDNON, INC.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

BALANCE SHEETS

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱3,124,647,505**	₱2,073,630,492
Trade and other receivables (Note 5)	**410,813,757**	136,097,367
Derivative asset (Note 19)	**–**	209,909
Prepayments (Note 6)	**84,189,048**	2,614,367
	3,619,650,310	2,212,552,135
Noncurrent Assets		
Property, plant and equipment (Notes 7 and 21)	**10,099,045,635**	9,973,136,222
Deferred tax asset - net (Note 17)	**135,757**	–
Other noncurrent assets (Note 8)	**259,782,039**	1,103,177,351
	10,358,963,431	11,076,313,573
TOTAL ASSETS	**₱13,978,613,741**	₱13,288,865,708
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 9)	**₱563,037,825**	₱799,558,338
Current portion of long-term debt (Note 10)	**571,192,492**	534,378,715
Current portion of lease liabilities (Note 21)	**8,406,941**	–
	1,142,637,258	1,333,937,053
Noncurrent Liabilities		
Long-term debt - net of deferred financing cost (Note 10)	**8,741,619,800**	8,679,263,589
Lease liabilities - net of current portion (Note 21)	**99,903,652**	–
Pension liability (Note 12)	**1,087,395**	104,546
Deferred tax liability - net (Note 17)	**–**	14,523
	8,842,610,847	8,679,382,658
Equity		
Capital stock (Note 13)	**3,381,000,000**	3,124,460,000
Actuarial loss on pension liability, net of tax effects (Note 12)	**(1,014,157)**	(24,691)
Retained earnings	**613,379,793**	151,110,688
	3,993,365,636	3,275,545,997
TOTAL LIABILITIES AND EQUITY	**₱13,978,613,741**	₱13,288,865,708

See accompanying Notes to Financial Statements.

HEDCOR BUKIDNON, INC.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

STATEMENTS OF INCOME

	Years Ended December 31	
	2019	2018
SALE OF POWER (Notes 11 and 21)	**₱1,608,144,238**	₱573,409,608
COST OF PLANT OPERATIONS (Note 14)	**584,525,052**	126,203,624
GROSS PROFIT	**1,023,619,186**	447,205,984
GENERAL AND ADMINISTRATIVE EXPENSES (Note 15)	**68,067,108**	47,179,593
OTHER INCOME (EXPENSE)		
Interest expense and financing costs	**(615,009,642)**	(62,021,193)
Interest income (Note 4)	**145,286,404**	13,511,503
Bank charges	**(16,950)**	4,720
Foreign exchange gain (loss) - net	**100,222**	(2,336,061)
Loss on derivatives	**(209,909)**	(2,247,053)
Others - net	**25,756,686**	(13,395,171)
	(444,093,189)	(66,483,255)
INCOME BEFORE INCOME TAX	**511,458,889**	333,543,136
PROVISION FOR INCOME TAX (Note 17)	**34,509,799**	2,978,835
NET INCOME	**₱476,949,090**	₱330,564,301

See accompanying Notes to Financial Statements.

HEDCOR BUKIDNON, INC.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
NET INCOME	**₱476,949,090**	₱330,564,301
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Actuarial loss on pension liability (Note 12)	**(1,099,406)**	(27,434)
Income tax effect	**109,940**	2,743
	(989,466)	(24,691)
TOTAL COMPREHENSIVE INCOME	**₱475,959,624**	₱330,539,610

See accompanying Notes to Financial Statements.

HEDCOR BUKIDNON, INC.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Capital Stock (Note 13)					
	Common	**Redeemable Preferred**	**Total**	**Remeasurement on Pension Liabilty**	**Retained Earnings**	**Total**
Balances at January 1, 2018	₱330,000,000	₱2,794,460,000	₱3,124,460,000	₱ –	(₱179,453,613)	**₱2,945,006,387**
Net income	–	–	–	–	330,564,301	**330,564,301**
Remeasurement loss on defined benefit plan - net of tax effects	–	–	–	(24,691)	–	**(24,691)**
Balances at December 31, 2018	330,000,000	2,794,460,000	3,124,460,000	(24,691)	151,110,688	**3,275,545,997**
Effect of adoption of PFRS 16	–	–	–		(12,114,585)	**(12,114,585)**
Balances at January 1, 2019, as restated	330,000,000	2,794,460,000	3,124,460,000	(24,691)	138,996,103	**3,263,431,412**
Issuance of capital stock	54,000,000	202,540,000	256,540,000	–	–	**256,540,000**
Share issuance costs	–	–	–	–	(2,565,400)	**(2,565,400)**
Net income	–	–	–	–	476,949,090	**476,949,090**
Remeasurement loss on defined benefit plan - net of tax effects	–	–	–	(989,466)	–	**(989,466)**
Balances at December 31, 2019	**₱384,000,000**	**₱2,997,000,000**	**₱3,381,000,000**	**(₱1,014,157)**	**₱613,379,793**	**₱3,993,365,636**

See accompanying Notes to Financial Statements.

HEDCOR BUKIDNON, INC.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱511,458,889**	₱333,543,135
Adjustments for:		
Depreciation and amortization (Notes 14 and 15)	**419,201,526**	102,543,693
Interest expense	**615,009,642**	62,021,193
Interest income	**(145,286,404)**	(13,511,503)
Loss on derivatives	**209,909**	2,247,053
Loss on retirement of property, plant and equipment	**1,820,487**	–
Adjustment for unrealized foreign exchange loss (gain)	**(100,222)**	425,887
Net change in pension liability (Note 12)	**(116,557)**	(139,628)
Operating income before working capital changes	**1,402,197,270**	487,129,830
Decrease (increase) in:		
Trade and other receivables (Note 5)	**(274,790,598)**	(128,132,519)
Prepayments	**(83,217,311)**	(2,558,637)
Other noncurrent assets	**843,225,926**	(57,464,191)
Increase (decrease) in trade and other payables (Note 9)	**(247,446,552)**	3,603,553
Net cash generated from operating activities	**1,639,968,735**	302,578,036
Income taxes paid	**(35,089,704)**	(3,225,025)
Interest received	**145,360,612**	95,990,965
Net cash flows from operating activities	**1,750,239,643**	395,343,976
CASH FLOWS USED IN AN INVESTING ACTIVITY		
Additions to property, plant and equipment	**(447,683,445)**	(1,048,081,345)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Long term debt	**672,300,000**	–
Issuance of capital stock (Note 13)	**256,540,000**	–
Share issuance costs	**(2,565,400)**	–
Deferred financing cost (Note 10)	**(3,677,805)**	(320,000)
Payments to lease liabilities (Note 21)	**(10,773,854)**	–
Payment of long-term debt (Note10)	**(583,333,334)**	–
Interest paid (Note 10)	**(580,129,014)**	(535,645,181)
Net cash flows used in financing activities	**(251,639,407)**	(535,965,181)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,050,916,791**	(1,188,702,550)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**100,222**	(425,887)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,073,630,492**	3,262,758,929
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,124,647,505**	₱2,073,630,492

See accompanying Notes to Financial Statements.

HEDCOR BUKIDNON, INC.
(A Wholly Owned Subsidiary of Aboitiz Renewables, Inc.)
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Hedcor Bukidnon, Inc. (the Company) was incorporated and registered with the Securities and Exchange Commission (SEC) on January 17, 2011 to primarily engage in the business of owning, developing, constructing, operating, repairing, and maintaining hydro-electric power plant systems, renewable and indigenous power generation plants and other types of power generation and/or converting stations, and to act as holding company or joint venture partners or investors in the business of developing, operating, and/or owning power generation plants and/or converting stations.

As of December 31, 2019 and 2018, Aboitiz Renewables, Inc. (ARI) owns 100% of the common shares of the Company. ARI is a wholly owned subsidiary of Aboitiz Power Corporation (APC), who in turn, owns 100% of the redeemable preferred shares of the Company. APC is a subsidiary of Aboitiz Equity Ventures, Inc. (AEV). AEV and APC are both publicly listed companies in the Philippines. The Company's ultimate parent is Aboitiz & Company, Inc.

The Board of Investments (BOI) approved the Company's application for registration as a new renewable energy developer of 43.4 MW Manolo Fortich 1 and 25.4 MW Manolo Fortich 2 hydroelectric power plants under the Renewable Energy Act of 2008 (Republic Act 9513) on December 22, 2014 and January 7, 2015, respectively. The BOI issued the Certificates of Registration on the same dates. As a registered enterprise, the Company is entitled to certain tax and nontax incentives including income tax holiday (ITH) for a period of seven years from date of commissioning. The Manolo Plant 1 of the Company started its commercial operation on July 2, 2018 while Manolo Plant 2 was on November 23, 2018.

Total ITH benefit from BOI-registered operations amounted to ₱64.8 million in 2019 and ₱100.9 million in 2018 (see Note 17).

The registered office address of the Company is Maluko, Manolo Fortich, Bukidnon.

The financial statements of the Company were authorized for issue by the Board of Directors (BOD) on March 2, 2020.

2. Summary of Significant Accounting Policies

Basis of Preparation
The financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine Peso, which is the Company's presentation and functional currency. All values are rounded to the nearest peso unless otherwise indicated.

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional balance sheet at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective statement or a reclassification of items in the financial statements.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the new and revised standards and Philippine Interpretations which were applied starting January 1, 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective

The Company applied PFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. Several other amendments and interpretations apply for the first time in 2019, but did not have any significant impact on the financial statements:

- PFRS 16, *Leases*

  PFRS 16 was issued in January 2016 and it replaces Philippine Accounting Standard (PAS) 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*.

  Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

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

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

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

	As at January 1, 2019
Increase (decrease) in balance sheets:	
Property, plant and equipment (Note 21)	₱97,551,474
Prepayments (Note 6)	(2,182,196)
Total assets	₱95,369,278

(Forward)

	As at January 1, 2019
Lease liabilities	₱107,483,863
Retained earnings	(12,114,585)
Total liabilities and equity	₱95,369,278

Prior to adoption of PFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in the statements of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under "Other current assets" or "Other noncurrent assets" and "Trade and other payables", respectively.

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

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

The Company also applied the following practical expedients provided by the standard:
- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- Apply the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application (short-term leases).
- Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application,
- Use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

Operating lease commitments as at December 31, 2018	₱508,609,042
Incremental borrowing rate as at January 1, 2019	8.98%
Lease liabilities as at January 1, 2019	₱107,483,863

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

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

  This amendment does not have an impact on the financial statements.

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

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

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

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

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

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

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests. The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

Since the Company does not have long-term interests in associates and joint ventures, the amendments do not have an impact on its financial statements.

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

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

  The interpretation specifically addresses the following:

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

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

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

- *Annual Improvements to PFRSs* 2015-2017 Cycle

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

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

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

These amendments are currently not applicable to the Company but may apply to future transactions.

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

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

  These amendments are not relevant to the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Income Tax Consequences of Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

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

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

The Company will adopt the standards enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRSs, PAS and Philippine Interpretations to have significant impact on its financial statements.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

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

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

  These amendments will apply to future business combinations of the Company.

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

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

  An entity applies these 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.

  The Standard is not applicable to the Company since it does not have any insurance contracts.

Deferred effectivity

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

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

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

Current versus Noncurrent Classification

The Company presents assets and liabilities in the statements of financial position based on current and noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or,
- Cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:

- Expected to be settled in its normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be settled within 12 months after the reporting period; or,
- There is no unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair value measurement

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

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. 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 and that are subject to an insignificant risk of change in value.

Financial Instruments - Classification and Measurement

Classification of financial assets

Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Company's business model for managing the financial assets. The Company classifies its financial assets into the following measurement categories:

- financial assets measured at amortized cost
- financial assets measured at fair value through profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Contractual cash flows characteristics

If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Company assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Company determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that

is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model
The Company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Company's business model does not depend on management's intentions for an individual instrument.

The Company's business model refers to how it manages its financial assets in order to generate cash flows. The Company's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Company in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial assets at amortized cost
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statement of income.

The Company's debt financial assets consist of cash in banks, cash equivalents and trade and other receivables. The Company assessed that the contractual cash flows of its debt financial assets are solely payments of principal and interest (SPPI) and are expected to be held to collect all contractual cash flows until their maturity. As a result, the Company concluded these debt financial assets to be measured at amortized cost.

Financial assets at fair value through other comprehensive income (FVOCI)
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other

comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

The Company may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Company may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:

- the Company's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Company; and
- the amount of the dividend can be measured reliably.

The Company has no financial assets classified as FVOCI as of December 31, 2019 and 2018.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets at FVTPL are measured as such unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the statement of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Company may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Company, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

The Company has no financial assets classified as FVTPL as of December 31, 2019 and 2018.

Classification of financial liabilities
Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Company retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

Reclassifications of financial instruments
The Company reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. The Company does not reclassify its financial liabilities.

The Company does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and

There is a change in measurement on credit exposures measured at fair value through profit or loss.

Classification of financial instruments between debt and equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

"Day 1" difference
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference

between the transaction price and fair value (a "Day 1" difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when, and only when:

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

When the Company retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Company treats the transaction as a transfer of a financial asset if the Company:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and,
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it retains control over the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. The extent of the Company's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Company's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Company's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Company could be required to repay ('the guarantee amount'). When the Company's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Company's continuing involvement takes the form of a cash- settled option or similar provision on the transferred asset, the extent of the Company's continuing involvement is measured in the same way as that which results from non-cash settled options.

Modification of contractual cash flows
When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements whereby the related assets and liabilities are presented gross in the balance sheet.

Impairment of Financial Assets
The Company recognizes expected credit losses (ECL) for the following financial assets that are not measured at FVTPL:

- debt instruments that are measured at amortized cost and FVOCI;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL
For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL - not credit-impaired
For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL - credit-impaired
Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’, or when the exposure is less than 30 days past due.

Determining the stage for impairment
At each reporting date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to ‘Trade loans and other receivables’. The Company has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Property, Plant and Equipment

Except for land, property, plant and equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Cost of property, plant and equipment comprises its net purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Such cost includes the cost of replacing parts of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Repairs and maintenance costs are recognized in the statement of income as incurred.

Land is stated at cost less any accumulated impairment in value.

Power plants and other equipment are depreciated on the straight-line method over the estimated useful lives of the assets as follows:

Category	Number of Years
Power plants, buildings and equipment	5- 30
Communication equipment	3
Computer equipment	3
Office equipment	3 - 5
Transportation equipment	5

Power plant components and related estimated useful lives are as follows:

Category	Number of Years
Access road	25
Desander	25
Diversion weir	25
Headrace/conveyance line	25
Penstock	25
Powerhouse	30
Switchyard	25
Surge tank	30
Main inlet valve	25
Turbine and associated components	25
Hydraulic power units	25
Generator, excitation equipment	30
Control, protection and distribution panels	25
Main valve switchgear	25
Distribution line	25
Diesel generator	25
Power transformer	25
Protection system	25
Substation	30
Transmission line	20
Closed-circuit television	5

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts and any

resulting gain or loss is credited or charged to current operations. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of income in the year the asset is derecognized.

The assets' estimated useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. Construction-in-progress represents structures under construction and is stated at cost. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period. Construction-in-progress is not depreciated until such time that the relevant assets are completed and are available for use.

Operating Leases (prior to adoption of PFRS 16)

Company as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the lease term.

Leases (upon adoption of PFRS 16)

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

Company as a lessee

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

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets which are within 15-30 years. The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option

reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

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

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for a nonfinancial asset is required, the Company makes an estimate of the nonfinancial asset's recoverable amount. A nonfinancial asset's recoverable amount is the higher of a nonfinancial asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual nonfinancial asset, unless the nonfinancial asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of a nonfinancial asset exceeds its recoverable amount, the nonfinancial asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the nonfinancial asset. Impairment losses of continuing operations are recognized in the statement of income in those expense categories consistent with the function of the impaired nonfinancial asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the nonfinancial asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the nonfinancial asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Capital Stock

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Capital stock includes common stock and preferred stock.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured

either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable. Preferred stocks that provide for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or give the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount are classified as liability. Otherwise, they are classified as equity.

Subscription receivable pertains to the amount of subscribed capital stock less the amount paid-up. Subscription receivable is presented as deduction from capital stock.

Share Issuance Costs

Share issuance costs shall be debited to share premium arising from the share issuance. If the share premium is insufficient to absorb such expenses, share issuance costs are reported as a contra equity account as a deduction from the following in the order of priority:

a) Share premium from previous share issuance
b) Retained earnings

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income (loss), dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The Company has generally concluded that it is principal in its revenue arrangements because it typically controls the goods and services before transferring them to the customer.

Sale of power and electricity

Contract with customers for the Company generally includes power generation.

For power generation where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone without the corresponding energy and the buyer cannot obtain energy without contracting a capacity. The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer.

The Company has concluded that revenue should be recognized over time since the customer simultaneously receives and consumes the benefits as the seller supplies power.

Some contracts with customers provide unspecified quantity of energy, provisional ERC rates, and volume and prompt payment discounts. Such provisions give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved.

Revenue Recognition

Interest income

Interest income is recognized as it accrues taking into account the effective interest method.

Costs and Expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized when incurred.

Pension Benefits

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

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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.

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

Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Deferred tax relating to items recognized directly in equity is recognized in the statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added Tax (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the balance sheet. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the balance sheet to the extent of the recoverable amount.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Deferred Financing Costs
Deferred financing costs represent costs incurred to obtain project financing and is presented as deduction to the long-term debt. Deferred financing costs are amortized, using the effective interest rate method, over the life of the related long-term debt.

Foreign Currency Transactions
The accompanying financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. The Company determines its own functional currency and items included in the financial statements are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are recorded in the statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingencies
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Events After the Reporting Period
Post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Significant post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

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

Judgments, key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are consistent with those applied in the most recent annual financial statements, except for those that relate to the adoption of PFRS 16. Selected critical judgments and estimates applied in the preparation of the financial statements are discussed below.

Judgments
In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Determining the lease term of contracts with renewal and termination options (upon adoption of PFRS 16)
The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain to be exercised.

The Company has lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g. construction of significant lease improvements or significant customization to the leased asset).

Operating lease commitments - Company as lessee (prior to adoption of PFRS 16)
The Company has an existing lease on land. The Company has determined that all significant risks and rewards of ownership of these spaces remain with the lessor.

Classification of financial instruments
The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the balance sheet.

Contractual cash flows assessment
For each financial asset, the Company assesses the contractual terms to identify whether the instrument is consistent with the concept of Solely Payments of Principal and Interest (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 Company applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

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

Evaluation of business model in managing financial instruments
The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

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

Identifying performance obligations
The Company identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are

readily available to the customer and the Company's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

The Company assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if i) each distinct good or services in the series are transferred over time and ii) the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation

For power generation and ancillary services where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone without the corresponding energy and the buyer cannot obtain energy without contracting a capacity.

The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer. The deliveries of energy every month are distinct services which are all recognized over time and have the same measure of progress.

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

The Company will continue to recognize revenue from power generation over time since customers simultaneously receive and consume the benefits as the Company supplies power.

Identifying methods for measuring progress of revenue recognized over time
The Company determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

For power generation and ancillary services, the Company determined that the output method is the best method in measuring progress since actual electricity is supplied to customers. The Company recognizes revenue based on:

For power generation and ancillary services:

a. For the variable energy payment, actual kilowatt hours consumed which are billed on a monthly basis.
b. For fixed capacity payments, the Company allocates the transaction price on a straight-line basis over the contract term. The allocated fixed payments are also billed on a monthly basis.

Determining method to estimate variable consideration and assessing the constraint
The Company 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 Company considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the Company will subject to constraint. Factors such as i) highly susceptibility to factors outside the Company's influence, ii) timing of resolution of the uncertainty, and iii) having a large number and broad range of possible considerations amount are considered.

Some contracts with customers provide unspecified quantity of energy, provisional ERC rates, and volume and prompt payment discounts that give rise to variable consideration. In estimating the variable consideration, the Company 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 Company determined that the expected value method is the appropriate method to use in estimating the variable consideration given the large number of customer contracts that have similar characteristics and the range of possible outcomes.

Before including any amount of variable consideration in the transaction price, the Company considers whether the amount of variable consideration is constrained. The Company determined that the estimates of variable consideration are to be fully constrained based on its historical experience (i.e., volume and prompt payment discounts), the range of possible outcomes (i.e., unspecified quantity of energy), and the unpredictability of other factors outside the Company's influence (i.e., provisional ERC rates).

Allocation of variable consideration
Variable consideration may be attributable to the entire contract or to a specific part of the contract. For power generation revenue streams which are considered as series of distinct goods or services that are substantially the same and have the same pattern of transfer, the Company allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month) which forms part of the single performance obligation, and forms part of the monthly billing of the Company.

Determining functional currency
Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the sale of goods and the costs of manufacturing and selling the goods.

Provisions and contingencies
The Company applies judgment on when to recognize provisions or contingent liabilities. Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Company based its assumptions and estimates on parameters available when the audited financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Estimating lease liabilities and right-of-use assets
The present value of the lease payments is determined using the discount rate representing the rate of interest applicable for currency of the lease contract and for similar tenor, corrected by the credit spread of the Company, observed in the period when the lease contract commences or is modified. The carrying amount of the right-of-use assets amounted to ₱95.4 million as of December 31, 2019 (see Note 21). Lease liabilities amounted to ₱108.3 million as of December 31, 2019 (see Note 21).

Impairment losses on financial asset
The measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows, including collectability, collateral values and other credit enhancements, when determining impairment losses. Increases or decreases to the allowance balance are recorded as general and administrative expenses in the statement of income.

Additional judgments are also made in assessing a significant increase in credit risk in the case of financial assets measured using the general approach. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's impairment calculations are outputs of statistical models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the impairment models that are considered accounting judgments and estimates include:

- The Company's criteria for defining default and for assessing if there has been a significant increase in credit risk;
- The segmentation of financial assets when impairment is assessed on a collective basis;
- The choice of inputs and the various formulas used in the impairment calculation
- Determination of relationships between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the impairment models.

Measurement of expected credit losses
ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive.
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.

- *Undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive.
- *Financial guarantee contracts:* as the expected payments to reimburse the holder less any amounts that the Company expects to recover.

The Company leverages existing risk management indicators (e.g., internal credit risk classification and restructuring triggers), credit risk rating changes and reasonable and supportable information which allows the Company to identify whether the credit risk of financial assets has significantly increased.

Inputs, assumptions and estimation techniques
The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), defined as follows:

- *Probability of default*
  The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining life of the obligation. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

  The 12-month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

- *Loss given default*
  Loss Given Default represents the Company's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

- *Exposure at default*
  EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. For example, for a revolving commitment, the Company includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

The ECL is determined by projecting the PD, LGD, and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over the 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For installment contracts receivables, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies including contracted debt sales and price.

The assumptions underlying the ECL calculation such as how the maturity profile of the PDs and how collateral values change are monitored and reviewed on a quarterly basis.

Simplified approach for trade receivables
The Company used a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrices to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., consumer price index) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss

experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Incorporation of forward-looking information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Company has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years.

The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Company has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

In 2019 and 2018, the total gross carrying amount of trade and other receivables for which lifetime ECLs have been measured on a collective and specific basis amounted to ₱403.5 million and ₱129.4 million, respectively (see Note 5). No provision for expected credit losses was recognized in 2019 and 2018.

Estimating useful lives of property, plant and equipment
The Company estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above.

As of December 31, 2019 and 2018, the net book values of property, plant and equipment, including right-of-use assets but excluding land and construction in-progress, amounted to ₱10.1 billion and ₱9.3 billion, respectively (see Note 7).

Assessing impairment of nonfinancial assets
The Company assesses whether there are any indicators of impairment for nonfinancial assets at each reporting date. These nonfinancial assets (advances to contractors and local suppliers, other receivables, prepayments, property, plant and equipment and other noncurrent assets) are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Determining the recoverable amount of nonfinancial assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets requires the Company to make estimates and assumptions that can materially affect its financial statements. Future events could cause the Company to conclude that the property, plant

and equipment, other current and noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on the balance sheet and statement of income.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	2019	2018
Advances to contractors and local suppliers (see Note 8)	**₱77,117,232**	₱63,254,780
Other receivables (see Note 5)	**7,282,416**	6,724,485
Prepayments (see Note 6)	**84,189,048**	2,614,367
Property, plant and equipment - net (see Notes 7 and 21)	**10,099,045,635**	9,973,136,222
Other non-current assets (see Note 8)	**182,664,807**	1,039,922,481
	₱10,450,299,138	₱11,085,652,335

No impairment loss was recognized in 2019 and 2018.

Recognition of deferred tax assets
The Company reviews the carrying amounts of deferred tax assets at each balance sheet date and reduces deferred tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred tax assets to be utilized. Deferred tax assets were not recognized for temporary differences amounting to ₱22.3 million and ₱165.3 million as of December 31, 2019 and 2018, respectively. Since management believes that it is not probable sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized (see Note 17).

Fair value of financial instruments
Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques which include the discounted cash flow model and other generally accepted market valuation model. The inputs for these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The fair values of the Company's financial instruments are presented under Note 18.

Pension benefits
The costs of defined benefit pension plans, as well as the present value of the pension obligation, are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Retirement benefit expense amounted to ₱0.4 million and ₱0.2 million in 2019 and 2018, respectively. The Company's pension liability as of December 2019 and 2018 is ₱1.1 million and ₱104,546, respectively (see Note 12).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 12.

4. Cash and Cash Equivalents

	2019	2018
Cash in banks	**₱134,945,599**	₱93,816,886
Short-term investments	**2,989,701,906**	1,979,813,606
	₱3,124,647,505	₱2,073,630,492

Cash in banks earn interest at prevailing rates based on daily bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term investment rates varying from varying from 3.75% to 6.38% in 2019 and 1.50% to 6.75% in 2018. These investments are taken from loan proceeds, which are used to finance the construction of the Company's hydroelectric power plants (see Notes 7 and 10).

Interest income earned from short-term investments, presented as deduction from capitalized borrowing cost, amounted to ₱81.6 million in 2018. Interest income earned from bank deposits and short-term investments, presented in the profit and loss, amounted to ₱145.3 million and ₱13.5 million in 2019 and 2018, respectively.

5. Trade and Other Receivables

	2019	2018
Trade receivable (Note 10)	**₱263,472,216**	₱107,242
Accrued revenue	**140,059,125**	129,265,640
Nontrade receivable		
Advances to officers and employees	**654,014**	158,890
Other receivables	**6,628,402**	6,565,595
	₱410,813,757	₱136,097,367

Trade receivables are non-interest bearing and are generally on a 30-day term which are assigned as collateral of the Company's loans (see Note 10).

Accrued revenue include accrued sale of power delivered but not yet billed.

Other receivables include accrued interest income from short-term investments and DST payments made by the Company on behalf of the land owners which will be deducted to land owners' future payments.

6. Prepayments

	2019	2018
Prepaid taxes	**₱78,349,763**	₱388,361
Prepaid insurance	**5,839,285**	43,810
Prepaid rent	–	2,182,196
	₱84,189,048	₱2,614,367

Prepaid taxes pertains to the excess of tax credits over income tax due and advance tax payments made relating for real property tax for 2020.

Prepaid insurance pertains to industrial all risk insurance premium payment made for 2019 to 2020.

Prepaid rent pertains to rental payments made in advance. In 2019, these were applied against lease liabilities upon adoption of PFRS 16.

7. Property, Plant and Equipment

December 31, 2019

	Land	Power Plants, Buildings and Equipment	Communication Equipment	Computer Equipment	Office Equipment	Transportation Equipment	Right-of-use Assets (Note 21)	Construction-in-Progress	**Total**
Cost									
At January 1	₱7,570,000	₱9,366,482,061	₱10,435,675	₱636,555	₱1,635,997	₱13,547,021	₱97,551,474	₱680,932,203	**₱10,178,790,986**
Additions	–	432,059,494	–	313,351	60,425	3,996,429	–	13,462,760	**449,892,459**
Retirement	–	(1,870,363)	–	–	(701,318)	–	–	–	**(2,571,681)**
Reclassification	–	680,351,846	–	–	–	580,357	–	(680,932,203)	**–**
At December 31	7,570,000	10,477,023,038	10,435,675	949,906	995,104	18,123,807	97,551,474	13,462,760	**10,626,111,764**
Accumulated depreciation									
At January 1	–	100,280,787	1,589,863	279,801	1,185,812	4,767,027	–	–	**108,103,290**
Depreciation (Notes 13 and 14)	–	411,539,893	1,820,571	255,706	467,747	3,481,874	2,148,243	–	**419,714,034**
Retirement	–	(68,580)	–	–	(682,615)	–	–	–	**(751,195)**
At December 31	–	511,752,100	3,410,434	535,507	970,944	8,248,901	2,148,243	–	**527,066,129**
Net Book Values	₱7,570,000	₱9,965,270,938	₱7,025,241	₱414,399	₱24,160	₱9,874,906	₱95,403,231	₱13,462,760	**₱10,099,045,635**

December 31, 2018

	Land	Power Plants, Buildings and Equipment	Communication Equipment	Computer Equipment	Office Equipment	Transportation Equipment	Construction-in-Progress	Total
Cost								
At January 1	₱7,570,000	₱3,973,237	₱ –	₱542,315	₱91,161	₱6,250,000	₱8,479,657,562	₱8,498,084,275
Additions	–	–	–	72,545	–	–	1,583,082,692	1,583,155,237
Reclassification		9,362,508,824	10,435,675	21,695	1,544,836	7,297,021	(9,381,808,051)	–
At December 31	7,570,000	9,366,482,061	10,435,675	636,555	1,635,997	13,547,021	680,932,203	10,081,239,512
Accumulated depreciation								
At January 1	–	378,663	–	99,029	9,065	–	–	486,757
Depreciation (Notes 13 and 14)	–	99,902,124	1,589,863	180,772	1,176,747	4,767,027	–	107,616,533
At December 31	–	100,280,787	1,589,863	279,801	1,185,812	4,767,027	–	108,103,290
Net Book Values	₱7,570,000	₱9,266,201,274	₱8,845,812	₱356,754	₱450,185	₱8,779,994	₱680,932,203	₱9,973,136,222

As of December 31, 2019, construction-in-progress amounting to ₱13.5 million is attributable to 50MVA substation project. As of December 31, 2018, construction-in-progress amounting to ₱680.9 million is attributable to switchyard transmission assets to be turned over as contribution in aid of construction (CIAC).

Capitalized borrowing costs amounted to ₱509.6 million in 2018 (see Note 10). Interest income earned from short-term deposits amounting to ₱81.6 million in 2018 is presented as deduction from capitalized borrowing cost (see Note 4).

The power plant construction-in-progress is not held as collateral for any loans.

Fully depreciated property and equipment with costs amounting to ₱1.5 million and ₱0.8 million are still used in the Company's operations as of December 31, 2019 and 2018, respectively.

As of December 31, 2019, right-of-use assets with a carrying amount of ₱95.4 million are included in the property, plant and equipment (see Note 21).

8. Other Noncurrent Assets

	2019	2018
Advances to contractors	**₱77,117,232**	₱63,254,871
Tax credit receivable	**73,673,337**	921,735,613
Deferred input VAT	**62,356,215**	89,376,420
Input VAT	**46,536,446**	28,542,253
Software and licenses	**98,809**	268,195
	₱259,782,039	₱1,103,177,352

Advances to contractors and local suppliers refer to non-interest bearing advance payments made for project mobilization of power plant construction-in-progress which are offset against progress billings by contractors.

Tax credit receivable pertain to input tax with existing application for conversion to tax credit certificates (TCC) while input VAT pertains to the 12% indirect tax passed on to the Company in the course of its business on importation of goods or local purchases and services, including lease of property of VAT-registered entities.

Deferred input VAT pertains to VAT on services that are recognized upon actual payment, and VAT on capital goods and other than capital goods that are recoverable in future periods after 2019 and 2018.

Software and licenses pertains to the cost of software and computer programs subject to amortization.

	2019	2018
Cost		
At January 1	**₱508,159**	₱ –
Additions	**–**	508,159
At December 31	**508,159**	508,159
Accumulated Amortization		
At January 1	**239,964**	70,578
Amortization (Note 15)	**169,386**	169,386
At December 31	**409,350**	239,964
Net Book Value	**₱98,809**	₱268,195

9. Trade and Other Payables

	2019	2018
Retention payables	**₱320,566,942**	₱496,670,485
Accrued interest on loans (Note 10)	**133,485,348**	122,559,309
Accrued expenses	**45,335,585**	149,312,627
Trade payables	**24,298,712**	1,645,628
Others	**39,351,238**	29,370,289
	₱563,037,825	₱799,558,338

Retention payables refer to the amount withheld by the Company to serve as a guarantee for the contractors' performance of their obligations as stipulated in the contracts entered by both parties.

Accrued expenses are non-interest bearing and are generally on a 30-day term such as VAT conversion and salaries.

Trade payables are non-interest bearing and are generally on a 30-day term.

Other payables consist of premiums, statutory payables and payables to affiliates that are non-interest bearing and have no terms.

10. Long-Term Debt

This account consists of:

Lender	**2019**	2018
Bank of the Philippine Islands	**₱4,708,333,333**	₱4,662,227,000
Security Bank Corporation	**2,825,000,000**	2,798,310,000
Asia United Bank Corporation	**1,883,333,333**	1,867,163,000
	9,416,666,666	9,327,700,000
Less: deferred financing costs	**103,854,374**	114,057,696
	9,312,812,292	9,213,642,304
Less: current portion	**571,192,492**	534,378,715
	₱8,741,619,800	₱8,679,263,589

On September 22, 2015, the Company entered into an Omnibus Notes Facility and Security Agreement (Agreement) with Bank of the Philippine Islands, Security Bank Corporation and Asia United Bank Corporation (Lenders) for a loan facility in the aggregate principal amount of up to ₱10,000,000,000 to partially finance the project cost relating to the construction of a 68.8 MW run-of-river hydroelectric power plant in Manolo Fortich, Bukidnon.

The loan drawdown mode is staggered based on an agreed schedule. Any amounts drawn after the schedule will be subject to a 0.25% commitment fee during the availability period, as designated under the Agreement.

The term of the loan is 15 years, and the first principal repayment will take place 42 months after the Financial Close, or six months after project completion. Principal repayments shall be made in equal semi-annual installments beginning in March 2019, with a final balloon payment not to exceed 30% of the loan amount.

Interest rate on the loan is computed at the time of each drawdown, which is the higher of (a) the applicable Interest Base Rate based on the interpolated 7 and 14 years average plus the applicable Interest Rate Margin of 1.25% or (b) the applicable Floor Rate on Interest of 4.75% for Tranche A and 6.0% for Tranche B, as designated under the Agreement. The Interest Base Rate shall be the applicable 3-day average interpolated PDST-R2 rate at the time of such drawdown, as specified under the Agreement.

The loan is secured by an assignment of trade receivables, share pledge over all the shares in the issued capital of the Company and corporate suretyship from APC in favor of the Lenders guaranteeing the Debt Service (a) until project completion and (b) receipt of Feed-In-Tariff payments or contracting power supply agreements equivalent to at least the Company's break-even capacity (see Note 11).

Loan covenants include, among others, the following:

a) Starting one year after project completion date, the Company shall maintain a Debt Service Coverage Ratio (DSCR) of at least 1.05x, at all times, until maturity date and at least 1.2x for dividend distributions to shareholders, which DSCR shall be tested quarterly;
b) The Company is required to maintain a Debt-to-Equity ratio of not more than 75:25 at all times;
c) Prohibition, at any time, in allowing assignment, sale or transfer, directly or indirectly, of the shares or management control of the Company that will breach the threshold of 51% as to ownership of voting stock or will dilute management control.

The company is in compliance with the loan covenants as of December 31, 2019 and 2018.

Deferred financing cost amounting to ₱136.5 million and ₱132.9 million as of December 31, 2019 and 2018, respectively, represents loan transaction cost paid in advance and to be amortized over the term of the loan, as follows:

	2019	2018
Deferred Financing Cost		
At January 1	**₱132,861,382**	₱132,541,382
Addition	**3,677,805**	320,000
At December 31	**136,539,187**	132,861,382
Amortization		
At January 1	**18,803,686**	9,200,765
Amortization	**13,881,127**	9,602,921
At December 31	**32,684,813**	18,803,686
Deferred financing cost, net of amortization	**₱103,854,374**	₱114,057,696

	Long-term debt - net of deferred financing cost (see Note 10)	Interest payable on long-term debt (see Note 9)
January 1, 2018	₱9,204,359,383	₱87,615,872
Proceeds from long-term debt	–	–
Deferred financing costs paid	(320,000)	–
Amortization of deferred financing costs (see Note 6)	9,602,921	–
Capitalized interest expense (see Note 6)	–	509,621,615

(Forward)

	Long-term debt - net of deferred financing cost (see Note 10)	Interest payable on long-term debt (see Note 9)
Interest expense	₱ –	₱60,967,003
Interest paid	–	(535,645,181)
December 31, 2018	9,213,642,304	122,559,309
Proceeds from long-term debt	672,300,000	–
Principal repayments	(583,333,334)	–
Deferred financing costs paid	(3,677,805)	–
Amortization of deferred financing costs (see Note 6)	13,881,127	–
Capitalized interest expense (see Note 6)	–	–
Interest expense	–	591,055,053
Interest paid	–	(580,129,014)
December 31, 2019	**₱9,312,812,292**	**₱133,485,348**

11. Related Party Transactions

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

	Services		Receivables			
	2019	2018	**2019**	2018	Terms	Conditions
Fellow Subsidiary						
Hedcor Sibulan, Inc.						
Sale of power	**₱ –**	₱32,737,864	**₱ –**	₱107,242	30-day, interest free	Unsecured, no impairment
Davao Light and Power Co.						
Sale of power	**323,464,320**	42,135,104	**–**	–	30-day, interest free	Unsecured, no impairment
Cotabato Light and Power Co.						
Sale of power	**30,437,465**	203,500	**–**	–	30-day, interest free	Unsecured, no impairment
Hedcor, Inc.						
Sale of transformer	**–**	817,181	**–**	–	30-day, interest free	Unsecured, no impairment
Hedcor Tudaya, Inc.						
Sale of solar panel	**–**	3,915,756	**–**	–	30-day, interest free	Unsecured, no impairment
	₱353,901,785	₱79,809,405	**₱ –**	₱107,242		

	Services		Payables			
	2019	2018	**2019**	2018	Terms	Conditions
Parent						
AEV						
Professional and technical fees	**₱6,826,810**	₱5,939,107	**₱593,906**	₱927,688	30-day, interest free	Clean, no collateral
APC						
Development fees	**49,225**	4,703	**48,031**	–	30-day, interest free	Clean, no collateral
ACO, Inc.						
Professional and technical fees	**31,109**	408,921	**34,219**	–	30-day, interest free	Clean, no collateral
AEV Aviation						
Aviation services	**1,134,872**	1,300,236	**–**	–	30-day, interest free	Clean, no collateral
Fellow Subsidiary						
Hedcor, Inc. (HI)						
Project management	**–**	3,827,346	**2,246**	318,096	30-day, interest free	Clean, no collateral
Technical and other contracted services	**–**	23,425,287	**–**	3,224,054	30-day, interest free	Clean, no collateral
Therma South, Inc.						
Purchase of power	**7,058**	–	–	–	30-day, interest free	Clean, no collateral
	₱8,052,184	₱34,905,600	**₱678,402**	₱4,469,838		

The above transactions are settled in cash.

The Company's balance sheets and statements of income include the following accounts resulting from transactions with related parties:

a) The Company has cash deposits and short-term investments with Union Bank of the Philippines and City Savings Bank, both affiliates, amounting to ₱3.1 billion and ₱2.0 billion as of December 31, 2019 and 2018, respectively, which earns interest at prevailing rates. UBP is an associate of AEV.

b) In 2019 and 2018, AEV billed the Company ₱6.8 million and ₱5.9 million, respectively, before VAT for professional and other technical services.

c) In 2019 and 2018, the Company paid ₱1.1 million and ₱1.3 million, respectively, to AEV Aviation for the use of aircraft during travel of Company's officers.

d) In 2018, HI billed the Company ₱23.4 million, before VAT, for technical and other contracted services.

e) In 2018, HI billed the Company project management costs relating to the construction of the 68.8 MW Manolo Fortich hydroelectric power plants amounting to ₱3.8 million, before VAT.

f) In 2019 and 2018, the Company sold power to Davao Light and Power Co. and billed ₱323.5 million and ₱42.1 million, respectively, for the services.

g) In 2019 and 2018, the Company sold power to Cotabato Light and Power Co. and billed ₱30.4 million and ₱203,500 for the services.

h) The Company's loan is secured by, among others, a corporate suretyship from APC in favor of the Lenders guaranteeing the Debt Service (a) until project completion and (b) receipt of Feed-In-Tariff payments or contracting power supply agreements equivalent to at least the Company's break-even capacity (see Note 10).

The Company's retirement benefit fund ("Fund") is in the form of a trust being maintained and managed by AEV under the supervision of the Board of Trustees (BOT) of the plan.

In 2019 and 2018, other than contributions to the fund and benefits paid, there is no transaction between the Company and the Fund.

The Company does not have key management personnel compensation in both 2019 and 2018.

12. Pension Benefits

The Company has a funded, non-contributory, defined benefit pension plan ("the Plan") covering all regular and full-time employees and requiring contributions to be made to separately administered fund. This fund is in the form of a trust being maintained and managed by AEV, under the supervision of the BOT of the Plan. The BOT, whose members are also officers of the AEV, is responsible for the investment of the Fund assets. Taking into account the Plan's objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of net benefit expense recognized in the Company statements of income and the funded status and amounts recognized in the Company balance sheets for the plan.

Net benefit expense:

	2019	2018
Retirement expense to be recognized in the income statement:		
Current service cost	**₱344,361**	₱211,711
Net interest cost	**8,729**	11,531
Total retirement expense	**₱353,090**	₱223,242

	2019	2018
Remeasurement effects to be recognized in other comprehensive income:		
Actuarial loss on defined benefit plan	**(₱1,032,212)**	(₱26,935)
Return on assets excluding amount included in net interest cost	**(67,194)**	(500)
Deferred tax effect	**–**	2,744
	(₱1,099,406)	(₱24,691)

Pension liability

	2019	2018
Present value of obligation	**₱1,882,476**	₱466,916
Fair value of plan assets	**(795,081)**	(362,370)
	₱1,087,395	₱104,546

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

	2019	2018
At January 1	**₱466,916**	₱216,739
Net benefit costs in statements of income		
Current service costs	**344,361**	211,711
Interest costs	**38,987**	11,531
	383,348	223,242
Re-measurements in other comprehensive income:		
Loss due to experience adjustments	**44,910**	222,336
Loss (gain) due to change in demographic assumptions	**365,188**	(195,401)
Loss due to changes in financial assumptions	**622,114**	–
	1,032,212	26,935
At December 31	**₱1,882,476**	₱466,916

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

	2019	2018
Balances at beginning of year	**₱362,370**	₱ –
Actual return excluding amount included in net interest cost	**(67,194)**	(500)
Interest income included in net interest cost	**30,258**	–
Actual contributions	**469,647**	362,870
At December 31	**₱795,081**	₱362,370

Changes in pension liability recognized in the balance sheet are as follows:

	2019	2018
At January 1	**(₱104,546)**	(₱216,739)
Retirement expense for the year	**(353,090)**	(223,242)
Actuarial gain (loss) recognized for the year	**(1,099,406)**	(27,435)
Contribution to retirement fund	**469,647**	362,870
At December 31	**(₱1,087,395)**	(₱104,546)

The principal assumptions used as of December 31, 2019 and 2018 in determining the net pension asset for the Company's plan is shown below:

	2019	2018
Discount rates	**5.03%**	8.35%
Future salary increases	**6.00%**	7.00%
Mortality rate	**2017 PICM**	2017 PICM
Disability rate	**1952 Disability Study, Period 2, Benefit 5**	1952 Disability Study, Period 2, Benefit 5
Turnover rate	**A scale ranging from 7% at age 18 to 0% at age 55**	A scale ranging from 3% at age 18 to 0% at age 60

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2019 assuming if all other assumptions were held constant:

	Increase (decrease)	**2019**	2018
Discount rates	+ 1.00%	**(₱308,960)**	(₱71,093)
	- 1.00%	**382,705**	87,268
Future salary increases	+ 1.00%	**384,081**	90,886
	- 1.00%	**(315,587)**	(74,932)

Show below is the maturity profile of the undiscounted benefit payments as of December 31, 2019:

Plan year	Normal Retirement	Other than Normal Retirement	Total
Less than one year	₱ –	₱6,417	₱6,417
One to less than five years	–	72,029	72,029
Five to less than 10 years	1,560,137	231,499	1,791,636
10 to less than 15 years	1,273,318	1,416,714	2,690,032
15 to less than 20 years	6,384,251	2,353,112	8,737,363
20 years and above	31,082,660	2,875,448	33,958,108
Total	₱40,300,366	₱6,955,219	₱47,255,585

The average duration of the expected benefit payments as of December 31, 2019 is 22.06 years.

13. Capital Stock

	2019	2018
Authorized capital stock:		
Common shares, ₱1 par value	**422,000,000**	**422,000,000**
Redeemable preferred shares, ₱1 par value	**3,798,020,000**	**3,798,020,000**
Issued capital stock:		
Common shares	**384,000,000**	**330,000,000**
Redeemable preferred shares	**2,997,000,000**	**2,794,460,000**
	3,381,000,000	**3,124,460,000**

All common shares shall be identical and shall entitle the holder thereof to the same rights and privileges. Each common share shall entitle the holder to one (1) vote on all matters upon which the law entitles the holders of common voting capital stock to vote.

The redeemable preferred shares shall be non-voting, non-cumulative, re-issuable, participating as to dividends with the same rights as common shares, and redeemable on such dates and upon such terms as may be determined by the Company. The Company has the option to redeem the preferred shares.

All the shares in the issued capital of the Company are held as collateral for its loans (see Note 10).

14. Cost of Plant Operations

	2018	2018
Depreciation (see Note 7)	**₱415,897,600**	₱102,065,249
Amortization of right-of-use assets (see Note 21)	**2,148,243**	–
	418,045,843	102,065,249
Operations and maintenance:		
Taxes and licenses	**90,693,212**	319,977
Overhead	**31,814,734**	11,215,874
Personnel	**13,876,402**	10,710,940
Repairs and maintenance	**9,548,048**	1,440,176
	145,932,396	23,686,967
Insurance	**20,239,309**	122,316
Wheeling expense	**307,504**	329,091
	₱584,525,052	₱126,203,624

15. General and Administrative Expenses

	2018	2018
Host community related expenses	**₱16,691,549**	₱7,002,058
Professional fees	**15,189,620**	12,089,948
Claims conversion expense	**12,305,322**	12,136,334
Provision for government share	**10,050,854**	4,441,257
Personnel	**4,195,038**	3,350,300
Energy Regulations (ER) No. 1-94	**2,837,843**	1,154,866
Transportation and travel	**2,010,610**	566,946
System support and maintenance	**1,781,300**	1,198,438
Depreciation	**986,297**	309,057
Repairs and maintenance	**701,585**	–
Training and development	**496,573**	203,475
Amortization of software and licenses	**169,386**	169,386
Taxes and licenses	**14,822**	7,062
Others	**636,309**	4,550,466
	₱68,067,108	₱47,179,593

16. Personnel Expenses

	2019	2018
Salaries and wages	**₱11,699,455**	₱9,497,553
Employee benefits	**6,018,895**	4,340,445
Pension expense (see Note 12)	**353,090**	223,242
	₱18,071,440	₱14,061,240

17. Income Tax

Details of provision for income tax are as follows:

	2019	2018
Final	**₱29,056,830**	₱2,702,301
Current	**5,493,308**	522,732
Deferred	**(40,339)**	(246,198)
	₱ 34,509,799	₱2,978,835

The current income tax represents the regular corporate income tax in 2019 and minimum corporate income tax (MCIT) in 2018.

The reconciliation of income tax computed at the statutory tax rate to the benefit from income tax reported in the statements of income is as follows:

	2019	2018
At statutory rate of 30%	**₱153,437,667**	₱100,062,941
Additions to (reductions in) income tax resulting from:		
Income under ITH	**(64,773,038)**	(100,893,485)
Interest income subjected to final tax	**(43,585,921)**	(4,053,451)
Change in value of unrecognized deferred income tax asset	**(38,959,773)**	(244,924)
Final tax on interest income	**29,056,830**	2,702,301
Difference in accounting and tax bases for share issuance costs	**(769,620)**	–
Difference in tax rate	**(45,023)**	(40,498)
Others	**148,677**	5,445,951
	₱34,509,799	₱2,978,835

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

	2019	2018
Deferred tax asset:		
Pension costs recognized in other comprehensive income	**₱112,684**	₱ –
Unamortized past service cost	**27,018**	–
Pension costs recognized in profit and loss	**–**	6,468
	₱139,702	₱6,468

(Forward)

	2019	2018
Deferred tax liabilities:		
Pension costs recognized in profit or loss	**₱3,945**	₱ –
Derivative asset	**–**	20,991
	3,945	20,991
Deferred tax assets (liabilities) - net	**₱135,757**	(₱14,523)

The following are the Company's unrecognized deferred tax assets:

	2019		2018	
	Gross	**Tax Effect**	Gross	Tax Effect
Provision for claims conversion	**₱22,828,484**	**₱6,848,545**	₱148,783,504	₱44,635,051
Right-of-use asset and lease liability - net	**3,175,761**	**952,728**	–	–
Unrealized foreign exchange loss	**264,058**	**79,217**	425,887	127,766
NOLCO	**–**	–	6,855,120	2,056,536
Unamortized past service cost	**–**	–	169,231	16,923
Pension liability	**–**	–	39,866	3,987
	₱26,268,303	**₱7,880,490**	₱156,273,608	₱46,840,263

The details of the Company's NOLCO follow:

Year Incurred	Expiry Date	At January 1, 2018	Applied	At December 31, 2018	Expired	**At December 31, 2019**
2016	December 31, 2019	₱6,889,963	(₱6,889,963)	₱ –	₱ –	**₱ –**
2017	December 31, 2020	14,969,334	(8,114,214)	6,855,120	(6,855,120)	**–**
		₱21,859,297	(₱15,004,177)	₱6,855,120	(₱6,855,120)	**₱ –**

In 2019, the Company applied the remaining NOLCO amounting to ₱6.9 million against taxable income.

18. Financial Risk Management Objectives and Policies

The principal purpose of the Company's financial instruments is to fund its operations. The Company has other financial liabilities which arise directly from its financing activities.

The main risks arising from the Company's financial instruments are liquidity, credit and interest rate risks.

The BOD reviews and agrees policies for managing each of these risks and they are summarized below:

Liquidity risk
Liquidity risk is defined as the risk that the Company may not be able to settle or meet its obligations as they fall due. In the management of liquidity risk, the Company monitors and maintains a level of cash deemed adequate by management to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

The following table summarizes the maturity profile of the Company's financial assets and liabilities as of December 31, 2019 and 2018 based on contractual undiscounted payments.

December 31, 2019

	On demand	Less than 6 months	6 months to 1 year	1 to 5 years	More than 5 years	**Total**
Long-term debt	₱ –	₱ –	₱583,333,334	₱2,916,666,669	₱5,916,666,663	**₱9,416,666,666**
Interest on long-term debt	–	285,797,963	276,854,931	2,268,469,558	1,325,323,641	**4,156,446,093**
Lease liabilities				(6,281,901)	114,592,854	**108,310,593**
Accounts payable and accrued expenses, excluding statutory payables	235,616,819	–	–	–	–	**235,616,819**
Retention payable	–	–	–	320,566,942	–	**320,566,942**
Total undiscounted financial liabilities	₱235,616,819	₱285,797,963	₱860,188,265	₱5,499,421,268	₱7,356,583,158	**₱14,237,607,113**
Cash and cash equivalents	₱134,945,599	₱2,989,701,906	₱ –	₱ –	₱ –	**₱3,124,647,505**
Receivables, excluding other receivables	–	403,531,341	–	–	–	**403,531,341**
Total undiscounted financial assets	₱134,945,599	₱3,393,233,247	₱ –	₱ –	₱ –	**₱3,528,178,846**

December 31, 2018

	On demand	Less than 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
Long-term debt	₱ –	₱ –	₱544,115,836	₱2,720,579,180	₱6,063,004,984	₱9,327,700,000
Interest on long-term debt	–	230,937,732	317,424,115	1,865,389,804	1,952,830,548	4,366,582,199
Accounts payable and accrued expenses, excluding statutory payables	292,418,579	–	–	–	–	292,418,579
Retention payable	–	–	–	496,670,485	–	496,670,485
Total undiscounted financial liabilities	₱292,418,579	₱230,937,732	₱861,539,951	₱5,082,639,469	₱8,015,835,532	₱14,483,371,263
Cash and cash equivalents	₱93,816,886	₱1,979,813,606	₱ –	₱ –	₱ –	₱2,073,630,492
Receivables, excluding other receivables	–	129,372,882	–	–	–	129,372,882
Foreign currency swaps receive	–	209,909	–	–	–	209,909
Total undiscounted financial assets	₱93,816,886	₱2,109,396,397	₱ –	₱ –	₱ –	₱2,203,213,283

Credit risk

Credit risk is the risk that counterparty will not meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The Company's exposure to credit risk is mainly on the Company's cash in bank. It is the policy of the Company to trade only with recognized and creditworthy third parties, so that exposure to credit risk is managed and maintained. The maximum exposure to credit risk is equal to the carrying amount of cash in bank.

The tables below show the aging analysis of the Company's financial assets:

	2019						
		Neither Past Due Nor	Past Due but Not Impaired				
	Total	Impaired	< 30 Days	30-60 Days	60-90 Days	> 90 Days	Impaired
Cash and cash equivalents	**₱3,124,647,505**	₱3,124,647,505	₱ –	₱ –	₱ –	₱ –	₱ –
Receivables, excluding other receivables	**403,531,341**	403,531,341	–	–	–	–	–
	₱3,528,178,846	₱3,528,178,846	₱ –	₱ –	₱ –	₱ –	₱ –

	2018						
		Neither Past Due Nor Impaired	Past Due but Not Impaired				
	Total		< 30 Days	30-60 Days	60-90 Days	> 90 Days	Impaired
Cash and cash equivalents	₱2,073,630,492	₱2,073,630,492	₱ –	₱ –	₱ –	₱ –	₱ –
Receivables, excluding other receivables	129,372,882	129,372,882	–	–	–	–	–
	₱2,203,003,374	₱2,203,003,374	₱ –	₱ –	₱ –	₱ –	₱ –

As of December 31, 2019 and 2018, the credit quality of the Company's cash and cash equivalents and receivables are neither past due nor impaired, and both are considered to be high grade.

The Company evaluated its cash and cash equivalents as high quality financial assets since these are placed in financial institutions of high credit standing.

The credit quality of the Company's receivables was determined as follows:

- High Grade - pertain to receivables from customers with good favorable credit standing. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

- Standard - these pertain to financial assets with counterparties with history of sliding beyond the credit terms but pay a week after being past due.

- Substandard - these pertain to counterparties with payment habits that normally extend beyond the approved credit terms and have high probability of being impaired.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to its derivative asset.

19. Categories and Fair Value of Financial Instruments

Fair Values
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:

Cash and Cash Equivalents and Receivables (excluding Other Receivables)
The carrying amounts of cash and cash equivalents and receivables (excluding other receivables) approximate their fair values due to the short-term maturity of these financial instruments.

Retention payable, Accrued Expenses and Non-trade Payables (excluding Statutory Payables) and Accrued Interest on Long-term Debt
The carrying amount of trade payable, accrued expenses and non-trade payables (excluding statutory payables) and accrued interest on long-term debt, approximate their fair values due to the relatively short-term maturity of these financial instruments.

Long-term Debt
The fair value of the Company's long-term debt as of December 31, 2019 and 2018 with carrying amounts of ₱9.3 billion and ₱9.2 billion, as of those dates, respectively, amounted to ₱10.1 billion and ₱9.1 billion, respectively.

The fair value of long-term debt is based on the present value of expected future cash flows using the applicable credit adjusted discount rate ranging from 4.19% to 5.51% in 2019 and 5.41% to 7.53% in 2018.

Derivative Liability/Asset
The fair value of the foreign currency hedges discussed below was based on the market values as provided by the counterparty bank.

Derivatives
Foreign currency forward contracts
On November 26, 2015, the Company entered into a non-deliverable forward contract with an international bank to manage its exposure to exchange rate fluctuations associated with US-dollar denominated purchases. As of December 31, 2018, the contract has an aggregate notional amount of US$1.2 million. The contract was fully settled in January 2019.

Fair Value Changes of Derivatives
The net movements in the fair values of the Company's derivative asset (liability) account for the year ended December 31, 2019 and 2018 are as follow:

	2019	2018
Balance at beginning of year	**₱209,909**	₱2,634,555
Mark to market loss on derivative instruments	**–**	(2,424,646)
Settlement of derivatives	**(209,909)**	–
Balance at end of year	**₱ –**	₱209,909

Fair Value Hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs)

As of December 31, 2019 and 2018, the Company held the following financial instruments that are measured and carried or disclosed at fair value:

December 31, 2019

	Total	**Level 1**	**Level 2**	**Level 3**
Disclosed at fair value:				
Long-term debt	**₱10,066,218,200**	**₱ –**	**₱10,066,218,200**	**₱ –**

December 31, 2018

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative assets	₱209,909	₱ –	₱209,909	₱ –
Disclosed at fair value:				
Long-term debt	9,061,413,096	–	9,061,413,096	–

There were no transfers between Level 1 and Level 2 fair value measurement, and there were no transfers into and out of Level 3 fair value measurement.

20. Capital Management

Capital includes capital stock and retained earnings.

The primary objective of the Company's capital management is to safeguard the Company's ability to continue its operations as a going concern and maximize the value of its capital for the benefit of its shareholders and other stakeholders. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Company is not subject to externally imposed capital requirements except for those disclosed in Note 10.
As of December 31, 2019 and 2018, the following are the Company's equity:

	2019	2018
Common stock	**₱384,000,000**	₱330,000,000
Preferred stock	**2,997,000,000**	2,794,460,000
Retained earnings	**613,379,793**	151,110,688
	₱3,994,379,793	₱3,275,570,688

21. Agreements

Renewable Energy Supply Agreement
In 2016 and 2017, the Company entered into a Renewable Energy Supply Agreement (RESA) with 10 distribution companies, 8 of which are different cooperatives, to supply or sell power and energy produced by the mini hydroelectric power plants. Upon the full implementation of the WESM in Mindanao, these agreements will automatically terminate on the effectivity date of, and be substituted by, the Market Participation Agreement of such eligible RE Plant under the WESM in Mindanao. The obligations of the parties under RESA shall cease upon the effectivity of such Market Participation Agreement, subject to the payment of all sums of money due under this agreement. Total sale of power resulting from renewable energy supply agreements amounted to ₱1.61 billion and ₱540.7 million in 2019 and 2018, respectively.

In 2018, the Company entered into Replacement Power Supply Agreement with Hedcor Sibulan, Inc. The Company shall provide replacement power to Hedcor Sibulan, Inc. to supply electricity to its customers. The agreement took effect from the effective date until the declaration of commercial operation on July 2, 2018 and November 23, 2018 for Manolo Plants 1 and 2, respectively. Total sale of power resulting from commissioning activities to Hedcor Sibulan, Inc. amounted to ₱32.7 million in 2018.

Lease Contracts
The Company entered into contracts with various lot owners for lease of land where the Power Plants are located. Terms of contracts are for a period of 25 to 50 years renewable upon mutual agreement by the parties.

Future minimum rentals payable are as follows:

	2019	2018
Within one year	**₱8,916,909**	₱10,507,685
After one year but not more than five years	**35,848,326**	35,783,489
More than five years	**453,336,122**	462,317,868
	₱498,101,357	₱508,609,042

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the year ended December 31, 2019:

	Land	Lease Liability
As at January 1	₱97,551,474	₱107,483,863
Amortization expense	(2,148,243)	–
Interest expense	–	11,600,584
Payments	–	(10,773,854)
	₱95,403,231	₱108,310,593

22. Registration with the Board of Investments (BOI)

The BOI approved the Company's application for registration as a new renewable energy developer of 43.4 MW Manolo Fortich 1 and 25.4 MW Manolo Fortich 2 hydroelectric power plants under the Renewable Energy Act of 2008 (Republic Act 9513) on December 22, 2014 and January 7, 2015, respectively. The BOI issued the Certificates of Registration on the same dates which entitle the Company to the following incentives:

a. Income Tax Holiday (ITH) for a period of seven (7) years from date of actual commercial operation reckoned from the state at which the hydroelectric plant generated the first kilowatt-hour of energy after commissioning or testing, or two months from the date of such commissioning or testing, whichever comes earlier, as certified by the Department of Energy. The ITH incentives shall be limited only to the revenues generated from the sales of electricity of the hydroelectric plant.

b. Duty-free importation of Renewable Energy machinery, equipment and materials including control and communication equipment, within the first ten (10) years from the issuance of the BOI certificate of registration.

c. Tax exemption of carbon credits.

The Company shall also be entitled to the following incentives under Republic Act 9513.

a. Special realty tax rates on equipment and machinery
Realty and other taxes on civil works, equipment and machinery and other improvements of a registered enterprise actually and exclusively used for RE facilities shall not exceed 1.5% of the original cost less accumulated depreciation or net book value.

b. NOLCO
The NOLCO during the first three years from start of commercial operation shall be carried over as a deduction from gross income in the National Internal Revenue Code of 1997 (NIRC) for the next seven (7) years immediately following the year of such loss (see Note 17).

c. Corporate tax rate
After availment of the ITH, the Company shall pay a corporate tax of ten percent (10%) on its taxable income as defined in the NIRC, provided that it shall pass on the savings to the end-users in the form of lower rates.

d. Accelerated depreciation

e. Zero-percent Value-Added Tax Rate
The sale of power generated by the enterprise as well as its purchases of local supply of goods, properties and services needed for the development, construction, and installation of its plant facilities and the whole process of exploration and development of RE sources up to its conversion into power shall be subject to zero percent value-added tax pursuant to the NIRC.

f. Tax credit on domestic capital equipment and services

23. Renewable Energy Act of 2008

On January 30, 2009, Republic Act (R.A.) No. 9513, An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective. The Act aims to, among others, accelerate the exploration and development of renewable energy (RE) resources, increase the utilization of renewable energy and promote its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives.

As provided for in the Act, qualified RE developers, duly certified by the Department of Energy (DOE) in consultation with the Board of Investments (BOI), shall be entitled to incentives, such as, income tax holiday, duty-free importation of RE machinery, equipment and materials, zero percent VAT rate on sale of power from RE sources, and tax exemption of carbon credits, among others.

The Company, as RE developer, entered into a renewable energy service contract dated December 2, 2013, for Manolo Fortich 1 and Manolo Fortich 2 plants with Department of Energy. As an RE developer, the Company expects that the Act will have significant effects on the Company's future operations and financial results. Impact on the operating results is expected to arise from the effective reduction in taxes.

24. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following types of taxes in 2019:

Value-Added Tax (VAT)

The Company's sales, other than sale of power, are subject to 12% output VAT while its sale of power are subject to 0% VAT pursuant to Section 108 (B) (7) of the NIRC. Furthermore, the Company's importations and purchases from VAT-registered individuals or corporations are subject to 12% input VAT.

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns for 2019:

	Net Sales/ Receipts	Output VAT
Taxable sales	₱17,522	₱2,103
Zero-rated sales	1,334,031,179	–
	₱1,334,048,701	₱2,103

Zero-rated sales are recorded under the "Power Sales" account. The Company's sale of services reported in the VAT returns is based on actual collections received, hence, may not be the same as the amounts accrued in the Statement of Income.

b. Input VAT

Balance at January 1	₱28,542,253
Input tax on capital goods exceeding P1M deferred from succeeding period	39,374,441
Current year's domestic purchases/payments or importations for:	
Goods other than for resale or manufacture - local purchases	639,315
Goods other than for resale or manufacture - importation	–
Capital goods not subject to amortization	43,473
Capital goods subject to amortization	479,571
Services lodged under cost of goods sold and other accounts	77,954,925
Services by non-residents	–
	147,033,978
Input tax on capital goods exceeding P1M deferred from succeeding period	(26,822,092)
Output tax	(2,103)
VAT Refund	(73,673,337)
Balance at December 31	₱46,536,446

c. Taxes and licenses

Taxes and licenses, local and national, include licenses and permit fees:

Included in cost of plant operations:	
Real property taxes	₱87,099,435
Business taxes	2,887,756
Water permit fees	288,457
DOLE permit fees	252,381
Environmental fees	62,504
LTO registration fees	20,000
Community tax certificate	10,500
Business permit	1,911
Others	70,268
	₱90,693,212

Included in general and administrative expense:	
LTO registration fees	₱8,322
BIR registration fees	500
Others	6,000
	₱14,822

Withholding taxes for 2019

Expanded withholding taxes	₱100,964,392
Withholding taxes on compensation and benefits	402,454
	₱101,366,846

Documentary stamp taxes amounting to ₱2.6 million are treated as share issuance costs recognized as a deduction from retained earnings.

d. Tax Assessments and cases

As of December 31, 2019, the Company did not receive any Final Assessment Notice.