POWER SECTOR ASSETS AND LIABILITIES MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2018

1. GENERAL INFORMATION

The financial statements of the Power Sector Assets and Liabilities Management (PSALM) Corporation were authorized for issue on February 14, 2019 as shown in the Statement of Management's Responsibility for Financial Statements signed by Atty. Irene Joy Besido-Garcia, President and CEO of PSALM.

PSALM was created on June 26, 2001 as a government-owned and controlled corporation by virtue of Section 49, Chapter VI of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA). It is mandated to take ownership of all the existing generation assets, independent power producer (IPP) contracts, real estate and all other disposable assets, and to assume all liabilities and obligations of the National Power Corporation (NPC).

The principal purpose of PSALM is to manage the orderly sale, disposition and privatization of NPC's assets, with the objective of liquidating in an optimal manner all of NPC's financial obligations and stranded contract costs. To strengthen the financial viability of electric cooperatives, PSALM was also tasked to assume all outstanding financial obligations of electric cooperatives with the National Electrification Administration (NEA), and other government agencies, that were incurred for financing the Rural Electrification Program (REP). Moreover, it was granted the powers to collect, administer, and apply NPC's portion of the universal charge (UC). The UC refers to the charge, if any, imposed on all electricity end-users for the following purposes:

a. Recovery of the stranded debts and stranded contract costs of NPC as well as the qualified stranded contract costs of distribution utilities resulting from the restructuring of the industry. The stranded debts of NPC refer to any unpaid obligations that have not been liquidated by the proceeds from the sales and privatization of its assets. Stranded contract costs of NPC or distribution utility refer to the excess of the contracted cost of electricity under eligible contracts over the actual selling price of the contracted energy output of such contracts in the market. Such contracts should have been approved by the Energy Regulatory Board as of December 31, 2000;

b. Missionary electrification, which refers to the provision by NPC-SPUG of power generation and its associated power delivery systems in areas that are not connected to the transmission system;

c. Equalization of taxes and royalties applied to indigenous or renewable sources of energy vis-à-vis imported energy fuels; and

d. Rehabilitation and management of watershed areas. An environmental charge equivalent to one-fourth of one centavo per kilowatt-hour (P0.0025/kWh) sales to be used solely for this purpose which shall accrue to an environmental fund to be managed by NPC.

The UC is a non-bypassable charge which is passed on and collected from all end-users on a monthly basis by the distribution utilities. The collections by the distribution utilities and National Grid Corporation of the Philippines (NGCP) in any given month shall be remitted to PSALM on or before the fifteenth (15th) of the succeeding month. Any end-user or self-generating entity not connected to a distribution utility shall remit its corresponding UC directly to NGCP.

PSALM shall exist for a period of twenty-five (25) years from the effectivity of the Electric Power Industry Reform Act of 2001 (EPIRA), unless otherwise provided by law, and all assets and liabilities of the Corporation outstanding upon the expiration of its term of existence shall revert to and be assumed by the National Government.

On October 15, 2018, the Corporation formally started its business operations at its new office located at the 24th Floor Vertis North Corporate Center 1, Astra corner Lux Drives, North Avenue, Quezon City 1105, Metro Manila, Philippines. Prior to its transfer, PSALM held its operations at the Power Center, National Power Corporation Complex.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in compliance with the Philippine Public Sector Accounting Standards (PPSAS) prescribed by the Commission on Audit through COA Resolution No. 2014-003 dated January 24, 2014.

To arrive at the financial statements, accounting policies have been consistently applied throughout the year presented.

Further, the financial statements have been prepared on the basis of historical cost, except for assets transferred from NPC which were recorded at their carrying amounts (or balances as reflected in NPC books) as of the transfer date of December 31, 2008.

The financial statements are presented in Philippine Peso, which is also the country's functional currency. Amounts shown are also in absolute value, unless otherwise stated. In the case of the Statement of Cash Flow, this is prepared using the direct method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Accounting

The financial statements are prepared on an accrual basis in accordance with the PPSAS.

3.2 Financial Instruments

a. Financial assets

i. Initial recognition and measurement

Financial assets within the scope of PPSAS 29, Financial Instruments: Recognition and Measurement, are classified as financial assets at fair value through surplus or deficit, held-to-maturity investments, loans and receivables or available-for-sale financial assets, as appropriate. PSALM determines the classification of its financial assets at initial recognition.

PSALM's financial assets include: cash and cash equivalents; trade and other receivables; loans and other loans receivables; and derivative financial instruments.

ii. Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

1. Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit include financial assets held for trading and financial assets designated upon initial recognition at fair value through surplus or deficit. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through surplus or deficit are carried in the Statement of Financial Position at fair value with changes in fair value recognized in surplus or deficit.

2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Receivables are initially measured at face value and subsequently at amortized cost. Impairment loss is recognized using an allowance account.

2.1 Power receivables

These are classified as current assets as they are expected to be collected within 12 months after the financial reporting date, except the disputed and restructured accounts which are classified as noncurrent assets.

2.2 Lease receivables

As structured, the contract, in the form of an Administration Agreement, between the Independent Power Producer Administrators (IPPAs) and PSALM, can be classified as a finance lease because it substantially transfers the risks and rewards incidental to ownership to the IPPA.

Based on PPSAS 13, the contract between the IPPA and PSALM are classified as a finance lease because, in substance, the contract contains the following indicators of a finance lease:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;

- the lease term is for the major part of the economic life of the asset even if title is not transferred; and

- the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Similarly, the IPPA structure provides that:

- full ownership of the generating plant to the IPPA at the end of the Administration Agreement;

- the Administration Agreement is for the remaining contract period of the service concession assets under the Build-Operate-Transfer (BOT) contracts with the Independent Power Producers (IPPs), which is for the most part of the economic life of the asset given that, on the average, the estimated economic life of the transferred generating plants is 30 to 40 years, based on their last revaluation in 1996; and

- the leased generating plant is of a specialized nature and size that operating this asset and managing its output require highly technical expertise and considerable financial capability that only qualified entities such as the IPPAs can bid for administration of their contracted capacities and eventually own and operate them.

The service concession asset privatized under a finance lease is presented as a lease receivable from the IPPA in the amount equal to the aggregate of the monthly payments to be made by the winning bidder throughout the contract period. The schedule of monthly payments was part of the Financial Bid of the IPPA and is made part of the Administration Agreement as Annex 1 to Schedule I.

IPPA receivables are classified as current assets as they are expected to be collected within 12 months after the financial reporting date. Otherwise, these are classified as non-current assets.

3. Held-to-Maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when PSALM has the positive intention and ability to hold it to maturity.

After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

iii. Derecognition

PSALM derecognizes a financial asset or, where applicable, a part of a financial asset or part of PSALM of similar financial assets when:

1. The contractual rights to the cash flows from the financial asset expired or waived; and

2. The Corporation has transferred its contractual rights to receive the cash flows of the financial assets, or retains the contractual rights to receive the cash flows of the financial assets but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions set forth in PPSAS 29, Financial Instruments: Recognition and Measurement; and either the entity has:

    - transferred substantially all the risks and rewards of ownership of the financial asset; or

    - neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred the control of the asset.

iv. Impairment of financial assets

PSALM assesses at each reporting date whether there is objective evidence that a financial asset or a 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 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 the following indicators:

1. The debtors or a group of debtors are experiencing significant financial difficulty

2. Default or delinquency in interest or principal payments

3. The probability that debtors will enter bankruptcy or other financial reorganization

4. Observable data indicates a measurable decrease in estimated future cash flows (e.g., changes in arrears or economic conditions that correlate with defaults)

Particularly for loans and receivables, PSALM adopted a revised accounting policy in 2014 to adequately provide allowance for doubtful accounts as follows: (i) for regular accounts, an initial 10% impairment allowance is recognized for accounts that are outstanding for more than one year, and a ten percent increase is thereafter provided for every year past due; (ii) for accounts with dispute, a 15% allowance for impairment is provided, unless a more specific amount is agreed upon by both parties in its initial proceedings; and (iii) for dormant as well as closed accounts, these are provided 100% impairment allowance.

v. Financial Assets Carried at Amortized Cost

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

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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in surplus or deficit. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or transferred to PSALM. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in surplus or deficit.

b. Financial liabilities

i. Initial recognition and measurement

Financial liabilities within the scope of PPSAS 29 are classified as financial liabilities at fair value through surplus or deficit, or loans and borrowings, as appropriate. PSALM determines the classification of its financial liabilities at initial recognition.

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

PSALM's financial liabilities include trade and other payables and loans and borrowings.

ii. Subsequent measurement

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well through the amortization process.

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

iii. Derecognition

A financial liability is derecognized when the obligation under the liability expires or is discharged or cancelled.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in surplus or deficit.

c. Derivative financial instruments

PSALM uses derivative financial instruments such as Principal Only Swap (POS) to hedge its foreign currency risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to surplus or deficit. PSALM does not apply hedge accounting.

3.3 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash in bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

3.4 Inventories

Upon initial recognition, Inventories Held for Consumption for operation categorized as Fuel, Oil and Lubricants are valued at cost using the weighted average method under PPSAS No. 12 – Inventories, while other supplies and materials which are non-fuel items are valued using the moving-average method.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of PSALM.

3.5 Investment Property

Investment property, similar to NPC-transferred assets, are initially measured at their carrying amounts as stated in NPC books as of the transfer date of December 31, 2008.

Investment property are derecognized when they have been disposed of. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. PSALM uses the cost model for the measurement of investment property after initial recognition.

3.6 Property, Plant and Equipment and Depreciation

a. Recognition

An item is recognized as property, plant, and equipment (PPE) if it meets the characteristics and recognition criteria as a PPE.

The characteristics of PPE are as follows:

- tangible items;
- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity;
- the cost or fair value of the item can be measured reliably; and
- the cost is at least P15,000.00.

b. Measurement at recognition

For the preparation of the financial statements, PSALM followed COA Circular No. 2017-04 issued on December 13, 2017, which now requires the adoption of the cost model for all classes of PPE, as oppose to the previous manner of using the appraised value in reporting PPE.

An item recognized as PPE is measured at cost. The cost of the PPE is the cash price equivalent.

Cost includes the following:

(i) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

(ii) expenditure that is directly attributable to the acquisition of the items; and

(iii) initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

However, a PPE acquired through non-exchange transaction, such as power, energy, and electrification structures transferred from NPC, is recognized in PSALM's books at their carrying amounts as stated in NPC books as of the transfer date of December 31, 2008.

c. Measurement after recognition

After recognition, all PPE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PPE are required to be replaced at intervals, PSALM recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PPE as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized as expense in surplus or deficit as incurred.

For PPE transferred from NPC, major maintenance, which are done on periodic three-to-five year intervals, are deferred, amortized and charged to operations over the number of year's interval. Rehabilitation expenditures that would result in improvement of the plant's efficiency beyond five years are capitalized and transferred to plant cost upon completion of work orders. Regular annual maintenance, repairs and minor replacements are charged to expense in surplus or deficit as incurred.

On January 9, 2009, PSALM filed with the Energy Regulatory Commission (ERC) its petition for the adoption of proposed asset valuation guidelines using an indexation method to revalue NPC's assets to its current cost level in lieu of the conduct of an appraisal by an external appraiser.

The public consultation on the petition was held on February 23, 2009, whereupon ERC directed PSALM to revise the Asset Valuation Guidelines based on comments from interested parties. This called for the application of the revaluation method of reporting NPC-transferred PPE.

However, PPSAS 17 requires the adoption of the cost model for all classes of PPE for purposes of uniformity and consistency. Thus, beginning January 1, 2017, PSALM derecognized the accumulated revaluation, and adopted the cost model for all classes of PPE.

d. Depreciation

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

i. Initial recognition of depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

For simplicity and to avoid proportionate computation, the depreciation is for one month if the PPE is available for use on or before the 15th of the month. However, if the PPE is available for use after the 15th of the month, depreciation is for the succeeding month.

ii. Depreciation method and Estimated Useful Life

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Economic Life
Power plants transferred from NPC:	
1. Hydraulic Production	40 years
2. Thermal Production (Oil- and Coal-Fired)	35 years
3. Geothermal Production	30 years
4. Other Production (Combined-Cycle, Diesel, Barge, Gas Turbine)	20 years
Buildings and Other Structures	30-50 years
Furniture, fixtures and equipment	5-10 years
Transportation equipment	7 years
Computers and accessories	5 years
Leased Assets Improvements	Over the useful life of the improvement or the lease term, whichever is shorter. The lease term would include any renewal option periods where extension of

	the lease is expected.
Service Concession Assets	Over the useful life of the service concession asset or the term of the service concession arrangement, whichever is shorter. The term of the service concession arrangement would include any renewal option periods where extension of the service concession arrangement is expected.
Other Property, Plant and Equipment	2-15 years

For PPE transferred from NPC, the average remaining useful life was determined by subtracting the age of the asset from the estimated standard economic life.

iii. Residual value

PSALM uses a residual value equivalent to ten per cent of the cost of the PPE.

iv. Impairment

The carrying amount is reviewed for impairment when changes in circumstances indicate that the carrying amount may not be recoverable or may have diminished. If any such indication exists, and where the carrying amount exceeds the estimated recoverable amount or recoverable service amount, the assets are written down to their recoverable amount, or recoverable service amount, and impairment loss is recognized in profit or loss.

v. Derecognition

PSALM derecognizes items of PPE and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. 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 surplus or deficit when the asset is derecognized.

3.7 Leases

a. PSALM as a lessee

i. Finance lease

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased item to PSALM.

Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. PSALM also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured at the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the PSALM will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

ii. Operating lease

Operating leases are leases that do not transfer substantially all the risks and rewards incidental to ownership of the leased item to the PSALM. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

b. PSALM as a lessor

i. Finance lease

PSALM recognizes lease payments receivable under a finance lease as assets in the statement of financial position. The assets are presented as receivable at an amount equal to the net investment in the lease.

The finance revenue is recognized based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease.

ii. Operating lease

Leases in which the PSALM does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term.

Rent received from an operating lease is recognized as income on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

3.8 Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

Provisions are recognized when PSALM 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 or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provisions are reversed.

b. Contingent liabilities

PSALM does not recognize a contingent liability, but discloses details of any contingencies in the notes to financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

c. Contingent assets

PSALM does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the PSALM in the notes to financial statements.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

3.9 Changes in Accounting Policies and Estimates

PSALM recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy were applied prospectively if retrospective application is impractical.

PSALM recognizes the effects of changes in accounting estimates prospectively by including in surplus or deficit.

It also corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- Restating the comparative amounts for prior period(s) presented in which the error occurred; or

- If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

3.10 Foreign Currency Transactions

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

- Foreign currency monetary items are translated using the closing rate;

- Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and

- Nonmonetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items; or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise, except as those arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.

3.11 Revenue from Non-Exchange Transactions

a. Recognition and measurement of assets from non-exchange transactions

An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset are recognized as an asset if the following criteria are met:

i. It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and

ii. The fair value of the asset can be measured reliably.

An asset acquired through a non-exchange transaction is initially measured at its fair value as at the date of acquisition.

b. Recognition of revenue from non-exchange transactions

An inflow of resources from a non-exchange transaction recognized as an asset is recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

c. Measurement of revenue from non-exchange transactions

Revenue from non-exchange transactions is measured at the amount of the increase in net assets recognized by the entity, unless a corresponding liability is recognized.

d. Measurement of liabilities on initial recognition from non-exchange transactions

The amount recognized as a liability in a non-exchange transaction is the best estimate of the amount required to settle the present obligation at the reporting date.

e. Government Grants (Subsidy from National Government)

An unconditional government grant is recognized in Statement of Comprehensive Income as other income when the grant becomes receivable. A conditional government grant is recognized only when there is reasonable assurance that (a) the entity will comply with any conditions attached to the grant; and (b) the grant will be received.

The grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

3.12 Revenue from Exchange Transactions

a. Sale of owned and operated power plants

Revenue/gain from sale of the generation plants is recognized in full upon the successful turnover of the asset. The sale price is payable in cash or on installment. Normal terms for installment is 40% upfront cash and the 60% balance payable in 14 equal semi-annual payments at an agreed interest. The 60% deferred payment is recorded as Asset Sale Receivable.

b. Privatization of IPP power plants

Gain from the privatization of IPPs is recorded as Other Deferred Credits – Unearned Finance Income. The earned portion will subsequently be recorded as Finance Income over the life of the Administration Agreement.

c. Dividends

Dividends or similar distributions are recognized when PSALM's right to receive payments is established.

d. Rental income

Rental income arising from a Land Lease Agreement (LLA) on investment property is accounted for on a straight-line basis over the lease terms and included in revenue.

e. Other revenues

Other revenues are recognized when it is probable that future economic benefits will be received and such future benefits can be measured reliably.

3.13 Budget Information

The annual budget is prepared on a cash basis and is published in the government website.

A separate Statement of Comparison of Budget and Actual Amounts (SCBAA) is prepared since the budget and the financial statements are not prepared on comparable basis. The SCBAA is presented showing the original and final budget and the actual amounts on comparable basis to the budget.

The annual budget figures included in the financial statements are for the controlling entity, PSALM, and therefore exclude the budget for its subsidiary, the National Transmission Corporation (TransCo). The budgets of PSALM are not made publicly available. These budget figures are those approved by the governing body both at the beginning and during the year following a period of consultation with the public.

3.14 Subsidiary

As a wholly owned subsidiary of PSALM, TransCo remits its income for the period to the former thru declaration of dividend. PSALM would then recognize the dividend income in its Statement of Comprehensive Income for the period.

3.15 Service Concession Agreements

PSALM analyzes all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, PSALM recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price.

Such is the case with the Build-Operate-Transfer (BOT) contracts entered into by NPC with the IPPs, which were eventually turned over by NPC to PSALM during the Asset-Debt Transfer in 2008. Arising from the government's efforts to mitigate the growing problem in the supply of electricity in the late 1980s to 1990s, private entities were designated by the government to build additional facilities to ensure a long-term and stable source of electricity that would reach more end-users. These BOT contracts constitute service concession agreements thereby resulting to recognition of service concession assets and service concession arrangement payables. BOT lease obligations, stated in nominal amounts, represent obligations to Independent Power Producers (IPP). These facilities were operated and maintained by the private entities for a certain period before turning them over to the government. The arrangement resembled a finance lease wherein the paying entity (in this case, the government), has the option to acquire ownership of the property after the private sector partners recover most of the asset's costs. Hence, the commissioned capacities were classified as Service Concession Arrangements Payable.

In the books, total capacity fees for the duration of the cooperation period are capitalized and recognized as an asset. A liability corresponding to the unpaid portion of the capital recovery fees is set up under Service Concession Arrangements Payable. Kalayaan 3 & 4 and Mindanao Coal are the remaining BOT assets which are amortized over 40 years and 25 years, respectively.

Upon turnover of the privatized BOT plant to the appointed Independent Power Producer Administrators (IPPA), the asset is derecognized from the books of PSALM. However, the corresponding BOT lease obligations/Service Concession Arrangements Payable are not derecognized because they are not transferred to the appointed IPPA.

3.16 Taxes

Taxes and the related fines and penalties were recognized when collected or when these were measurable and legally collectible. Taxes for current and prior periods were, to the extent unpaid, recognized as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess payment was recognized as an asset.

Unlike the NPC, whose Charter provides that it shall be exempt from direct and indirect taxes, the EPIRA does not contain a provision that exempts PSALM, as an entity, from taxation.

While PSALM as an entity is not tax-free per se, there are certain transactions of this Corporation which are exempt from taxation. As set forth and further clarified in BIR Revenue Memorandum Circular (RMC) No. 11-2012 dated March 22, 2012, which supersedes previous BIR Ruling No. 020-02 dated May 13, 2002, the tax treatment of PSALM's transactions is summarized as follows:

a. On the Sale of the NPC Generation Assets and Other Real Properties in View of the Privatization

No income and withholding taxes are due from the sale of the NPC generation assets and other real properties to winning bidders.

PSALM, the principal purpose of which is to manage the orderly sale, disposition, and privatization of NPC generation assets and other real properties, with the objective of liquidating all NPC financial obligations and stranded contract costs in an optimal manner, will not derive gain from the said sale of the NPC generation assets and other real properties. Accordingly, no income tax and consequently withholding tax is due from PSALM on its sale of the NPC generation assets and other real properties.

The sale by PSALM of the NPC generation assets and other real properties to winning bidders, is subject to Value-added Tax (VAT).

In 2005, Republic Act No. 9337 or the R-VAT law was enacted. RA 9337 imposed 12 percent Value-Added Tax (VAT) on the sale of electricity, except for the sale of electricity sourced from renewable resources such as, but not limited to, biomass, solar, wind, hydropower, geothermal, ocean energy and other emerging energy resources, which is subject to zero percent rate VAT. Thus, the sale by PSALM of generated power shall be subject to VAT at 12 percent or zero percent rate as may be applicable.

Moreover, BIR Revenue Regulations (RR) No. 16-2005 was accordingly amended by BIR RR 04-2007, and subjected the sale of real properties not primarily held for sale or for lease, but used in business, to VAT.

b. The sale by PSALM of the NPC generation assets and other real properties is subject to Documentary Stamp Tax (DST)

Pursuant to Section 196 of the Tax Code of 1997, as amended, the sale of real properties by PSALM will be subject to DST at the rate of P15 for every

P1,000 based on the consideration contracted to be paid for such realty or its fair market value determined in accordance with Section 6(E) thereof, whichever is higher. When one of the contracting parties is the Government, the tax to be imposed shall be based on the actual consideration subject to the proviso that, where one party to the transaction is exempt, the other party shall pay the tax. (Section 173 of the Tax Code of 1997)

Accordingly, the sale of the NPC generation assets and other real properties by PSALM pursuant to the privatization will be subject to DST based on the fair market value or the actual consideration that PSALM will receive, whichever is higher.

The rental income of PSALM from the NPC generation assets and other real properties, prior to its sale to winning bidders, is subject to income tax and VAT.

After the transfer of the NPC generation assets and other real properties to PSALM but prior to the privatization, PSALM enters into contracts of lease with private entities where the subject of the lease are the NPC generation assets and other real properties transferred to PSALM. The income received by PSALM from the lease is subject to corporate income tax provided under Section 27(A) of the Tax Code of 1997, as amended.

Thus, while no income tax is due on PSALM on its mandate to sell the NPC generation assets and other real properties to winning bidders, revenues derived by PSALM from its leasing activities are nevertheless subject to income tax. Moreover, gross receipts of PSALM from the lease of NPC transferred assets and other assets are deemed in the ordinary course of trade or business, hence, subject to VAT under the Tax Code of 1997, as amended.

c. On the Operation of the Generation Facilities

i. Income and Withholding Tax

Currently, government-owned and/or controlled corporations (GOCCs) are now subject to income tax pursuant to Section 27 (C) of the Tax Code except for the four (4) government corporations specifically enumerated therein. PSALM is not one of the exempt GOCCs under the said provision of the Tax Code of 1997, as amended. The operation by PSALM of the NPC assets transferred to it is not its principal purpose but only incidental to its mandate to privatize the generating plants of NPC in order to avoid a massive interruption in the supply of electricity. In this regard, any income derived therefrom is subject to income tax imposed under Section 27(A) and (E) of the Tax Code of 1997, as amended.

ii. Value-added Tax

Since the sale of the electricity and sale of service by PSALM are deemed made in the course of its business, the same is subject to VAT under Section 108 of the Tax Code of 1997 (as amended by RA 9337).

d. Miscellaneous Activities

Other income/receipts derived by PSALM from miscellaneous activities such as forfeiture of performance bonds, interest income from persons other than the winning bidders, and from other activities not related with its mandate are subject to all applicable taxes under the Tax Code of 1997.

e. Deferred Tax Asset and Deferred Tax Liability

Deferred tax assets are recognized as Management believes that the Corporation will have sufficient taxable profits in the near future against which the deferred tax assets will be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax liabilities are recognized for all deductible temporary differences, carry forward benefit of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carry forward benefits of MCJT and NOLCO can be utilized.

The above accounts are subject to further reconciliation and these will be properly recognized once reconciled.

f. Real Property Tax

The amount due as Real Property Tax (RPT) is determined based on the plants' category, whether it is classified as an owned and/or operated or an IPP plant. After determining this, PSALM refers to relevant provisions of the Local Government Code of the Philippines (LGCP) for owned and/or operated plants, while it refers to Executive Order Nos. 27 s. 2011 (E.O. 27) and 173 s. 2014 (E.O. 173) for IPP plants.

There is a specific treatment for IPP plants. Following the Supreme Court ruling that the taxable entity is the IPP, the RPT billings were directly forwarded to the IPP by the concerned Local Government Units (LGUs) using a maximum of 80 percent assessment level for all machineries and equipment pursuant to the LGCP.

However, based on the Purchase Power Agreement entered into by and between NPC and the IPP, the entity responsible for the payment of RPT is

NPC. As such, PSALM, as the entity created by law to assume the assets and liabilities of NPC, settled the RPT liabilities of the IPPs upon the instruction of the PSALM's Board of Directors that RPT covering power generation facilities of IPPs under BOT contracts must be settled within the parameters of E.O. 27 and 173, i.e., the tax due shall be computed based on an assessment level of 15 percent of the fair market value of the property, machinery and equipment depreciated at the rate of two percent per annum, less any amounts paid, while all fines, penalties and interest on deficient RPT shall be condoned.

Hence, settlements of all IPP-related RPT was made under the framework of E.O. 27 and 173, with the IPP remitting in advance the RPT payment to the LGUs and correspondingly reimbursed by PSALM pursuant to the terms and conditions set forth in the Reimbursement Agreement entered into by and between PSALM and the IPP.

It should be noted that on April 27, 2017, President Rodrigo R. Duterte issued Executive Order No. 19 (E.O. 19) reducing the RPT assessed on the power generation facilities of IPPs under BOT contracts with GOCCs, including any special levies accruing to the Special Education Fund, for the years 2015 and 2016 to an amount equivalent to the tax due if computed based on an assessment level of 15 percent of the fair market value of the property, depreciated at the rate of two percent per annum, less any amounts already paid by the IPPs. All interests on such deficiency real property tax liabilities were also condoned and the concerned IPPs are relieved from payment thereof. Further, Section 2 of E.O. 19 provides that if any real property tax payments for 2015 and 2016 have been made by IPPs in excess of the reduced amount under Section 1 of the E.O. 19, such excess shall be applied to their RPT for the succeeding years.

On July 25, 2018, President Rodrigo R. Duterte issued Executive Order No. 60 (E.O. 60) reducing the RPT assessed on the power generation facilities of IPPs under BOT contracts with GOCCs, including any special levies accruing to the Special Education Fund, for the year 2017 to an amount equivalent to the tax due if computed based on an assessment level of 15 percent of the fair market value of the property, depreciated at the rate of two percent per annum, less any amounts already paid by the IPPs. All interests on such deficiency real property tax liabilities were also condoned and the concerned IPPs are relieved from payment thereof. Further, Section 2 of E.O. 60 provides that all real property tax payments made by the IPPs over and above the reduced amount under Section 1 of the E.O. 60 shall be applied to their real property tax liabilities for the succeeding years.

On the other hand, the RPT payments remitted to the respective LGUs for owned and/or operated plants were based on the provisions of Sections 218 (d) and 234 (c) and (e) of the LGCP, which categorically provided that the assessment level for GOCCs engaged in the generation and transmission of electric power is at 10 percent, and that machineries and equipment that are actually, directly, and exclusively used in the generation and transmission of electric power, and those used for pollution control and environmental protection must be exempted, respectively.

3.17 Borrowing Costs

For loans borrowed directly by PSALM, the allowed alternative treatment is used.

3.18 Employee Benefits

The employees of PSALM are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

PSALM recognizes the undiscounted amount of short term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

3.19 Assumption and Condonation of Rural Electric Cooperatives' (REC) Loans

In accordance with the EPIRA, a Memorandum of Agreement was entered into by and between the National Electrification Administration (NEA) and PSALM on October 3, 2003 to implement the assumption and condonation by PSALM of duly audited REC loans. The basis in recording the amount of REC loans to be assumed by PSALM is the initial amount recorded by the NEA, confirmed by the REC and validated by COA. This amount is subsequently credited with the actual amount audited, condoned, and paid by PSALM to NEA. This condonation will benefit the consumers in terms of reduced electricity rates and improved services by the electric cooperatives as well as NPC/PSALM in terms of making current settlement of electricity bills with the electric cooperatives.

3.20 Administration of the Universal Charge

PSALM administers the Special Trust Funds created in accordance with the Guidelines on the Remittance and Disbursements duly promulgated by PSALM, concurred by the Department of Finance (DOF) and approved by the Energy Regulatory Board as provided for in the EPIRA.

PSALM maintains separate books of accounts for these Special Trust Funds and records.

The Universal Charge (UC) refers to the charge imposed on all electricity end-users to cover payment of NPC's stranded debts and stranded contract cost, missionary electrification, preservation of NPC's watershed, and any forms of cross-subsidies for a period not exceeding three (3) years. It also serves to equalize the taxes and royalties applied to indigenous or renewable sources of energy vis-à-vis imported energy fuels.

3.21 Measurement Uncertainty

The preparation of financial statements in conformity with PPSAS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

4. CASH AND CASH EQUIVALENTS

Particulars	2018	2017
Cash on Hand	81,735	32,799
Cash in Bank-Local Currency	1,401,753,268	1,515,575,634
Cash in Bank-Foreign Currency	468,164,610	474,696,182
Cash Equivalents	10,161,757,237	7,762,526,265
Total Cash and Cash Equivalents	**12,031,756,850**	**9,752,830,880**

Cash equivalents are highly liquid investments of the Corporation in the form of short-term placements.

5. INVESTMENTS

5.1 Financial Assets

a. Reconciliation of the Current Financial Assets

CURRENT FINANCIAL ASSETS As at December 31, 2018				
Particulars	Financial Assets at Fair Value through Surplus or Deficit	Financial Assets - Held to Maturity	Financial Assets – Others	Total
Beginning balance as at Jan. 1, 2018	0	0	1,000,000,075	**1,000,000,075**
Reclassification from a different class of investment	0	0	75,000	**75,000**
Adjustments			(75)	**(75)**
Less: *Fair value decrease*	0	0	0	**0**
Balance as at Dec. 31, 2018	0	0	**1,000,075,000**	**1,000,075,000**

b. Reconciliation of the Non-Current Financial Assets

Particulars	Financial Assets - Held to Maturity	Financial Assets – Others	Total
Beginning balance as at Jan. 1, 2018	7,001,097,091	1,298,812,008	**8,299,909,099**

Particulars	Financial Assets - Held to Maturity	Financial Assets – Others	Total
Adjustments	(1,097,091)	0	**(1,097,091)**
Fair value increase[1/]	0	440,393,993	**440,393,993**
Amortization of discount on the acquisition of investment	0	0	**0**
Reclassification from a different class of investment	0	0	**0**
Balance as at Dec. 31, 2018	**7,000,000,000**	**1,739,206,001**	**8,739,206,001**

[1/] *consists of interest earned and revaluation as of the period*

Particulars	Financial Assets - Held to Maturity	Financial Assets – Others	Total
Beginning balance as at Jan. 1, 2017	0	1,024,446,715	**1,024,446,715**
Additional investments made	0	0	**0**
Fair value increase[1/]	0	274,365,293	**274,365,293**
Amortization of discount on the acquisition of investment	0	0	**0**
Reclassification from a different class of investment	7,001,097,091	0	**7,001,097,091**
Balance as at Dec. 31, 2017	**7,001,097,091**	**1,298,812,008**	**8,299,909,099**

[1/] *consists of interest earned and revaluation as of the period*

Financial Assets-Held to Maturity

This account represents the carrying amount of the ten-year Retail Treasury Bond acquired on August 15, 2013 with an interest rate of 3.25%, which will mature on August 15, 2023.

Financial Assets-Others

This account consists of the following: (1) carrying amount of the 5-year Long-term Negotiable Certificates of Time Deposit acquired on October 9, 2015 and November 5, 2013 with an interest rate of 3.75% and 3.13%, respectively, with maturity dates of May 29, 2020 and April 5, 2018; and (2) the carrying amount of the principal-only-swap executed in July 2007 to cover PSALM's maturing obligation on 2028 amounting to USD300 million.

c. Financial Assets

Particulars	As at December 31, 2018	As at December 31, 2017
Total Current Financial Assets	1,000,075,000	1,000,075,075
Total Non-Current Financial Assets	8,739,206,001	8,299,909,099
Total	**9,739,281,001**	**9,299,984,174**

5.2 Investment in Subsidiaries

This account represents the cost or fair value of investments in TransCo acquired pursuant to EPIRA. It is a reciprocal account adjusted appropriately in the books for adjustments and corrections of TransCo's account balances prior to the transfer of asset-debt accounts, the funding of Right-of-Way prior to privatization and TransCo's appraisal capital and any movement thereof.

Particulars	Amount
Beginning Balance as at January 1, 2018	218,211,220,874
Add: Fund transfers for Right of Way	1,271,611,000
Less: Adjustments, net	(64,528,678,859)
Balance as at December 31, 2018	**154,954,153,015**

6. RECEIVABLES

6.1 Loans and Receivables

Accounts	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Accounts Receivable (A/R)-Power	75,639,721,437	1,088,755,406	76,728,476,843	75,475,919,092	1,693,188,445	77,169,107,537
Less: Allowance for Bad Debts	(43,913,852,836)	0	(43,913,852,836)	(41,153,884,583)	0	(41,153,884,583)
A/R-Power, Net of Allowance	31,725,868,601	1,088,755,406	32,814,624,007	34,322,034,509	1,693,188,445	36,015,222,954
Add: Recovery/ (Refund)	21,317,685,811	0	21,317,685,811	35,128,661,373	0	35,128,661,373
Output Tax Receivable	5,551,239,883	76,093,841	5,627,333,724	5,936,326,920	100,231,544	6,036,558,464
A/R-Power, Net	**58,594,794,295**	**1,164,849,247**	**59,759,643,542**	**75,387,022,802**	**1,793,419,989**	**77,180,442,791**
A/R-Generation Payments	**27,244,575,039**	**0**	**27,244,575,039**	**27,222,053,350**	**0**	**27,222,053,350**
Receivables from UC-SCC	0	0	0	5,980,404,000	0	5,980,404,000
Receivables from UC-SD	3,904,934,428	17,640,284,807	21,545,219,235	3,844,677,458	20,354,174,777	24,198,852,235
A/R-Universal Charge	**3,904,934,428**	**17,640,284,807**	**21,545,219,235**	**9,825,081,458**	**20,354,174,777**	**30,179,256,235**
Interests Receivable - Power	7,834,910,940	0	7,834,910,940	7,808,573,529	0	7,808,573,529
Less: Allowance for Impairment	0	0	0	0	0	0
Interests Receivable, Net	**7,834,910,940**	**0**	**7,834,910,940**	**7,808,573,529**	**0**	**7,808,573,529**
Interest Receivable - Placements	**79,730,740**	**0**	**79,730,740**	**75,371,417**	**0**	**75,371,417**
TOTAL	**97,658,945,442**	**18,805,134,054**	**116,464,079,496**	**120,318,102,556**	**22,147,594,766**	**142,465,697,322**

Accounts Receivable - Power consists of trade receivables for power generation charges, including Ancillary Service Charges and restructured power receivables, net of refunds to power customers resulting from ERC decisions. It pertains to the outstanding balances of power customers, most of which were transferred by NPC to PSALM, which is subject to continuous validation and confirmation. Its main composition includes regular power accounts, restructured power accounts, deferred accounting adjustments (DAA), and accounts under dispute/delinquent accounts.

Accounts Receivable - Generation Payments are receivables due from Independent Power Producer (IPP) Administrators for the operating costs incurred by the corresponding BOT IPP plant. As of December 31, 2018, this account has a balance of P27.245 billion due from the following IPP Administrators:

IPP Administrators	2018	2017
South Premiere Power Corp. **(SPPC)**	21,954,410,636	22,396,040,991
Good Friends Hydro Resources Corp. **(GFHRC)**	1,064,151,812	1,064,150,813
FDC Misamis Power Corporation **(FMPC)**	1,027,302,383	1,027,091,220
FDC Utilities, Inc. **(FDCUI)**	775,136,372	775,136,372
Vivant Sta. Clara Northern Generation Corp **(VSCNGC)** *	578,901,286	239,010,981
Thermal Luzon Inc. **(TLI)**	539,471,333	531,586,191
Aboitiz Energy Solutions, Inc. **(AESI)**	340,147,009	321,792,912
Unified Leyte Geothermal Energy, Inc. **(ULGEI)**	339,747,167	321,677,162
San Miguel Energy Corporation **(SMEC)**	244,783,783	250,984,933
Strategic Power Development Corp. **(SPDC)**	164,258,253	133,097,019
Vivant Energy Corporation **(VEC)**	144,669,593	137,406,498
Waterfront Mactan Casino Hotel, Inc. **(WMCHI)**	71,595,412	24,078,258
Phinma Energy Corporation **(PEC)** **	0	0
Total A/R-Generation Payments	**27,244,575,039**	**27,222,053,350**

** Formerly Amlan Hydro Power, Inc.*
*** Formerly Trans-Asia Oil and Energy Development Corp.*

Universal Charge-SCC Receivable represents the approved amount of Stranded Contract Cost (SCC) and Stranded Debts (SD) that will be recovered through the Universal Charge (UC).

6.2 Aging/Analysis of Accounts Receivables

Accounts	Total	Not Past Due	Past Due		
			< 30 days	30-60 days	> 60 days
A/R - Power*	**76,728,476,843**	**3,434,675,534**	**246,831,931**	**222,191,410**	**72,824,777,968**
Distribution Utility	55,203,464,087	1,401,191,730	12,227,932	12,098,482	53,777,945,943
Electric Cooperative	15,579,865,976	1,808,437,190	207,483,499	184,630,429	13,379,314,858
Industry	5,632,830,662	218,580,984	22,076,285	21,876,187	5,370,297,206
Government	308,355,246	4,913,947	3,911,399	2,996,871	296,533,029
Others	3,960,872	1,551,683	1,132,816	589,441	686,932
A/R - Universal Charge	**21,545,219,235**	**21,545,219,235**	**0**	**0**	**0**
A/R - Generation Payments	**27,244,575,039**	**5,182,406,669**	**37,030,492**	**73,547,025**	**21,951,590,853**
SPPC - Ilijan	21,954,410,636	4,034,491,948	0	0	17,919,918,688
GFHRC - Unified Leyte	1,064,151,813	0	0	0	1,064,151,813
FMPC - Mt. Apo I & II	1,027,302,383	0	0	0	1,027,302,383
FDCUI - Unified Leyte	775,136,372	0	0	0	775,136,372

Accounts	Total	Not Past Due	Past Due		
			< 30 days	30-60 days	> 60 days
TLI - Pagbilao	539,471,333	66,104,862	0	0	473,366,471
AESI - Unified Leyte	340,147,009	340,147,009	0	0	0
ULGEI - Unified Leyte	339,747,167	339,747,167	0	0	0
SMEC - Sual	244,783,782	50,209,397	36,788	0	194,537,597
VSCNGC - Bakun	578,901,286	17,472,056	32,108,866	54,025,585	475,294,779
VEC - Unified Leyte	144,669,593	144,543,679	30,680	91,829	3,405
SPDC - San Roque	164,258,253	164,180,055	0	0	78,198
WMCHI - Unified Leyte	71,595,412	25,510,496	4,854,158	19,429,611	21,801,147

* *without considering allowance for bad debts, recovery/(refund) and output tax receivable*

Not Past Due *– pertains to receivables not yet past due date*

<30 Days Past Due *– pertains to unpaid receivables that are already one (1) to twenty-nine (29) days past their due date*

30-60 Days Past Due *– pertains to unpaid receivables that are already thirty (30) to sixty (60) days past their due date.*

>60 Days Past Due*– pertains to unpaid receivables that are over sixty (60) days past their due date.*

From the above table, it could be gleaned that the bulk of the Accounts Receivable-Generation Payments is due from SPPC, with P17.920 billion already past due. The overdue amount arose from disputed items and differences in interpretation of certain provisions of the IPP Administration Agreement, as shown below:

Expressed in thousand pesos

26 Jun. 2010 - 25 Dec. 2012 (Period A) [1/]	4,622,001
26 Dec. 2012 - 31 Dec. 2018 (Period B) [2/]	8,454,862
Value added tax	4,610,846
Subtotal	**17,687,709**
Add: Other charges	232,210
Total	**17,919,919**

[1/] *Refers to the period coinciding with the term of MERALCO Transition Supply Contracts (TSCs) that resulted to disputed items.*

[2/] *Refers to the period after the expiration of MERALCO TSCs, when SPPC's payments were not in accordance with Schedule J of the Administration Agreement. (See Note 31.11)*

PSALM also has past due accounts receivable for Generation Payments pertaining to GFHRC, FDCUI and FMPC; all of which were declared in default in

2017, and had their contracts with PSALM terminated on August 10, September 4 and December 22, 2017, respectively. In the case of VSCNGC, this is a subject of a pending case with the Cebu City for corporate rehabilitation pursuant to the Financial Rehabilitation Rules of Procedure. Further, it should be noted that before the year ended, Phinma already settled its outstanding obligations with PSALM.

6.3 Lease Receivables

Accounts	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Finance Lease Receivable	39,684,226,723	214,142,469,093	**253,826,695,816**	35,363,505,298	243,777,293,872	**279,140,799,170**
Less: Allow. for Impairment	0	0	**0**	0	0	**0**
Net Value – Finance Lease Receivable	**39,684,226,723**	**214,142,469,093**	**253,826,695,816**	**35,363,505,298**	**243,777,293,872**	**279,140,799,170**

Finance Lease Receivables refer to the Monthly Payments that are paid by IPP Administrators (IPPAs) to PSALM at fixed amounts based on an agreed amortization schedule representing their payment for the administration of the IPP plant.

These IPPAs are qualified independent entities who were appointed by PSALM by means of a public bidding, pursuant to Section 51 of the EPIRA, who will administer, conserve, and manage the contracted energy output of NPC/PSALM IPP contracts.

As of December 31, 2018, PSALM has successfully bid out and transferred a total of seven (7) IPPs to thirteen (13) IPPAs, as shown below:

IPPA	Power Plant	Cooperation Period (mm/dd/yyyy)
San Miguel Energy Corporation **(SMEC)**	Sual	From 10/01/2009 to 10/01/2024
Therma Luzon, Inc. **(TLI)**	Pagbilao	From 10/01/2009 to 08/01/2025
Strategic Power Dev. Corp. **(SPDC)**	San Roque	From 01/26/2010 to 04/26/2028
Vivant Sta. Clara Northern Generation Corp. **(VSCNGC)** *	Bakun	From 01/26/2010 to 01/26/2026
South Premiere Power Corp. **(SPPC)**	Ilijan	From 06/26/2010 to 06/26/2022
FDC Misamis Power Corp. **(FMPC)**	Mt. Apo I	From 12/26/2014 to 02/15/2022
FDC Misamis Power Corp. **(FMPC)**	Mt. Apo II	From 12/26/2014 to 06/17/2024
Good Friends Hydro Resources Corp. **(GFHRC)**	Unified Leyte	From 12/26/2014 to 08/10/2017
FDC Utilities, Inc. **(FDCUI)**	Unified Leyte	From 12/26/2014 to 09/04/2017
Phinma Energy Corporation **(PEC)** **	Unified Leyte	

IPPA	Power Plant	Cooperation Period (mm/dd/yyyy)
Aboitiz Energy Solutions, Inc. **(AESI)**	Unified Leyte	From 12/26/2014 to 07/25/2021
Unified Leyte Geothermal Energy, Inc. **(ULGEI)**	Unified Leyte	
Waterfront Mactan Casino Hotel Inc. **(WMCHI)**	Unified Leyte	
Vivant Energy Corporation **(VEC)**	Unified Leyte	

** Formerly Amlan Hydro Power Inc.*
****Formerly Trans-Asia Oil and Energy Development Corp.*

As of end 2018, receivable from IPPAs for the Monthly Payments stood at P253.83 billion, broken down as follows:

IPPA	Plant	2018			2017		
		Current	Non-Current	Total	Current	Non-Current	Total
SMEC	Sual	12,128,307,933	80,155,802,448	**92,284,110,381**	11,549,204,352	90,103,850,909	**101,653,055,261**
TLI	Pagbilao	9,178,474,500	58,218,472,000	**67,396,946,500**	8,059,552,515	65,412,564,000	**73,472,116,515**
SPPC	Ilijan	4,036,551,812	38,104,044,910	**42,140,596,722**	3,924,291,463	40,968,613,158	**44,892,904,621**
SPDC	San Roque	9,839,883,573	24,599,708,935	**34,439,592,508**	8,657,712,887	33,480,048,005	**42,137,760,892**
VSCNGC*	Bakun	4,501,008,905	13,064,440,800	**17,565,449,705**	3,172,744,081	13,812,217,800	**16,984,961,881**
Total Finance Lease Receivable		**39,684,226,723**	**214,142,469,093**	**253,826,696,816**	**35,363,505,298**	**243,777,293,872**	**279,140,799,170**

**Formerly Amlan Hydro Power, Inc.*

It should be noted that on October 31, 2018, VSCNGC filed its manifestation and motion praying for the approval of a third Revised Rehabilitation/Payment Plan. On December 07, 2018, PSALM filed its comment/opposition to the manifestation with motion. (See Note 31.16)

6.4 Inter-Agency Receivables

Accounts	2018	2017
Due from National Government Agencies	4,935,367,304	4,940,849,794
Due from Government Corporations	10,015,025,118	10,015,025,118
Total Inter-Agency Receivables	**14,950,392,422**	**14,955,874,912**

a. Due from National Government Agencies

This account consists of the following:

Particulars	2018	2017
Bureau of Internal Revenue	3,813,080,472	3,814,712,367
Dept. of Budget and Management	1,115,347,953	1,115,347,953
Dept. of Finance/Bureau of Treasury	6,580,887	10,311,543
Department of Energy	357,992	477,931
Total Due from NG Agencies	**4,935,367,304**	**4,940,849,794**

Bureau of Internal Revenue (BIR)

This account pertains to deferred taxes and duties corresponding to taxes paid under protest in the amount of P3.8 billion for the sale of Pantabangan-Masiway and Magat Hydroelectric Power Plants. In a Decision dated August 8, 2017, the Supreme Court reinstated the Decisions dated March 13, 2008 and January 14, 2009 of the Secretary of Justice in OSJ Case No. 2007-3, stating that it was erroneous for the BIR to hold PSALM liable for deficiency VAT. The P3,813,080,472 deficiency VAT remitted by PSALM under protest should therefore be refunded to PSALM.

Department of Finance (DOF)/Bureau of Treasury (BTr)

The amount due from DOF/BTr represents advances made by NPC for the Bataan Nuclear Power Plant (BNPP).

b. Due from Government Corporations

This account consists of the following:

Particulars	2018	2017
Metropolitan Waterworks and Sewerage System	5,198,293,631	5,198,293,631
National Transmission Corporation	4,797,309,012	4,797,309,012
National Power Corporation	19,422,475	19,422,475
Total Due from Gov't Corporations	**10,015,025,118**	**10,015,025,118**

Metropolitan Waterworks and Sewerage System (MWSS) represents energy and capacity losses incurred by the Angat Hydroelectric Power Plant (AHEPP) due to the implementation of MWSS Angat Water Supply Optimization Project (AWSOP). The Memorandum of Understanding between NPC and MWSS on February 9, 1990 provides that MWSS shall compensate NPC the energy and capacity losses, if any, which the latter may incur as a result of the operation of the former's Auxiliary Unit No. 5. (See Note 31.16)

6.5 Other Receivables

Accounts	2018	2017
Receivables-Disallowances/Charges	33,816,416	37,766,587
Due from Officers and Employees	367,523	562,989
Universal Charge Receivable	1,147,249,734	1,128,690,798
Other Receivables	4,337,877,700	5,028,899,280
Total Other Receivables	**5,519,311,373**	**6,195,919,654**

Other receivables pertain to transferred accounts of NPC from various private corporations, government agencies, suppliers and persons. The account is subject to validation upon submission of supporting documents/further details by NPC.

Particulars	As at December 31, 2018	As at December 31, 2017
Total Current Receivables	157,812,875,960	176,833,402,420
Total Non-Current Receivables	232,947,603,147	265,924,888,638
Total	**390,760,479,107**	**442,758,291,058**

7. INVENTORIES

Accounts	2018	2017 *(As Restated)*
Office Supplies Inventory		
Carrying Amount, January 1, 2018	2,547,811	2,735,168
Additions/acquisitions during the year	1,215,574	2,231,257
Expensed during the year except write-down	(1,866,543)	(2,418,614)
Carrying Amount, December 31, 2018	**1,896,842**	**2,547,811**
Fuel, Oil and Lubricants Inventory		
Carrying Amount, January 1, 2018	1,619,816,233	2,003,869,415
Additions/acquisitions during the year	1,256,481,018	2,098,265,345
Expensed during the year except write-down	(860,593,592)	(2,429,590,778)
Write-down	(22,764,663)	(346,193)
Sale	(499,740,727)	(52,613,571)
Carrying Amount, December 31, 2018	**1,493,198,269**	**1,619,816,232**
Other Supplies and Materials Inventory		
Carrying Amount, January 1, 2018	534,198,366	0
Additions/acquisitions during the year	323,487,623	534,198,366
Carrying Amount, December 31, 2018	**857,685,989**	**534,198,366**
Total Carrying Amount, December 31, 2018	**2,352,781,100**	**2,156,562,409**

Fuel, Oil and Lubricants Inventory represents the cost of Heavy Fuel Oil, Industrial Diesel Oil, Coal, and Lube Oil used for the operation of heavy equipment and other machineries for operation of power plants.

8. INVESTMENT PROPERTY

This pertains to properties of PSALM that are held to earn rentals under a Land Lease Agreement (LLA). Any cash generated from this is considered part of the Corporation's privatization proceeds. Details of the properties are as follows:

Particulars	2018			2017		
	Investment Property - Land	Investment Property - Building	Total	Investment Property - Land	Investment Property - Building	Total
Carrying Amount, Jan. 1	1,604,592,494	0	**1,604,592,494**	1,641,705,453	0	**1,641,705,453**
Transfers from inventories/ owner-occupied property	0	0	**0**	0	0	**0**
Total	**1,604,592,494**	**0**	**1,604,592,494**	**1,641,705,453**	**0**	**1,641,705,453**
Other Changes	(67,158,850)	0	**(67,158,850)**	(37,112,959)	0	**(37,112,959)**
Carrying Amount, Dec. 31 (as per Statement of Financial Position)	**1,537,433,644**	**0**	**1,537,433,644**	**1,604,592,494**	**0**	**1,604,592,494**

Other Changes made during the year refers to the sale of land, adjustments of identified TransCo owned and re-classification of non-LLA lot.

9. PROPERTY, PLANT AND EQUIPMENT

This consists of PSALM-acquired and NPC-transferred Property, Plant and Equipment (PPE), as follows:

PSALM-Acquired Assets	Furniture, Fixtures & Equipment	Transportation Equipment	Total
Carrying Amount, January 1, 2018	**43,449,147**	**5,076,179**	**48,525,326**
Additions/Acquisitions	1,901,126	0	**1,901,126**
Total	**45,350,273**	**5,076,179**	**50,426,452**
Disposals	(1,188,208)	0	**(1,188,208)**
Depreciation (as per Statement of Financial Performance)	(8,214,169)	(1,285,714)	**(9,499,883)**
Carrying Amount, December 31, 2018 (as per Statement of Financial Position)	**35,947,896**	**3,790,465**	**39,738,361**

PSALM-Acquired Assets	Furniture, Fixtures & Equipment	Transportation Equipment	Total
Gross Cost (Asset Account Balance per Statement of Financial Position)	**211,065,977**	**22,998,400**	**234,064,377**
Accumulated Depreciation	(175,118,081)	(19,207,935)	**(194,326,016)**
Accumulated Impairment Losses	0	0	**0**
Carrying Amount, December 31, 2018 (as per Statement of Financial Position)	**35,947,896**	**3,790,465**	**39,738,361**

In the PSALM financial report as of December 31, 2016, it presented a Revaluation Surplus/Appraisal Capital as part of its Equity. This arose from the revaluation of power plant related assets in 2010 after the asset-debt transfer from National Power Corporation (NPC) to PSALM in December 31, 2008. The revaluation is in compliance to the Energy Regulatory Commission (ERC) Order dated February 8, 2010 granting PSALM and the National Power Corporation (NPC) the provisional authority to implement the new generation rate in relation to the joint application of PSALM and NPC under the ERC Case No. 2009-004 RC, otherwise, the provisional authority shall be revoked. Thus, PPE transferred from NPC had the following carrying value before the adoption of PPSAS 17:

NPC-Transferred Assets	Land	Buildings & Other Structures	Machinery & Equipment	Total
Carrying Amount, Jan. 1, 2018	**7,541,067,023**	**3,240,236,909**	**8,244,281,975**	**19,025,585,907**
Additions/Acquisitions	449,717,218	0	231,156,383	**680,873,601**
Total	**7,990,784,241**	**3,240,236,909**	**8,475,438,358**	**19,706,459,508**
Adjustments	0	0	(220,834,387)	**(220,834,387)**
Depreciation (as per Statement of Financial Performance)	0	(425,045,145)	(1,337,997,000)	**(1,763,042,145)**
Carrying Amount, Dec. 31, 2018 (as per Statement of Financial Position)	**7,990,784,241**	**2,815,191,764**	**6,916,606,971**	**17,722,582,976**

As mentioned in Note 3.6 b, PSALM followed COA Circular No. 2017-04 issued on December 13, 2017, which now requires the adoption of the cost model for all classes of PPE, as oppose to the previous manner of using the appraised value in reporting PPE. The new carrying amount of the NPC-transferred assets is as follows:

NPC-Transferred Assets	Land	Buildings & Other Structures	Machinery & Equipment	Total
Gross Cost (Asset Account Balance per Statement of Financial Position)	**7,990,784,241**	**13,281,956,369**	**97,764,656,572**	**119,037,397,182**
Accumulated Depreciation	0	(10,466,764,605)	(90,848,049,601)	**(101,314,814,206)**
Accumulated Impairment Losses	0	0	0	**0**
Carrying Amount, December 31, 2018 (as per Statement of Financial Position)	**7,990,784,241**	**2,815,191,764**	**6,916,606,971**	**17,722,582,976**

9.1 Service Concession Assets

This account represents the total computed capacity fees of remaining Build-Operate-Transfer (BOT) projects for the duration of the cooperation period, net of accumulated amortization, as follows:

Particulars	Total Capacity Fee	Accumulated Amortization	Net
Kalayaan 2 Unit 3	17,387,881,744	6,556,680,407	10,831,201,337
Kalayaan 2 Unit 4	17,387,881,743	6,556,680,408	10,831,201,335
Mindanao Coal Fired 1	13,738,656,531	6,719,529,602	7,019,126,929
Mindanao Coal Fired 2	13,660,516,257	6,590,561,711	7,069,954,546
Total	**62,174,936,275**	**26,423,452,128**	**35,751,484,147**

9.2 Construction Work in Progress

Construction Work-In-Progress(CWIP) totaling to P1,505,205,976 represents the cost of the uprating project in Agus VI HEPP (Units 1 and 2) and various construction of structures in the Mindanao Generation Office in the amount of P1,498,350,562 and P6,855,414, respectively. This will form part of the NPC-transferred assets once the project is completed and unitized.

9.3 Leasehold Improvements

In addition to the foregoing, PSALM incurred leasehold improvements amounting to P46,416,223 for its new office located at 24th Floor Vertis North Corporate Center 1, Astra corner Lux Drives, North Avenue, Quezon City 1105.

All in all, the total property, plant and equipment as of December 31, 2018, net of accumulated depreciation, is P55,065,427,683.

Particulars	As at December 31, 2018
PSALM-Acquired Assets, Net	39,738,361

Particulars	As at December 31, 2018
NPC-Transferred Assets, Net	17,722,582,976
Service Concession Assets, Net	35,751,484,147
Construction Work in Progress	1,505,205,976
Leasehold Improvements	46,416,223
Total	**55,065,427,683**

10. OTHER ASSETS

Particulars	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Advances	460,250	0	**460,250**	652,079	0	**652,079**
Prepayment	21,119,182,128	0	**21,119,182,128**	33,093,847,944	0	**33,093,847,944**
Deposits	9,217,979,223	0	**9,217,979,223**	8,876,781,610	0	**8,876,781,610**
Restricted Fund	0	5,593,519,364	**5,593,519,364**	0	4,568,553,159	**4,568,553,159**
Others	1,305,985	143,598,274	**144,904,259**	0	18,471,597	**18,471,597**
Total	**30,338,927,586**	**5,737,117,638**	**36,076,045,224**	**41,971,281,633**	**4,587,024,756**	**46,558,306,389**

11. FINANCIAL LIABILITIES

11.1 Payables

Particulars	2018			2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Payables						
Accounts Payable	3,147,659,105	0	**3,147,659,105**	10,289,476,496	0	**10,289,476,496**
Due to Officers and Employees	101,622,466	0	**101,622,466**	140,295,045	0	**140,295,045**
Interest Payable	1,821,238,249	0	**1,821,238,249**	1,696,953,228	0	**1,696,953,228**
Service Concession Arrangement Payable	39,505,096,046	174,647,641,957	**214,152,738,003**	37,324,461,653	198,879,871,204	**236,204,332,857**
Total	**44,575,615,866**	**174,647,641,957**	**219,223,257,823**	**49,451,186,422**	**198,879,871,204**	**248,331,057,626**

As of December 31, 2018, the Corporation recognized as part of its Accounts Payable liabilities amounting to P689 million and P357 million due to Sem-Calaca Power Corporation (SCPC) and Southern Philippines Power Corporation (SPPC), respectively.

The amount recognized as liability due to SCPC, which arose from the Supreme Court's Decision in G.R. No. 204719, includes interest up to December 31, 2017 amounting to P212 million. On the other hand, the amount due to SPPC as an offshoot of the Supreme Court's Decision in G.R. No. 219627 corresponds only to the principal.

Service Concession Arrangement Payable due to the IPP proponent representing Capital Recovery Fees of the BOT power plants during the cooperation period indicated in the BOT contracts. This account also includes Fixed Cost payable to BOT plants under IPPAA.

11.2 Bills/Bonds/Loans Payable

This account pertains to outstanding financial obligations, which consist mainly of domestic and foreign borrowings. The details of the account are as follows:

Particulars	2018		2017	
	Current	Non-Current	Current	Non-Current
Bonds Payables-Domestic	175,000,000	15,750,000,000	350,000,000	23,975,000,000
Bond Issue Cost – Domestic	(4,563,959)	(78,422,667)	(18,255,835)	(82,986,625)
Net Value	**170,436,041**	**15,671,577,333**	**331,744,165**	**23,892,013,375**
Bonds Payables-Foreign	51,774,229,864	116,303,237,696	2,686,332,867	158,681,404,120
Discount on Bonds Payable-Foreign	(32,128,338)	(635,013,760)	(125,899,326)	(626,954,560)
Premium on Bonds Payable-Foreign	590,202	2,164,041	2,448,985	2,394,328
Bond Issue Cost – Foreign	(18,990,763)	(303,738,671)	(76,284,450)	(301,227,214)
Net Value	**51,723,700,965**	**115,366,649,306**	**2,486,598,076**	**157,755,616,674**
Loans Payable - Domestic	8,250,000,000	73,287,500,000	21,937,500,000	56,850,000,000
Loan-Related Cost	(9,262,937)	(87,511,666)	(37,051,749)	(96,774,603)
Net Value	**8,240,737,063**	**73,199,988,334**	**21,900,448,251**	**56,753,225,397**
Loans Payable - Foreign	**15,842,396**	**39,605,985**	**15,000,757**	**52,502,646**
Other Bills/Bonds/Loans Payables	**5,295,089**	**118,381,565**	**4,844,168**	**118,381,565**
Total	**60,156,011,554**	**204,396,202,523**	**24,738,635,417**	**238,571,739,657**

The current portion of the ***Other Bills/Bonds/Loans Payables*** pertains to the guarantee fee payable to the Asian Development Bank (ADB) for the Nomura Bond issued back in December 2002.

12. INTER-AGENCY PAYABLES

Particulars	2018		2017	
	Current	Non-Current	Current	Non-Current
Due to BIR	711,734,643	0	1,285,101,569	0
Due to GSIS	6,764,401	0	99,344	0
Due to Pag-IBIG	96,696	0	68,090	0
Due to PhilHealth	251,981	0	16,225	0
Due to Government Corporations	1,805,161,525	0	1,805,161,525	0
Due to Subsidiaries/Joint Venture/Associates/Affiliates	101,931,070,524	0	105,465,184,589	0
Due to Treasurer of the Philippines	38,402,164,934	0	35,735,211,726	0
Income Tax Payable	1,404,154,626	0	730,323,266	0
Total	**144,261,399,330**	**0**	**145,021,166,334**	**0**

Due to Government Corporations corresponds to the outstanding Assumed Rural Electrification Program (REP) Loans or financial obligations of the electric cooperatives (ECs) to the National Electrification Administration (NEA) and other government agencies incurred for the purpose of financing the REP that was assumed by PSALM as provided in Section 60 of the EPIRA.

Section 60 of the EPIRA provides that all outstanding financial obligations of the ECs to the NEA and other government agencies incurred for the purpose of financing the REP shall be assumed by PSALM in accordance with the program approved by the President of the Philippines within one year from the effectivity of the Act which shall be implemented and completed within three years from the effectivity of the Act. Section 2, Rule 31 of the Implementing Rules and Regulations (IRR) of the EPIRA states that the assumption covers all outstanding REP-related financial obligations of the ECs as of June 26, 2001.

The Act also provides that ERC shall ensure a reduction in the rates of ECs commensurate with the resulting savings due to the removal of the amortization payments of their loans. However, any EC that shall transfer ownership or control of its assets, franchise or operations within five years shall repay PSALM the total debts including accrued interests thereon.

To carry out the aforementioned objective and that of Executive Order (EO) No. 119, Restructuring Program for Electric Cooperatives, PSALM and NEA entered into a Memorandum of Agreement (MOA) on October 3, 2003 to lay down the operational legal framework upon which the financial obligations of ECs to NEA shall be lawfully assumed by PSALM. Article IV of the MOA provides that repayment by PSALM to NEA of the assumed loans shall be for the period of ten years in accordance with the amortization schedule as may be mutually agreed by the parties.

The condonation was subject to compliance with certain conditions required under EO No. 119. On September 2, 2006, EO 460 was issued amending EO 119 giving retroactive effect to the assumption by PSALM of the rural electrification loan obligations of the ECs to NEA and other government agencies.

PSALM has paid a total of P16.27 billion out of the P18.07 billion assumed rural electrification loans of ECs from NEA, other government agencies and Local Government Units (LGUs), leaving a total outstanding balance of P1.80 billion as of December 31, 2018.

However, as to the assumed loans of ECs from NEA, it was eventually discovered that even before entering into the MOA (during the period June 27, 2001 up to March 3, 2003), NEA already collected P2.22 billion from ECs for the corresponding amortizations interest/surcharges of the loans assumed by PSALM. These collections effectively decreased the condoned REP amount. Thus, with the payment of P15.82 billion and P2.22 billion by PSALM and ECs, respectively, to NEA, the condoned REP loan amount with NEA has been fully served.

Due to the Subsidiaries/Joint Venture/Associates/Affiliates corresponds to the payments received by PSALM from the National Grid Corporation of the Philippines (NGCP) for the grant of the concession to manage the transmission business of TransCo. The initial amount set up represents the payments received from NGCP for the years 2009 to 2012.

This account will be offset by: (i) any remittances made by PSALM to TransCo; (ii) the receipt of dividends from TransCo; and (iii) the reduction in value of TransCo assets, represented by the amount of depreciation.

Due to Treasurer of the Philippines corresponds to the advances made by the National Government in payment of the purchased power from NIA-Casecnan, advances for NPC debt servicing, including guarantee fees.

13. TRUST LIABILITIES

Particulars	2018		2017	
	Current	Non-Current	Current	Non-Current
Trust Liabilities	6,992,386,337	0	6,067,808,698	0
Guaranty/Security Deposits	1,896,946,393	0	1,528,337,113	0
Trust Liabilities	**8,889,332,730**	**0**	**7,596,145,811**	**0**

Trust liabilities consists of the forfeited performance bond of South Premiere Power Corporation (SPPC) (see Note 31.11), the Universal Charge being administered by the Corporation intended for the purposes identified under the EPIRA, and the pass-through spot revenues of Unified Leyte Strip Owners.

14. DEFERRED CREDITS/UNEARNED INCOME

Particulars	2018		2017	
	Current	Non-Current	Current	Non-Current
Output Tax Payable	7,970,025,301	0	8,275,821,128	0
Deferred finance lease revenue	2,600,573,721	8,434,525,978	2,600,573,721	11,035,099,699
Other deferred credits	0	19,068,497,329	0	31,477,911,823
Other unearned revenue/income	2,713,889,971	17,640,284,807	7,865,089,971	20,354,174,777
Total	**13,284,488,993**	**45,143,308,114**	**18,741,484,820**	**62,867,186,299**

Deferred Finance Lease Revenue

This account represents the difference between the lease receivable and the dropped asset resulting from the privatization of IPP contracts through the appointment of an IPP Administrator. This is equally amortized over the term of the IPPA Agreement.

In previous years, PSALM reported this as a contra asset account that reduces its Lease Receivables (formerly Receivable from IPPAs). But with the adoption of the PPSAS, this is now reported under Deferred Credits/Unearned Income.

Other Deferred Credits

This account consists of unearned land lease rentals and Deferred Income from Rate Regulated Activities (see Note 30.1.d).

Other Unearned Revenue/Income

This account includes Deferred Income from Universal Charge for Stranded Contract Cost (SCC) and Stranded Debt (SD).

Deferred income from UC-SCC refers to the unearned portion of the amount of UC-SCC that has been approved by the ERC through its decision in ERC Case No. 2011-091 RC.

Filed on June 28, 2011 by PSALM, the said petition sought to recover the stranded contract costs of NPC from 2007 to 2010 through the UC. On May 22, 2018, the ERC approved PSALM's Motion for Reconsideration covering years 2007-2010 amounting to P8.547 billion using the same rate of P0.1938 per kilowatt-hour effective May 2018. As of December 31, 2018, this was fully recovered, as shown below:

Particulars	Amount
Unearned income from Recovery of UC-SCC, January 1, 2018	**5,151,200,000**
Add: UC-SCC approved in May 2018	8,547,230,000
Less: Earned in 2018	(13,698,280,000)
Adjustment in 2018	(150,000)
Unearned portion as of December 31, 2018	**0**

Deferred income from UC-SD, on the other hand, refers to the unearned portion of the amount of UC-SD that has been approved by the ERC through its decision dated June 27, 2017 in ERC Case No. 2013-195 RC.

Filed on September 30, 2013 by PSALM, ERC Case No. 2013-195 RC sought ERC's approval for the True-Up Adjustments of NPC's Stranded Debt portion of the UC from 2011 to 2012. As of December 31, 2018, this account has a balance of P20.35 billion, as shown below:

Particulars	Amount
Total UC-SD Receivable	23,068,064,747
Less: Earned in 2018	(2,713,889,970)
Unearned portion as of December 31, 2018	**20,354,174,777**

15. PROVISIONS

Particulars	2018	2017
Other Provisions	8,404,000,000	8,404,000,000
Provisions	**8,404,000,000**	**8,404,000,000**

The above provision was recognized by PSALM in 2017 to reflect the Supreme Court's Resolution dated November 21, 2017 under G.R. No. 156208 filed by the NPC Drivers and Mechanics Association (DAMA).

Since the Resolution ruled that "petitioners who were neither rehired by the NPC or absorbed by PSALM or Transco pursuant to the 2003 reorganization and subsequently employed in the private sector shall be entitled to full back wages", PSALM accordingly recognized a provision for the claims of said former NPC employees who were not rehired. The amount recognized as provision totaled P8.40 billion, consisting of P4.70 billion principal and P3.70 billion interest as of December 31, 2017. (See Note 31.1)

16. OTHER PAYABLES

Particulars	2018	2017
Certified Obligations	10,945,034,347	2,500,500,996
Due to Other Funds	0	238,428,921
Other Long-Term Liabilities	**10,945,034,347**	**2,738,929,917**

Due to Other Funds consists of accounts payable to Renewable Energy Developer's Cash Incentive (REDCI).

17. ADJUSTMENTS-CAPITAL FROM ASSET-DEBT TRANSFER

The details of the movement to this account are accounted as follows:

Particulars	2018	2017
Difference between transferred asset and assumed liabilities	(15,460,992,029)	(15,460,992,029)
Derecognition of TransCo's Appraisal Surplus	(64,528,678,859)	0
Recognition of movement in TransCo's Equity from PSALM	1,647,169,759	1,647,169,759
Derecognition of the Transferred Input Tax	(20,910,603,246)	(7,053,824,033)
Recognition of GenCo assets not included in the transferred accounts	38,521,673	0
Cleaning of the transferred power receivable accounts	(273,093,226)	(131,020,576)
Recognition of Payable to Sem-Calaca prior asset transfer	(247,477,258)	(247,477,258)
Provision for DAMA (NPC)	(8,404,000,000)	(8,404,000,000)
Total	**(108,139,153,186)**	**(29,650,144,137)**

The transfer of asset and debt accounts from NPC to PSALM and the separation of books of TransCo from NPC were implemented in October 2008 with full effect in December 2008. The legality of the asset-debt transfer was affirmed with the issuance by the Office of the Government Corporate Counsel of Opinion No. 247, Series of 2008, dated October 21, 2008, which states that the clear intent of the EPIRA is the transfer of ownership of the assets of NPC to PSALM.

Moreover, the account balances transferred were the amounts recorded in NPC books. Subsequently, there were no thorough analyses, and substantiation were not fully done due to unavailability of necessary documents. As such, the account balances added to PSALM are subject to further reconciliation, and these will be returned to their proper accounts once reconciled.

18. SERVICE AND BUSINESS INCOME

PSALM's service and business income consist of the following:

Particulars	2018	2017
Service Income		
Other Service Income	1,741,071	1,088,143
Total Service Income	**1,741,071**	**1,088,143**
Business Income		
Rent/Lease Income	41,603,124	64,645,842
Power Supply System Fees	35,253,880,253	28,325,855,879
Income from Hostels/Dormitories and Other Like Facilities	7,209,945	6,411,339

Particulars	2018	2017
Dividend Income	7,086,096,187	3,997,789,349
Interest Income	1,919,120,925	531,453,311
Fines and Penalties-Business Income	455,589,024	471,402,300
Management Fees	1,071,429	1,800,115
Other Business Income	29,924,884,672	33,750,023,493
Total Business Income	**74,689,455,559**	**67,149,381,628**
Total	**74,691,196,630**	**67,150,469,771**

Other Service Income pertains to participation fees for the bidding documents.

Rent/Lease Income refers to earned rentals from investment properties under a Land Lease Agreement (LLA).

Power Supply System Fees represents income derived from the operations of its remaining plants (otherwise referred to as Power Generation in preceding years)

Income from Hostels/Dormitories and Other Like Facilities consists of fees charged for the use of accommodation, and other similar facilities within NPC Hotel and Resort Village.

Dividend Income pertains to TransCo's remittance of profits as a wholly owned subsidiary of PSALM pursuant to Section 8 of the EPIRA.

Dividend income for 2018 covers five quarters (from the 3rd quarter of 2017 to the 3rd quarter of 2018) of TransCo's profits, unlike in 2017 when it covered only four (4) quarters (from the 3rd quarter of 2016 to the 2nd quarter of 2017), as shown below:

Particulars	2018	2017
Dividend Income	**7,086,096,187**	**3,997,789,349**

Interest Income pertains mainly to the interest earned, net of taxes, on placements and regular deposits. This includes the P1.48 billion receipt of interest for the advances for San Roque HEPP Multipurpose Project (SRMPP).

Fines and Penalties-Business Income includes interest income from overdue power receivables and from late payments of IPP Administrators for Monthly and Generation billings.

Management Fees refers to the fixed monthly fee per strip to cover the administrative costs in the trading and settlement of the strips in the Wholesale Electricity Spot Market (WESM).

Other Business Income consists of income not falling under any of the specific business income accounts, such as those derived from fuel related transactions. In the case of PSALM, this also includes income derived from the operations of plants under an IPP Administration Agreement.

19. SHARES, GRANTS AND DONATION

This pertains to the Corporation's share in the Universal Charge (UC) for the recovery of both UC-Stranded Contract Cost (UC-SCC) and UC-Stranded Debt (UC-SD), as follows:

Particulars	2018	2017
Share in Universal Charge-SCC	13,698,280,000	9,970,591,667
Share in Universal Charge-SD	2,713,889,970	1,130,787,487
Total	**16,412,169,970**	**11,101,379,154**

20. GAINS

In 2018, this refers to the sale of the optioned assets under the Land Lease Agreement for the Limay Combined Cycle Thermal Power Plant and Pantabangan Hydroelectric Power Plant. While in 2017, this consists of Gain on Sale of Disposed Assets amounting to P0.26 billion primarily pertaining to the sale of Sucat Thermal Power Plant.

Particulars	2018	2017
Gain on Sale of Disposed Assets	2,146,120	260,538,363
Total	**2,146,120**	**260,538,363**

21. PERSONNEL SERVICES

This account consists of the following:

21.1 Salaries and Wages

Particulars	2018	2017
Salaries and Wages - Regular	107,233,044	92,092,428
Salaries and Wages - Contractual	847,035	889,689
Total	**108,080,079**	**92,982,117**

21.2 Other Compensation

Particulars	2018	2017
Personnel Economic Relief Allowance (PERA)	3,937,791	3,953,727
Representation Allowance (RA)	4,451,875	4,105,375
Transportation Allowance (TA)	4,249,375	3,933,375
Clothing/Uniform Allowance	997,250	810,000
Honoraria	560,000	739,500
Overtime and Night Pay	10,974	12,218
Year End Bonus	17,814,358	15,597,738
Cash Gift	825,500	818,250
Other Bonuses and Allowances	392,500	9,323,359
Total	**33,239,623**	**39,293,542**

21.3 Other Personnel Benefits

Particulars	2018	2017
Terminal Leave Benefits	801,847	19,064,106

Particulars	2018	2017
Other Personnel Benefits	25,296,498	5,731,500
Total	**26,098,345**	**24,795,606**

21.4 Personnel Benefit Contributions

Particulars	2018	2017
Retirement and Life Insurance Premiums	12,941,861	11,155,789
Pag-IBIG Contributions	199,747	196,700
PhilHealth Contributions	1,037,618	772,538
Employees Compensation Insurance Premiums	198,500	196,700
Total	**14,377,726**	**12,321,727**

Particulars	As at December 31, 2018	As at December 31, 2017
Salaries and Wages	108,080,079	92,982,117
Other Compensation	33,239,623	39,293,542
Other Personnel Benefits	26,098,345	24,795,606
Personnel Benefit Contributions	14,377,726	12,321,727
Total Personnel Services	**181,795,773**	**169,392,992**

22. MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)

22.1 Generation, Transmission and Distribution Expenses

For PSALM, this account is used to report expenses that can be associated with the generation of power by remaining plants, to wit:

Particulars	2018	2017
Purchased Power Costs	22,015,776,388	16,710,129,159
Energy Purchased from PEMC	4,618,860,152	3,343,972,696
Other OPEX	1,202,698,751	1,049,290,424
OMSC	257,329,304	265,305,402
Metering/Transmission Service	110,634,287	46,106,090
Expenses related to sold plants	15,184,979	13,561,905
Total	**28,220,483,861**	**21,428,365,676**

Purchased power costs include energy fee, capital recovery fee, and O&M fee of remaining plants due to IPP proponents contracted by NPC.

***Energy purchased from* PEMC** refers to electricity outsourced from the Philippine Electricity Market Corporation (PEMC) to sustain the operations of power plants or augment power supply when a plant's generated output is insufficient to meet consumers' electricity demand.

Operation and Maintenance Service Contract (OMSC) is entered into by PSALM with the winning bidder/contractor to operate and maintain the generating assets prior to its privatization. The contractor shall be responsible for the operation, maintenance and management of the plant facility in accordance with the manual of good engineering standards and practices, environmental regulations and other pertinent national and local laws.

22.2 Supplies and Materials Expenses

Particulars	2018	2017
Office Supplies Expenses	1,963,445	2,571,887
Drugs and Medicines Expenses	0	512,004
Fuel, Oil and Lubricants Expenses	24,354,910,515	22,952,232,204
Other Supplies and Materials Expenses	741,663	564,956
Total	**24,357,615,623**	**22,955,881,051**

***Fuel, Oil and Lubricants* Expenses** consists of the Natural Gas and Diesel pertaining to the operations of plants under an IPPA AA and the fuel incurred in the operation of the Malaya Thermal Power Plant.

22.3 Other Maintenance and Operating Expenses

Particulars	2018	2017
Advertising, Promotional and Marketing Expenses	4,610,899	1,275,350
Printing and Publication Expenses	6,980	1,500
Representation Expenses	5,314,599	4,853,513
Rent/Lease Expenses	37,515,894	8,452,286
Membership Dues and Contributions to Organizations	259,539	85,918
Subscription Expenses	2,561,294	216,495
Donations	303,983	134,847
Documentary Stamps Expenses	285,000,000	105,190,050
Other Maintenance and Operating Expenses	5,026,044,179	8,844,531,126
Total	**5,361,617,367**	**8,964,741,085**

Other Maintenance and Operating Expense includes energy fees pertaining to the operations of plants under IPPA AA.

22.4 Taxes, Insurance Premiums and Other Fees

Particulars	2018	2017
Taxes, Duties and Licenses	364,739,324	458,741,993
Fidelity Bond Premiums	414,411	402,083
Insurance Expenses	59,327,562	48,750,687
Total	**424,481,297**	**507,894,763**

22.5 Professional Services

Particulars	2018	2017
Legal Services	0	110,335,405
Auditing Services	1,378,907	8,697,586
Consultancy Services	4,983,607	2,823,519
Other Professional Services	31,167,035	27,477,140
Total	**37,529,549**	**149,333,650**

22.6 General Services

Particulars	2018	2017
Janitorial Services	10,793,818	6,643,982
Security Services	8,334,232	7,247,009

Particulars	2018	2017
Total	**19,128,050**	**13,890,991**

22.7 Traveling Expenses

Particulars	2018	2017
Traveling Expenses-Local	9,603,834	9,513,486
Traveling Expenses-Foreign	739,113	2,874,870
Total	**10,342,947**	**12,388,356**

22.8 Communication Expenses

Particulars	2018	2017
Postage and Courier Services	860,197	417,570
Telephone Expenses	2,201,920	2,178,573
Internet Subscription Expenses	3,642,760	6,513,308
Cable, Satellite, Telegraph and Radio Expenses	0	0
Total	**6,704,877**	**9,109,451**

22.9 Repairs and Maintenance

Particulars	2018	2017
Repairs and Maintenance-Buildings and Other Structures	343,500	9,940
Repairs and Maintenance-Machinery and Equipment	3,080,908	4,529,985
Repairs and Maintenance-Transportation Equipment	1,053,144	1,681,614
Repairs and Maintenance-Furniture and Fixtures	0	500
Total	**4,477,552**	**6,222,039**

22.10 Utility Expenses

Particulars	2018	2017
Water Expenses	591,987	418,121
Electricity Expenses	3,264,206	4,454,711
Total	**3,856,193**	**4,872,832**

22.11 Training and Scholarship Expenses

Particulars	2018	2017
Training Expenses	1,768,442	1,133,911
Total	**1,768,442**	**1,133,911**

22.12 Confidential, Intelligence and Extraordinary Expenses

Particulars	2018	2017
Extraordinary and Miscellaneous Expenses	644,228	642,648
Total	**644,228**	**642,648**

Particulars	As at December 31, 2018	As at December 31, 2017
Generation, Transmission and Distribution Expenses	28,220,483,861	21,428,365,676

Particulars	As at December 31, 2018	As at December 31, 2017
Supplies and Materials Expenses	24,357,615,623	22,955,881,051
Other Maintenance and Operating Expenses	5,361,617,367	8,964,741,085
Taxes, Insurance Premiums and Other Fees	424,481,297	507,894,763
Professional Services	37,529,549	149,333,650
General Services	19,128,050	13,890,991
Traveling Expenses	10,342,947	12,388,356
Communication Expenses	6,704,877	9,109,451
Repairs and Maintenance	4,477,552	6,222,039
Utility Expenses	3,856,193	4,872,832
Training and Scholarship Expenses	1,768,442	1,133,911
Confidential, Intelligence and Extraordinary Expenses	644,228	642,648
Total Maintenance and Other Operating Expenses	**58,448,649,986**	**54,054,476,453**

23. FINANCIAL EXPENSES

This consists of the following:

Particulars	2018	2017
Interest Expenses	18,091,779,437	17,970,672,322
Guarantee Fees	2,225,282,938	2,193,739,969
Bank Charges	439,224	354,089
Other Financial Charges	146,372,215	173,996,755
Total	**20,463,873,814**	**20,338,763,135**

24. NON-CASH EXPENSES

The Corporation recognizes the following non-cash expenses:

Depreciation

Particulars	2018	2017
Depreciation-Infrastructure Assets	1,416,326,323	1,105,671,817
Depreciation-Machinery and Equipment	8,117,428	12,474,045
Depreciation-Transportation Equipment	1,285,714	1,320,124
Depreciation-Furniture, Fixtures and Books	96,741	309,386
Depreciation-Service Concession Assets	1,959,106,855	1,959,106,855
Depreciation-Other Property, Plant & Equipment	346,715,822	0
Total	**3,731,648,883**	**3,078,882,227**

Impairment Loss

Particulars	2018	2017
Impairment Loss-Loans and Receivables	2,759,968,253	1,189,593,258
Impairment Loss-Inventory of Fuel Stock	2,983,669	22,529,217
Impairment Loss-Property, Plant and Equipment	885,967	974,646,170
Total	**2,763,837,889**	**2,186,768,645**

25. FINANCIAL ASSISTANCE/SUBSIDY/CONTRIBUTION

Particulars	2018	2017
Subsidy from National Government	0	0
Less : Financial Assistance to Local Government Units	174,957,178	146,799,185
Financial Assistance/Subsidy/Contribution-Others	253,014,800	254,276,415
Total	**(427,971,978)**	**(401,075,600)**

26. NON-OPERATING INCOME, GAIN OR LOSSES

Non-Operating Income/Gain

Particulars	2018		2017	
Gain on Foreign Exchange (FOREX):				
Realized	1,443,257,505		648,103,665	
Unrealized	7,296,842,030	8,740,099,535	324,034,142	972,137,807
Income from Rate Regulated Business		403,082,498		81,319,073
Total		**9,143,182,033**		**1,053,456,880**

Non-Operating Loss

Particulars	2018		2017	
Loss on Foreign Exchange (FOREX):				
Realized	2,181,988,053		1,021,742,911	
Unrealized	20,373,509,345	22,555,497,398	1,858,743,926	2,880,486,837
Loss from Rate Regulated Business		0		13,617,258
Other Losses		27,979,883		28,602,185
Total		**22,583,477,281**		**2,922,706,280**

The following are the exchange rates used to restate outstanding balances at financial reporting date:

	2018	2017	(Loss)
Philippine Peso (P) : US Dollar ($)	**52.7240**	49.9230	(2.8010)
Philippine Peso (P):Japanese Yen (¥)	**0.4751**	0.4423	(0.0328)

27. SERVICE CONCESSION ARRANGEMENTS

This account represents the total computed capacity fees of remaining Build-Operate-Transfer (BOT) projects for the duration of the cooperation period of Kalayaan 2 Units 3 and 4 and Mindanao Coal Units 1 and 2, net of accumulated amortization, as follows:

Particulars	2018	2017
Service concession assets recognized	62,174,936,275	62,174,936,275
Accumulated depreciation to date	(26,423,452,128)	(24,464,345,273)
Net carrying amount	**35,751,484,147**	**37,710,591,002**

Relative to the foregoing, the Corporation has corresponding service concession liability due to the IPP proponent representing capital cost recovery fees of the BOT power plants during the cooperation period indicated in the BOT contracts, as follows:

Particulars	2018	2017
Service Concession Arrangement Payable	**214,152,738,003**	**236,204,332,858**

28. SUPPLEMENTARY INFORMATION REQUIRED IN TAXES, DUTIES AND LICENSE FEES UNDER REVENUE REGULATIONS NO. 15-2010

In compliance with the requirements set forth by the Bureau of Internal Revenue (BIR) through Revenue Regulations (RR) No. 15-2010, below are the information on the taxes, duties, and license fees paid during the taxable year 2018.

A. Vatable Revenues and Output Tax:

Particulars	Net Sales/ Receipts	Output VAT
Vatable sales	44,474,760,296	5,336,971,236
Sales to government	55,039,303	6,604,716
Zero-rated sales	29,297,299,187	0
Exempt sales	14,898,760,615	0
Total	**88,725,859,401**	**5,343,575,952**

The Corporation is engaged in the sale of services the collection of which are classified into the following:

1. ***Vatable sales*** – these are sales of electricity using non-renewable energy.

   The enactment of Republic Act (RA) 9337 on July 1, 2005 placed the electric power industry in the VAT System. Section 6 of this RA, amending Section 108 of the National Internal Revenue Code (NIRC), includes sales of electricity by generation companies, transmission, and distribution companies in the definition of the phrase "sale or exchange of services" to be subjected to VAT.

2. ***Sales to government*** – these are sales of electricity to government entities who subject their payment to PSALM to 5% withholding final VAT.

3. ***Zero-rated sales*** – the sale of electricity using renewable energy is VATable at 0%. Section 108(B)(7) of the NIRC, as amended by Section 6 of RA 9337, has identified such sale as subject to zero percent (0%) rate, to wit:

   > *"Sale of power or fuel generated through renewable sources of energy such as, but not limited to, biomass, solar, wind, hydropower, geothermal, ocean energy, and other emerging energy sources using technologies such as fuel cells and hydrogen fuels."*

B. Purchases and Input Taxes:

Particulars	Input VAT
Balance at January 1, 2018	20,105,467,201
Add: Input tax on depreciation deferred from previous period	261,983,506
Total balance at January 1, 2018	**20,367,450,707**
Add:current year's domestic purchases/payments for:	
Purchase of capital goods not exceeding P1 million	109,806

Particulars	Input VAT
Purchase of capital goods exceeding P1 million	75,727,646
Domestic goods	155,709,436
Imported goods	0
Services	4,500,921,272
Services rendered by non-residents	11,436
Zero-rated/Non-VAT	0
Subtotal	**4,732,479,596**
Total Input	**25,099,930,303**
Less: Deferred depreciation	(265,025,724)
Total allowable input tax for TY 2018	**24,834,904,579**

For the Taxable Year 2018, PSALM has not remitted any excess Output Tax. As at December 31, 2018, the VAT Return shows a negative balance of P19,491,328,627 that is, excess Input Tax over the years.

C. Customs duties and taxes paid to reimburse STEAG in 2018 for the importation of coal amounting to P369,531,263.

D. The Corporation has no excise tax to report for the year.

E. Documentary Stamp Tax:

Particulars	Amount
Landbank of the Philippines– Payment of DST for the P15.0 Bn. STL	112,500,000
Landbank of the Philippines– Payment of DST for the P8.0 Bn. STL	60,000,000
Landbank of the Philippines– Payment of DST for the P7.0 Bn. STL	52,500,000
Landbank of the Philippines– Payment of DST for the P8.0 Bn. STL	60,000,000
Total	**285,000,000**

F. Taxes and Licenses:

Particulars	Amount
Real estate tax	341,491,054
Final tax on interest earnings	85,151,857
Transfer tax	264,348
Community Tax Certificate	10,500
Registration fees	500
Others	312,645
Total	**427,230,904**

G. Withholding Taxes:

Particulars	Amount
VAT and other percentage taxes	2,092,483,500
Final withholding taxes[1/]	1,828,501,396
Expanded withholding taxes	1,731,620,914
Withholding taxes on compensation and benefits	18,928,297
Total	**5,671,534,107**

[1/] Of which amount, P1,828,494,249 was withheld for interest payment.

H. Abatement or Cancellation of Interest and Penalties:

	Taxable Year	Tax Type	Basic Tax (as paid)	Interest (as requested for abatement)	TOTAL
1. Outstanding Application for Abatement of Interest and Penalties					
a	2009	Final Withholding Tax	1,122,424,476	387,584,619	**387,584,619**
b	2010	Value Added Tax	5,769,624,123	2,534,110,123	
	2010	Final Withholding Tax	1,303,816,673	502,298,221	**3,036,408,344**
c	2011	Final Withholding Tax	816,537,600	357,039,455	
	2011	Expanded Withholding Tax	23,477,563	7,700,342	
	2011	Withholding Percentage Tax	2,388,125	1,355,670	**366,095,467**
d	2013	Value Added Tax	6,282,297,077	640,277,949	
	2013	Value Added Tax	42,221,811	26,836,877	
	2013	Withholding Tax on Compensation	106,194	83,080	
	2013	Expanded Withholding Tax	117,645,937	75,486,791	**742,684,697**
Total					**4,532,773,127**
2. Approved Application for Abatement of Interest and Penalties					
a	2011	Value Added Tax	5,862,246,004	1,519,874,560	
	2011	Value Added Tax	1,414,869	1,395,488	
	2011	Value Added Tax	113,964,004	116,165,121	**1,637,435,169**
b	2012	Value Added Tax	6,206,984,441	1,561,099,101	
	2012	Value Added Tax	2,627,776,453	1,494,592,854	
	2012	Value Added Tax	10,350,294	5,886,907	
	2012	Final Withholding Tax	790,831,144	229,666,031	
	2012	Expanded Withholding Tax	2,974,450	1,708,067	
	2012	Compromise Penalty		125,000	**3,293,077,960**
Total					**4,930,513,129**

I. Tax proceedings involving PSALM

Considering the nature of pending tax cases and difficulty in predicting successes in favor of PSALM, losses are recorded only when they are probable to be incurred and the amount of loss can be reasonably estimated.

On August 8, 2017 the Supreme Court En Banc laid down its decision penned down by Justice Antonio T. Carpio under G.R. 198146 in the case entitled "PSALM as Petitioner versus the Commissioner of the Internal Revenue as Respondent" ordering among others that:

> *"(T)he sale of the power plants… is not subject to VAT since the sale was made pursuant to PSALM' s mandate to privatize NPC assets, and was not undertaken in the course of trade or business. In selling the power plants, PSALM was merely exercising a governmental function for which it was created under the EPIRA law (Last paragraph, page 24, G.R. 198146)."*

This decision will have great financial impact in favor of PSALM in cases involving BIR assessments of the Value-added Tax reported by PSALM in the previous years.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Objectives and Policies

PSALM has significant exposure to the following financial risks primarily from its use of financial instruments:

Credit Risk, which is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation manages its credit risk mainly through the application of transaction limits and close risk monitoring.

The Corporation conducts regular internal control reviews to monitor the granting of credit and manage credit exposures.

Foreign Currency Risk, which results from the significant movements in foreign exchange rates that adversely affect the Corporation's foreign currency-denominated transactions. The Corporation's risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity.

Interest Rate Risk, which is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Corporation's exposure to changes in interest rates relates primarily to the Corporation's long-term borrowings and investments.

Liquidity Risk, which pertains to the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

PSALM's liability management program includes: (i) refinancing to ensure that the Corporation will meet all its outstanding debts and contractual obligations; (ii) hedging to mitigate foreign currency and interest risks; (iii) tariff rate application to update the cost of electricity generation to its current level and to implement the Universal Charge pursuant to the EPIRA; and (iv) monetization to guard against liquidity risks and match privatization cash flows with maturing debts.

30. ORGANIZATIONAL DEVELOPMENT AND KEY UNDERTAKINGS

30.1 Financial Management

a. Financial Performance

For the year ended December 31, 2018, PSALM generated revenue from operations amounting to P91.11 billion or a jump of 16 percent from last year. However, current operating expenses increased by seven percent from P79.81 billion a year ago to P85.59 billion in 2018. But compared to last year's performance, the Corporation's current operations is a complete turnaround from a deficit of P1.47 billion to a surplus of P5.52 billion. This is an improvement by 475 percent compared to a year ago. Nonetheless, together with the forex effects incurred during the year which saw the Peso fell P2.80 against the US dollar, this resulted in a net loss/deficit after tax of P9.75 billion.

b. Managing Cash Flow

Cash balance in 2018 increased by P2.28 billion, from P9.75 billion in 2017 to P12.03 billion as of December 31, 2018.

Though PSALM generated P56.67 billion from its operating activities, this proved to be insufficient to cover for the P78.75 billion financing activities and P125 million investing activities. Thus, reflected a cash deficit of P22.20 billion.

Debt service increased by P3.24 billion. Despite the P18.68 billion bullet payment for the Fixed Rate Retail Bond in April 2017, the higher scheduled principal payments for LBP Syndicated Loan and ROP Relending Facility of P21.36 billion triggered the debt service to grow.

Some of the more notable transactions affecting cash flow include, but are not limited to, the start of collection of universal charge for stranded debt totaling P2.65 billion, the receipt of P2.02 billion Industry Competitive Fund (ICF) from Philippine Economic Zone Authority (PEZA) and the P2.14 billion receipt and payment of advances from the National Government (NG) for the IPP obligation.

Other sources include the P1.48 billion receipt of interest by the National Irrigation Administration (NIA) for the Advances for San Roque HEPP Multipurpose Project (SRMPP) and the availment of loans from the Land Bank of the Philippines totaling P23 billion.

PSALM's investing activities and foreign exchange effect totaled P125 million, mostly relating to the Agus VI Uprating Project.

A condensed version of the Statement of Cash Flow is presented below:

Particulars	2018	2017
Cash flow from operations		
Proceeds from privatization[1/]	68,785,488,899	71,692,802,166
Operations	(12,111,541,951)	(14,505,982,732)
Cash Flow from operating activities	**56,673,946,948**	**57,186,819,434**
Cash flow from financing		
Debt service[2/]	(49,680,388,821)	(46,440,299,736)
BOT lease obligation	(29,069,510,021)	(27,172,130,523)
Payment of advances made by NG	0	(10,000,000,600)
Cash Flow from financing activities	**(78,749,898,842)**	**(83,612,430,859)**

Particulars	2018	2017
Cash Flow from Investing activities and FOREX effect	**(125,122,136)**	**640,086,766**
Surplus (deficit)	**(22,201,074,030)**	**(25,785,524,659)**
Other Sources:		
Other receipts	24,480,000,000	19,035,060,309
Cash, beginning balance	9,752,830,880	16,503,295,230
Total other sources	**34,232,830,880**	**35,538,355,539**
Cash balance and Cash Equivalent, end	**12,031,756,850**	**9,752,830,880**

1/ Includes proceeds from concession of transmission asset, collections from IPPAs and sale of generation assets

2/ Includes payment of principal debt, interest and all loan related expenses

c. Handling Financial Obligations (FO)

From the total financial obligations of P466.23 billion at the end of 2017, PSALM was able to make payments of long-term debts amounting to P31.50 billion and payments to IPP BOT proponents of P29.07 billion. Taking into consideration adjustments/restatements arising from forex impact of P20.53 billion, the total financial obligations stood at P449.19 billion as of December 31, 2018.

PSALM's outstanding financial obligations (FO), composed of long-term debts and IPP lease obligation, trimmed down by P17.04 billion or 4 percent from the P466.23 billion level in 2017 to P449.19 billion in 2018 as shown below:

Particulars	2018	2017	Inc./(Dec.)
Long-term debts	264,546,918,988	263,305,530,905	1,241,388,083
IPP lease obligation	184,642,345,369	202,927,003,574	(18,284,658,205)
Outstanding FO	**449,189,264,357**	**466,232,534,479**	**(17,043,270,122)**

i. Long-term debts

In 2018, principal debt servicing was 10% higher than in 2017. Notwithstanding such payments, debts have grown by P1.25 billion, equivalent to 0.5 percent, due to the Peso's depreciation from P49.923 to P52.724:$1, as well as the three (3) additional loans availed from the Land Bank of the Philippines amounting to P23.0 billion all in all.

ii. IPP lease obligation

Lease obligation decreased by P18.29 billion or 9 percent, from P202.93 billion in 2017 to P184.64 billion in 2018. The decline was on account of servicing lease maturities amounting to P29.07 billion in 2018.

d. Approval of Deferred Accounting Adjustment (DAA) for GRAM and ICERA

On March 26, 2012, ERC approved PSALM's petition for the recovery/refund of the P44.7 billion Deferred Accounting Adjustments (DAA) representing recovery of incremental fuel and IPP costs under the 10th to 17th GRAM and incremental costs on foreign currency exchange rate fluctuations under the 15th to 16th ICERA for the Luzon, Visayas and Mindanao Grids, effective March 26, 2012 to April 25, 2012 billing period until the end of the corresponding recovery periods or until such time that the full amount shall have been recovered/refunded, whichever comes earlier. Recovery/refund rate and period are shown in the following table:

Generation Rate Adjustment Mechanism (GRAM)		
Grid	***Rate (₱/kWh)***	***Recovery Period (Months)***
Luzon	0.3267	120
Visayas	0.4847	126
Mindanao	0.0536	54

Incremental Currency Exchange Rate Adjustment (ICERA)		
Grid	***Rate (₱/kWh)***	***Recovery Period (Months)***
Luzon	0.3637	96
Visayas	0.1213	60
Mindanao	(0.0094)	36

In an ERC Order dated June 20, 2017 under ERC Case Nos. 2008-042 RC, 2008-053 RC, 2008-063 RC, 2009-032 RC, 2009-056 RC, 2010-003 RC, 2010-068 RC, 2010-074 RC, 2010-067 RC and 2010-073 RC, the ERC granted with modification PSALM's proposed recovery scheme for the recovery of the approved 10^{th}-17^{th} GRAM and 15^{th}-16^{th} ICERA DAAs in the Decision dated March 26, 2012. The ERC authorized PSALM to implement the approved DAA allocated per customer for a period of sixty (60) months, totaling to P18,426.04 million.

However, in its Order dated October 19, 2017, the ERC resolved to defer the -implementation of the 10^{th}-17^{th} GRAM and 15^{th}-16^{th} ICERA DAAs to January 2018 billing period, pending resolution of issues raised by Private Electric Power Operators Association (PEPOA) and the result of evaluation on PSALM's Compliance dated September 8, 2017.

e. Debt Service Coverage Ratio

With the start of collection of universal charge for stranded debt totaling P2.65 billion, the debt service coverage ratio improved to 0.72:1 which is slightly higher than last year's 0.68:1.

f. Weighted Average Maturity

The Weighted Average Maturity (WAM) of the Corporation as of yearend 2018 stands at 3.94. This means that, on the average, the bulk of PSALM's debts will mature before 2022 ends, or within three (3) years and slightly more than eleven (11) months. Notwithstanding the calculated WAM, PSALM has debts maturing in subsequent years, including a loan payable after its corporate life in 2028, which is secured by a principal only swap (POS) hedging transaction.

g. Peso Component of the FO

Of the P449.19 billion outstanding obligations as of December 31, 2018, 22% is denominated in Philippine Peso

h. Collection Efficiency

Collection efficiency for current sales is at 93% in 2018.

30.2 PSALM's Privatization Program

a. Generation Assets

As of December 31, 2018, a total of 31 generating plants with a total of 4,601.43 MW of PSALM-owned capacities have been successfully bid out and transferred to private owners.

<table>
<tr><th>Generating Plant</th><th>Rated Capacity (In MW)</th><th>Location</th><th>Winning Bidder</th><th>Bid Date (mm/dd/yy)</th><th>Winning Bid Price (In USD)</th><th>Turnover Date (mm/dd/yy)</th></tr>
<tr><td>Power Barge 104</td><td>32</td><td>Davao City, Davao Del Sur</td><td>SPC Power Corporation</td><td>04/15/16</td><td>$4.66 million</td><td>06/30/16</td></tr>
<tr><td>Power Barge 101</td><td>32</td><td>Bo. Obrero,</td><td rowspan="3">Trans-Asia Oil and Energy Development Corporation</td><td rowspan="3">10/30/13</td><td rowspan="3">$9.31 million</td><td rowspan="3">07/08/15</td></tr>
<tr><td>Power Barge 102</td><td>32</td><td>Iloilo City</td></tr>
<tr><td>Power Barge 103</td><td>32</td><td>Subic, Zambales</td></tr>
<tr><td>Angat HEPP</td><td>218</td><td>Norzagaray, Bulacan</td><td>Korea Water Resources Corporation (K-Water)</td><td>04/28/10</td><td>$438.97 million</td><td>10/31/14</td></tr>
<tr><td>Naga Power Plant</td><td>153.1</td><td>Colon, Naga, Cebu</td><td>SPC Power* Corporation</td><td>03/31/14</td><td>$30.71 million</td><td>09/25/14</td></tr>
</table>

Generating Plant	Rated Capacity (In MW)	Location	Winning Bidder	Bid Date (mm/dd/yy)	Winning Bid Price (In USD)	Turnover Date (mm/dd/yy)
Bacon-Manito Geothermal Power Plants	150	Bacon, Sorsogon and Manito, Albay	Bac-Man Geothermal, Inc.	05/05/10	$28.25 million	09/03/10
Power Barge 117	100	Agusan del Norte	Therma Mobile Inc.	07/31/09	$16 million	03/01/10
Power Barge 118	100	Compostela Valley	Therma Marine Inc.	07/31/09	$14 million	02/06/10
Naga Land-Based Gas Turbine Power Plant	55	Colon, Naga City, Cebu	SPC Power Corporation	10/16/09	$1.01 million	01/29/10
Limay Combined Cycle Power Plant	620	Limay, Bataan	Panasia Energy Holdings, Inc.	08/26/09	$13.50 million	01/18/10
Batangas (Calaca) Coal-Fired Thermal	600	Calaca, Batangas	Sem Calaca Power Corp.	07/08/09	$361.71 million	12/03/09
Palinpinon-Tongonan Geothermal Power Plants	305	Valencia, Negros Oriental and Kananga, Leyte	Green Core Geothermal, Inc.	09/02/09	$220 million	10/23/09
Amlan HEPP	0.8	Amlan, Negros Oriental	Amlan Hydroelectric Power Corp. (AHPC)**	12/10/08	$0.23 million	06/24/09
Tiwi-Makban Geothermal Power Plants	747.53	Tiwi, Albay and Laguna/ Batangas	AP Renewables, Inc.	07/30/08	$446.89 million	05/25/09
Panay 1 & 3-Bohol Diesel Power Plants	168.5	Dingle, Iloilo and Tagbilaran, Bohol	SPC Island Power Corporation	11/12/08	$5.86 million	03/25/09
Ambuklao-Binga Hydroelectric Power Complex	175	Bokod and Itogon, Benguet	SN Aboitiz Power Hydro Inc.	11/28/07	$325 million	07/10/08

Generating Plant	Rated Capacity (In MW)	Location	Winning Bidder	Bid Date (mm/dd/yy)	Winning Bid Price (In USD)	Turnover Date (mm/dd/yy)
Masinloc Coal-Fired Thermal Power Plant	600	Masinloc, Zambales	Masinloc Power Partners Co, Ltd.	07/26/07	$930 million	04/17/08
Magat HEPP	360	Ramon, Isabela	SN Aboitiz Power-Magat, Inc.	12/14/06	$530 million	04/25/07
Pantabangan-Masiway HEPPs	112	Pantabangan, Nueva Ecija	First Gen Hydro Power Corp.	09/06/06	$129 million	11/17/06
Cawayan HEPP	0.4	Guinlajon, Sorsogon	Sorsogon II Electric Cooperative, Inc.	09/30/04	$0.41 million	06/30/05
Loboc HEPP	1.2	Loboc, Bohol	Sta. Clara Power Corporation	11/10/04	$1.42 million	06/30/05
Agusan HEPP	1.6	Manolo Fortich, Bukidnon	FG Bukidnon Power Corp.	06/04/04	$1.53 million	03/29/05
Barit HEPP	1.8	Buhi, Camarines Sur	People's Energy Services, Inc.	06/25/04	$0.48 million	01/24/05
Talomo HEPP	3.5	Mintal and Catalunan Pequeño, Davao City	HEDCOR, Inc.	03/25/04	$1.37 million	01/19/05

* *On July 16, 2018, PSALM turned over the power plant to Therma Power Visayas, Inc. (TPVI) in accordance with the Supreme Court's final decision in October 2016 (See Note 31.12)*

** *Now Northern Renewable Energy Corp.*

After months of rigid evaluation and validation, PSALM obtained the definitive policy directive from the Department of Energy (DoE) to privatize the 650-megawatt Malaya Thermal Power Plant (MTTP) including its underlying land on an "as-is-where-is-basis," rescinding previous condition to operate the plant as a Must Run Unit for three years after its privatization in view of the plant's depleting condition. After the DoE ascertained that the limited capacity of the plant may not adversely affect the demand-supply situation, PSALM committed to optimally use the remaining 150- megawatt capability of Unit I when needed while the privatization process is ongoing.

In October 2018, PSALM commenced the second round of bidding for the structure and underlying land of MTTP and conducted the prequalification process where prospective bidders' requisite resources and technical capability were evaluated through their submitted documentary deliverables. Four out of the six interested parties passed PSALM's eligibility criteria who are now qualified to proceed to the next step of the bidding process, the bid opening of which will be conducted in March 2019.

b. IPP and IPPA Contracts

As of December 31, 2018, the existing IPP contracts of PSALM are the following:

Plant Name	Contract Type	End of Agreement
NPC-Owned		
Caliraya HEPP	BROT-PPA	Feb-26
Botocan HEPP	BROT-PPA	Feb-26
Kalayaan HEPP 1 & 2	BROT-PPA	Feb-26
IPP-Owned		
Ampohaw	BOO-PPA	Jan-18
Unified Leyte GPP A & B	BOO-PPA	A: Jul-22 B: Jul-21
Casecnan HEPP	BOO-PPA	Apr-22
Mt. Apo GPP 1 & 2	BOO-PPA	1: Mar-22 2: Jun-24
Bakun HEPP (NMHC)	BOO-PPA	Jan-26
Kalayaan HEPP 3 & 4	BROT-PPA	Feb-26
Mindanao Coal 1 & 2	BOT	Mar-34

And through PSALM's continuous privatization efforts, it has successfully bid out and transferred a total of 3,607.52 MW of contracted capacities of seven IPPs to IPPAs as of December 31, 2018, as shown in the following table:

Plant Name	Location	Rated Capacity (in MW)	Winning Bidder
Sual Coal-Fired Power Plant	Sual, Pangasinan	1000	San Miguel Energy Corp.
Pagbilao Coal-Fired Power Plant	Pagbilao, Quezon	700	Therma Luzon Inc.
San Roque Multipurpose Hydro	San Manuel, Pangasinan	345	Strategic Power Devt. Corp.
Bakun-Mini Hydro Plant	Alilem, Ilocos Sur	70	Vivant Sta. Clara Northern Generation Corporation*
Ilijan Combined Cycle Power Plant	Batangas City, Batangas	1200	San Miguel Corporation
Unified Leyte Geothermal Power Plant (Strips of Energy)	Leyte	40	Aboitiz Energy Solutions, Inc.
		40	FDC Utilities, Inc.
		40	Phinma Energy Corporation**

Plant Name	Location	Rated Capacity (in MW)	Winning Bidder
		40	Unified Leyte Geothermal Energy Inc.
		20	Good Friend Hydro Resources Corporation
		17	Vivant Energy Corporation
		3	Waterfront Mactan Casino Hotel Inc.
Mindanao I and II(Mt. Apo 1 and 2) Geothermal Power Plants	Kidapawan, North Cotabato	92.52	FDC Misamis Power Corporation

* *Formerly Amlan Hydro Power, Inc.*
** *Formerly Trans-Asia Oil and Energy Development Corp.*

In 2017, issues arose between PSALM and some of the appointed Administrators of Unified Leyte—namely, FDC Utilities, Inc. (FDCUI), Good Friend Hydro Resources Corporation (GFHRC) and Phinma Energy Corporation (Phinma). These administrators were not able to comply with their contractual obligations under the IPP Administration Agreement. Thus, after exhausting all diplomatic steps but to little avail, PSALM declared FDCUI, GFHRC, and Phinma in Default and terminated the contracts. PSALM also availed of the relief provided under the IPPAA Agreement by drawing the Performance Bond of the said Administrators.

On December 22, 2017, PSALM also terminated its contract with FDC Misamis Power Corporation.

Moving forward with its remaining IPP contracts privatization, PSALM has completed the terms of reference and scope of work of a third-party consultant to be selected through a competitive public bidding whose main task is to conduct a study on viable privatization options and structures for said power assets.

PSALM will require the consultant to identify and assess the technical, contractual, legal, commercial and plant specific issues affecting the privatization or buyout of PSALM's remaining IPP plants and must include options to address such issues.

The consultant must also conceptualize the technical, commercial, financial and legal framework for the selection and appointment of the IPP Administrators (IPPAs) or IPP contract buyout when applicable.

IPP plants to be included in the study are the following: Caliraya-Botocan-Kalayaan Hydroelectric Power Plants, Mindanao Coal-Fired Thermal Power Plant and Casecnan Multi-Purpose Project.

c. Privatization of Decommissioned Plants

As of December 31, 2018, the table below lists the four (4) decommissioned plants successfully bid out by PSALM:

Plant Name	Location	Winning Bidder	Bid Date (mm/dd/yy)	Turnover Date
Sucat Thermal Power Plant	Sucat, Muntinlupa City	Riverbend Consolidated Mining Corporation	05/31/17	08/02/17
Aplaya-General Santos Diesel	Misamis Oriental & General Santos	TEC Industries Inc.	05/25/09	10/02/09
Cebu Diesel II	Talavera, Toledo City, Cebu	Taifu Metal Exchange Corporation	01/22/09	05/25/09
Manila Thermal	Manila	Gagasan Steel Inc.	04/25/08	02/20/09

On May 31, 2017, PSALM conducted the 3rd round of bidding for the ***Sucat Thermal Power Plant (STPP)*** and declared Riverbend Consolidated Mining Corporation (RCMC) as the highest bidder.

The sale included the structures, plant equipment, auxiliaries and accessories of the decommissioned 850 MW STPP. As the highest bidder, RCMC would have to undertake and perform the dismantling and clean-up on the purchased assets, the toxic substances and hazardous wastes and materials, and the STPP Site to return STPP site to ground zero.

Aside from RCMC, other bidders who prequalified were VPD Trading and G. G. Uy Bonapor Metal Contractor Company.

Apart from the abovementioned decommissioned plants, the sale and disposal of the ***Bataan Thermal Power Plant*** **(BTPP)** is still subject to resolution of court cases involving the asset, which stemmed from the non-compliance with the conditions of the Asset Purchase Agreement of Rubenori Inc., PSALM's counterparty to the negotiated sale of BTPP. This forced PSALM to issue the notice of termination, forcing the Bataan provincial government to step in to help settle the claims of about 6,000 workers laid off by BTPP.

d. Privatization of Real Estate Assets

PSALM's real estate assets have an aggregate area of more or less 10,044 hectares comprised of 6,160 lots – taking up a substantial size in the asset universe of the Corporation.

In a Memorandum of Agreement (MOA) signed in June 2018, the full cooperation of the Land Registration Authority (LRA) was obtained in the access of valuable LRA data on PSALM's real estate assets. LRA will aid

PSALM in addressing its real estate asset profiling concerns and help in the validation of registration documents and technical data on asset-specific matters. The MOA signifies PSALM's continuing commitment to maximize the highest and best use of its properties, generate the highest financial return to the government, and support local and national development plans.

As an initial offshoot of this agreement, LRA fulfilled its first project for PSALM in August 2018, requiring technical data (Geo-Spatial Query Service and Parcel Verification Service LRA and Certified True Copies of titles) for its property at Isla de Provisor in Paco, Manila, paving the way for the commencement of the bidding of Manila Thermal Power Plant Land.

In the conduct of its continuing benchmarking and collaboration with government agencies, PSALM saw the need to amend the REA strategic plan it drafted in 2015 to improve the Corporation's operational effectiveness in the realm of real estate property divestment.

The amendments led to the proposal of flexible and cost-efficient disposal modes with an end goal of simplifying the divestment process without jeopardizing the government's interest.

Subsequently, in August 2018, PSALM adopted the proposed use of public auction as the mode of privatization for small value REAs, the inclusion of Joint Ventures, Land Lease Agreements (with additional conditions) and agency to agency transfer (with modified parameters) as new modes of privatization, among other important amendments.

Through rental agreement, PSALM successfully sealed new deals this year with the lease of its two (2) properties (a portion of its Port Area property and the training center of its Bagac Property) to the Philippine Coast Guard. The lease agreement will help PSALM exercise fiscal prudence as it provides additional income to cover the expenses of maintaining the properties.

30.3 Universal Charge (UC) Administration

Pursuant to Section 51 of the EPIRA, PSALM, among its powers, shall collect, administer, and apply NPC's portion of the UC. Moreover, it shall calculate the amount of the Stranded Debts and Stranded Contract Costs of NPC, which amount shall form part of the UC to be determined, fixed, and approved by the ERC.

By definition, the *Stranded Contract Costs of NPC* refer to "the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Such contracts shall have been approved by the ERB as of December 31, 2000".

On the other hand, *Stranded Debts of NPC* refer to any unpaid financial obligations of NPC which have not been liquidated by the proceeds from the sales and privatization of NPC assets provided, however, that such obligations include any of such obligations refinanced by PSALM. Provided, further, that such refinancing of such unpaid obligations shall not result in increasing the Universal Charge burden.

The other components of UC include the UC for Missionary Electrification (UC-ME) and the UC for Environment and Watershed Rehabilitation and Management (UC-EWRM).

In actual practice, the UC is collected every month by the NGCP and the distribution utilities (collectively referred to as “Collecting Entities” or CEs) based on the approval of the Energy Regulatory Commission (ERC). The collections are then remitted to PSALM every 15th of the following month.

As of December 31, 2018, out of the one hundred fifty-four (154) CEs, there are twenty (20) CEs who are not compliant in remitting their UC collections and in submitting their monthly UC reports as required under the ERC - approved Guidelines and Procedures Governing Remittances and Disbursement of the Universal Charge, as amended. PSALM is in constant coordination with the ERC to prompt these CEs to fully comply with the UC Guidelines.

As of December 31, 2018, remittances by CEs to PSALM already amounted to P168.20 billion, while interest earnings from deposits and placements of UC funds amounted to P0.24 billion. On the other hand, UC fund disbursements as of the end of December 31, 2018 amounted to P166.11 billion; leaving a balance of P2.33 billion.

For the period January to December 2018 alone, PSALM received P30.59 billion in UC remittances, and disbursed P29.79 billion to UC beneficiaries.

- **Availment of the CYs 2011-2012 UC-SCC and CY 2013 UC-SCC**

  On July 31, 2013, PSALM filed a Petition for the True-up Adjustments for NPC’s SCC Portion of the UC for CYs 2011 and 2012 docketed under ERC Case No. 2013-160 RC seeking for the approval of the calculated aggregate UC-SCC for the years 2011-2012 amounting to P17,685 million equivalent to a rate of P0.1274/kWh covering a two (2) year recovery period.

  On July 30, 2014, PSALM filed a Petition for the Availment of the NPC’s SCC Portion of the UC for CY 2013 docked under ERC Case No. 2014-111 RC. In said Petition, PSALM is seeking for the approval of the calculated UC-SCC for CY 2013 amounting to P4,078 million equivalent to a rate of P0.0531/kWh covering a one (1) year recovery period.

  In a Decision dated July 6, 2017, the ERC approved with modification PSALM’s petitions for the availment of the CYs 2011-2013 UC SCC under Case Nos. 2013-160 RC and 2014-111 RC effective July 2017 billing period, as follows:

SCC Amount	Rate	Recovery Period

(PM)	(P/kWh)	
12,877.85	0.1938	10 months

Accordingly, all Distribution Utilities (DUs) and the National Grid Corporation of the Philippines (NGCP) are directed by the ERC to collect the above UC-SCC charge starting July 2017 billing period.

On May 22, 2018, the ERC approved PSALM's Motion for Reconsideration covering years 2007-2010 amounting to P8,547 million using the same rate of P0.1938 per kilowatt-hour effective May 2018. Correspondingly, all DUs and NGCP are directed by the ERC to collect the said UC-SCC charge starting May 2018 billing period.

Details of UC-SCC covering years 2011-2013 and 2007-2010 are summarized below:

SCC Availments	ERC Case No.	Date Approved by ERC	SCC Amount (PM)	Rate (P/kWh)
CYs 2011-2013	2013-160 RC 2014-111 RC	July 06, 2017	12,877.85	0.1938
CYs 2007-2010 MR	2011-091 RC	May 22, 2018	8,547.23	0.1938

- **<u>True-Up Adjustments of the NPC's Stranded Debts Portion of the UC for CYs 2011 and 2012</u>**

On September 30, 2013, PSALM filed a petition for True-Up Adjustments of the NPC's Stranded Debts (SD) Portion of the UC for CYs 2011 and 2012 docketed under ERC Case No. 2013-195 RC. In the said Petition, PSALM seeks the ERC's approval to collect P41,139 million over a 12.5-year recovery period, which translates to a UC-SD charge of P0.0382/kWh.

In a Decision dated June 27, 2017 under Case No. 2013-195 RC, the ERC approved with modification PSALM's CYs 2011-2012 UC-SD True-Up Adjustments effective next billing period or August 2017 billing, as follows:

SD True-Up (P)		Total Amount	SD Rate (P/kWh)
2011	2012		
22,514,648,707	1,684,203,528	24,198,852,235	0.0265

Accordingly, all DUs and the NGCP are directed by the ERC to collect the amount of P0.0265/kWh from the consumers starting on the next billing period and remit the same to PSALM, on or before the 15th day of succeeding month, until the amount of SD True-up for CY 2011 and 2012 has been fully recovered.

30.4 PSALM's Corporate Social Responsibility

Since 2010, PSALM has been committed to the tenets of Corporate Social Responsibility (CSR) and its potency to improve lives and change society. Through the years, the PSALM CSR Group has expanded its network of communities, stakeholders and volunteers with the common aim of improving the social and environmental conditions of the localities where PSALM's businesses, majority of which are power plant operations, operate.

Sustainable development, environmental management, access to healthcare and education are the driving forces of PSALM's CSR activities for 2018. With the support of PSALM's Gender and Development Focal Point System (GAD FPS) and employees as volunteers as well as government and private sector entities, the following projects and programs were successfully conducted in 2018:

1. Computer Transfer in Navotas, Metro Manila;
2. Blood-letting Drive at Moriones Hall, National Power Corporation;
3. Computer Transfer in Jaro, Iloilo;
4. Computer Transfer in Kalinga and Ilagan, Isabela;
5. Computer Transfer in Tubao, La Union;
6. Computer Transfer in Camarines Norte, Bacacay, Albay and Ticao Island, Masbate;
7. Bags-to-School in Pantabangan, Nueva Ecija;
8. Medical Mission in Brgy. Paowin, Cavinti, Laguna;
9. Bags-to-School in Maramag, Bukidnon;
10. Lecture on Cardiopulmonary Resuscitation (CPR); and
11. Tree Planting in Pantabangan, Nueva Ecija

More than just integrating CSR as a part of business growth, the PSALM CSR Group envisioned these activities to bring about economic and social reforms in the beneficiary communities. PSALM CSR Group profoundly realizes the role of education as society's great equalizer. It can be noted that majority of PSALM's CSR endeavors in 2018 focused on education. The computer transfers and distribution of bags and school supplies to municipalities and barrios across the country are a testament to the CSR volunteers' belief that education remains a critical component in alleviating the social condition of a community.

PSALM is also committed to improving access to healthcare for the underserved. A major CSR event in 2018 is the Medical Mission in the Municipality of Cavinti, Province of Laguna. Thirty-seven (37) PSALM volunteer-employees assisted doctors in taking note of indigent patients' information and their medical history; dispatching free medicines and reading glasses; and cleaning dental paraphernalia.

30.5 PSALM gives back to Communities Hosting Power Plants

Section 66 of the Electric Power Industry Reform Act of 2001 (EPIRA), in conjunction with the Local Government Code (Chapter II, Section 289 to 294), define the obligations of generation companies and energy resource developers to communities hosting energy generating facilities. Pursuant to these laws, host communities should receive an equitable share in proceeds derived from energy resources production.

The amount of share of Local Government Units (LGUs) to be remitted by corporations or entities utilizing the national wealth of the locality shall be one percent (1%) of their gross revenues to be utilized for development initiatives directly benefitting communities and residents in the municipality and province.

Beginning 2010, PSALM took over from the National Power Corporation (NPC) the responsibility of computing and remitting the Share in National Wealth of LGUs as an offshoot of the asset-debt transfer pursuant to the EPIRA.

PSALM has disbursed a total of P1.83 billion from 2010 to 2018 to host communities of its power plants. PSALM's share is directly remitted to the municipal treasurers of these host communities. Pursuant to the Local Government Code, 80% of the national wealth tax should be applied by the concerned LGU to lower the cost of electricity of end consumers.

Aside from the foregoing, PSALM also remits funds to the Department of Energy (DOE) which is intended for the development of communities hosting power plants. Referred to as Energy Regulatory No. 1-94 (ER 1-94), PSALM's remittances to DOE has reached a total of P2.67 billion, made as follows: P143.99 million in 2009; P265.75 million in 2010; P259.14 million in 2011; P275.66 million in 2012; P269.76 million in 2013; P276.95 million in 2014; P258.27 million in 2015; P259.05 million in 2016; P254.28 million in 2017 and P6.24 million in 2018.

However, on July 26, 2018, DOE issued Department Circular No. DC2018-08-0021, providing for the amendment to Rule 29 (A) of the Implementing Rules and Regulations of the EPIRA. Under the said circular, the administration of the Electrification Fund (EF) and Development and Livelihood Fund (DLF) and Reforestation, Watershed Management, Health and/or Environment Enhancement Fund (RWMHEEF) is now transferred to the concerned distribution utilities and host local government units, respectively. Accordingly, PSALM will henceforth be remitting said funds to respective generation companies (GenCos) that operate the power plants. Said GenCos would then be responsible for establishing separate trust accounts for EF, DLF, and RWMHEEF pursuant to Section 13 of the Department Order No. 2019-01-0001 (providing the guidelines and procedures for the implementation of the department circular relative to the transfer of existing funds).

30.6 PSALM passes the Second Follow-Up Audit for Quality Management System (QMS)

On December 03, 2018,PSALM passed the Second Follow-Up Audit for ISO 9001:2015 conducted by TÜV Rheinlandin PSALM's new office at 24th floor, Vertis North Corporate Center 1, Astra corner Lux Drive, North Avenue, 1105 Quezon City. Through the joint effort of PSALM's management and employees, it managed to satisfy the requirements set forth by the latest edition of ISO's flagship quality management systems standard—the ISO 9001:2015—and maintain its accreditation despite the hurdles faced by the corporation.

30.7 Adjusting the Dividend Rate of PSALM

On July 25, 2018, President Rodrigo R. Duterte issued Executive Order No. 59 (E.O. 59) for the adjustment of PSALM's dividend rate from 50% to three percent (but not lower than the total amount of P2.11 billion) on its net earnings for Calendar Years 2004, 2007-2008, and 2013-2015. As of yearend 2018, PSALM has paid all dividends due for the aforementioned years.

31. COMMITMENTS AND CONTINGENCIES

31.1 Case filed by NPC Drivers and Mechanics Association (DAMA)

On December 27, 2017, PSALM received from the Office of the Government Corporate Counsel (OGCC) the Notice of Judgment issued by the Supreme Court with an attached Resolution promulgated on November 21, 2017 relative to the case filed by NPC DAMA under G.R. No. 156208. The dispositive portion of the Resolution states that:

"**WHEREFORE**, the Court resolves to:

1. **GRANT** PSALM's prayer to lift and quash the Demand for Immediate Payment and the Notices of Garnishment issued against it and the NPC;

2. **DENY** the petitioners' request to immediately execute the judgment award; and

3. **DIRECT** the petitioners to file claim against the government before the Commission on Audit, pursuant to its rules, which shall be resolved in accordance with the guidelines herein set forth.

SO ORDERED."

Such Resolution clarifies that while PSALM is directly liable for the payment of the petitioner's entitlement, the petitioners are directed to follow the proper procedure to enforce a judgment against the government; that is, the petitioners have to file a separate action before the COA for its satisfaction. After which, it is for the COA to ascertain the exact amount of its liability in accordance with its audit rules and procedures.

NPC furnished PSALM with its computation of the estimated DAMA claims amounting to P30.97 billion. It considered entitlements to former NPC employees who were “Not-Rehired”, “Early Leavers”, “Executives”, and “Re-Hired”. But considering that the Supreme Court ruled that only petitioners who were neither rehired by the NPC or absorbed by PSALM or TransCo pursuant to the 2003 reorganization shall be entitled to full back wages, PSALM recognized a provision only for the amount of P8.40 billion, which is the estimated claims computed by NPC of its former employees who were not rehired. The P8.40 billion is already inclusive of interest up to December 31, 2017 amounting to P3.70 billion. NPC’s computation beyond the coverage of the Supreme Court’s Resolution was not considered by PSALM’s Board.

31.2 Availment of the CY 2014 UC-SCC

On July 24, 2015, PSALM filed a Petition for the Availment of the NPC’s SCC Portion of the UC for CY 2014 docketed under ERC Case No. 2015-139 RC and submitted a Compliance for the True-up Adjustments of CYs 2007-2010 UC-SCC. In said Petition, PSALM is seeking for the approval of the calculated UC-SCC for CY 2014 amounting to P7,354 million equivalent to a rate of P0.0907/kWh covering a one (1) year recovery period.

On August 31, 2018, PSALM submitted its Formal Offer of Evidence (FOE). As of December 31, 2018, PSALM is waiting for the Intervenors’ comments on the FOE.

31.3 Availment of the CY 2015 UC-SCC

On May 31, 2016, PSALM submitted to the ERC a Report under Oath on the calculated NPC SCC Portion of the UC for CY 2015. PSALM’s calculation for CY 2015 NPC SCC resulted in a negative P431.06 million, hence, PSALM did not avail for recovery under the SCC.

31.4 Availment of the CY 2016 UC-SCC

On July 6, 2017, PSALM filed a Petition for the Availment of the NPC’s SCC Portion of the UC for CY 2016 docketed under ERC Case No. 2017-066 RC. In said Petition, PSALM is seeking for the approval of the calculated UC-SCC for CY 2016 amounting to P3,686.19 million equivalent to a rate of P0.0429/kWh covering a one year recovery period.

On October 11, 2018, PSALM submitted its Formal Offer of Evidence (FOE). As of December 31, 2018, PSALM is waiting for the Intervenors’ comments on the FOE.

31.5 Availment of the CY 2017 UC-SCC

On July 31, 2018, PSALM filed a Petition for the Availment of the NPC’s SCC Portion of the UC for CY 2017 docketed under ERC Case No. 2018-088 RC. In said Petition, PSALM is seeking for the approval of the calculated UC-SCC for CY 2017 amounting to P5,228.68 million equivalent to a rate of P0.0582/kWh covering a one (1) year recovery period.

On November30, 2018, PSALM submitted its Formal Offer of Evidence (FOE). As of December 31, 2018, PSALM is waiting for the Intervenors' comments on the FOE.

31.6 True-Up Adjustments of the NPC's SD Portion of the UC for CY 2014

On July 30, 2015, PSALM filed the Petition for the True-Up Adjustment of NPC's SD Portion of the UC for CY 2014 before the ERC docketed under ERC Case No. 2015-144 RC. PSALM prays for the ERC's approval to collect CY 2014 UC-SD amounting to P1,352 million over a 10.5-year period, which translates to a UC charge of P0.0013/kWh sales to all electricity end-users.

As of December 31, 2018, PSALM is awaiting for the ERC resolution.

31.7 True-Up Adjustments of the NPC's SD Portion of the UC for CY 2015

On June 30, 2016, PSALM filed before the ERC the Petition for the True-Up Adjustment of NPC's SD Portion of the UC for CY 2015 docketed under ERC Case No. 2016-150 RC. PSALM prays for the ERC's approval to collect CY 2015 UC-SD amounting to P27,670 million over a 9.5-year period, which translates to a UC charge of P0.0283/kWh sales to all electricity end-users.

As of December 31, 2018, PSALM is awaiting for the ERC resolution.

31.8 True-Up Adjustments of the NPC's SD Portion of the UC for CY 2016

On July 31, 2017, PSALM filed before the ERC the Petition for the True-Up Adjustment of NPC SD Portion of the UC for CY 2016 docketed under ERC Case No. 2017-069 RC. The calculated CY 2016 UC-SD True-Up Adjustments amounted to P34,642.18 million equivalent to P0.0407/kWh over an 8.5-year recovery period.

As of December 31, 2018, PSALM is awaiting for the ERC resolution.

31.9 True-Up Adjustments of the NPC's SD Portion of the UC for CY 2017

On July 31, 2018, PSALM filed before the ERC the Petition for the True-Up Adjustment of NPC SD Portion of the UC for CY 2017 docketed under ERC Case No. 2018-087 RC. The calculated CY 2017 UC-SD True-Up Adjustments amounted to P11,804.64 million equivalent to P0.0152/kWh over a 7.5-year recovery period.

As of December 31, 2018, PSALM is awaiting for the ERC resolution.

31.10 PSALM’s claim against Lehman Brothers Special Financing Inc. (LBSF)

On August 1, 2013, Mediator Jack Esher issued his settlement recommendation amounting to USD9 million payable by PSALM to LBSF, of which the former rejected the mediator’s proposal and retained the zero or walk-away settlement offer. Consequently, LBSF decided to commence a proceeding against NPC and PSALM in the English Courts of Justice in the United Kingdom.

On March 27, 2015, PSALM was served summons by LBSF’s Process Agent Salvador Llanilo Bernardo & Associates Law Office in relation to the claim which LBSF filed on October 6, 2014 before the London Court. To this, PSALM, through Pinsent Masons, filed a Defense and Counterclaim against LBSF on July 17, 2015.

On April 27, 2015, the PSALM Board approved the authority for PSALM to participate in the London proceedings and to engage a Foreign Counsel in PSALM’s Defense against LBSF’s claim amounting to USD18.0million in the UK Court.

The trial proceedings were held at the High Court of Justice, Queen’s Bench Division, Commercial Court, Royal Courts of Justice, London, United Kingdom from December 4 to 13, 2017.

On March 14, 2018, PSALM received through Pinsent Masons the favorable Judgment of the Court in London, United Kingdom. The Judge stated that NPC/PSALM were not liable to pay LBSF of its USD 18.0 million claim and cost of litigation, and that PSALM is entitled to recover at least 50% of its legal costs. Under the English Law, both shall have the 21 days from receipt of the Court’s decision within which to file an appeal which is until April 02, 2018. No appeal was made by LBSF and instead came up with a proposal for the recovery of costs in favor of PSALM.

On April 4, 2018, the PSALM Board approved the acceptance of LBSF’s settlement offer to pay PSALM a fixed amount of USD3.75 million (inclusive of the interim settlement payment amounting to USD1.35 million) in return for a comprehensive and mutual release between parties of all the obligations in connection with: (i) the issue of costs; (ii) these proceedings generally; (iii) the Master Agreement; and (iv) the Swap Transaction.

On April 12, 2018, the UK Court issued its order with the following highlights:

> “The claimant (LBSF) agreed to pay the Defendant (NPC and PSALM) the total amount of USD3.75 million in full and final settlement of: (i) any costs entitlement of either the NPC or PSALM, whether arising under Section 11 of the Agreement or otherwise; (ii) PSALM’s counterclaim; and (iii) any interest on the foregoing.”

On April 20, 2018, Pinsent Mason remitted the net amount of USD2.52 million of the LBSF's settlement recovery after deducting its contract amounting to USD1.23 million which is allowed under the UK rules.

31.11 Pending case on the termination of the Ilijan Administration Agreement (IPPAA)

On April 16, 2010, PSALM held the bidding for the Ilijan IPPA where San Miguel Corporation (SMC) garnered the highest bid with its offer of USD870,000,473 for the Ilijan contracted capacity, edging out three other groups namely: First Gen Luzon Power Corporation, Therma Power Visayas Inc., and Trans Asia Oil and Energy Development Corporation. An Assignment Agreement dated June 10, 2010 with Assumption of Obligations between SMC and South Premiere Power Corporation (SPPC) was later approved and consented by PSALM on June 16, 2010.

On June 26, 2010, after all Administrator Conditions Precedent had been met, the management and control of the contracted energy output of the Ilijan Plant was turned over by PSALM to SPPC.

As the Administrator, SPPC is entitled to trade, sell or otherwise deal with the electricity generated under the IPP contract for the Ilijan Power Plant. In consideration thereof, SPPC is bound to pay PSALM Monthly Payments and Generation Payments. These payments are considered privatization proceeds by PSALM, and are intended to pay fixed costs due to IPPs under the BOT scheme and to liquidate its financial obligations and stranded debts.

In the course of PSALM's dealings with SPPC, differences in interpretation of certain provisions in the Administration Agreement relating to the computation of generation payments covering the billing period June 26, 2010 up to December 25, 2012 (hereinafter referred to as Period A), which coincides with the term of the Transition Supply Contract (TSC) with MERALCO, arose, resulting to disputed items which formed part of IPPA Receivable due from SPPC. However, even after the expiration of the MERALCO TSC on December 26, 2012, payments made by SPPC covering generation payment bills for the billing period December 26, 2012 onwards (Period B) deviated from the provisions of Schedule J of the Administration Agreement. Accordingly, in compliance with the provisions of the IPP AA, PSALM sent the following demand letters to SPPC to collect for the unpaid outstanding generation payments covering Period B:

1. First demand letter dated September 10, 2013;
2. Second demand letter dated October 20, 2014; and
3. Final demand letter dated August 6, 2015.

After fourteen (14) days since the final demand letter to SPPC was served, a nine-day grace period was further given to SPPC; however, despite the additional nine-day grace period which expired on September 2, 2015, SPPC failed to settle its unpaid generation payment bills covering Period B, prompting

PSALM to declare SPPC in Administrator Default and entitling PSALM to terminate the IPP AA as per Clauses 1.1 (f) “Definitions”, and 19.1 “Administrator Default Termination” of the said Agreement.

On September 4, 2015, PSALM was compelled to avail of the relief provided under the IPP AA for SPPC’s failure to pay the outstanding Generation Payments for the period December 26, 2012 to April 25, 2015. With the termination, and in accordance with the Ilijan IPP AA, PSALM has also drawn on September 4, 2015 the USD60 million Performance Bond of SPPC. PSALM’s action on Ilijan IPP AA was also supported by COA in its Audit Observation Memorandum No. 2015-01-2014 dated March 23, 2015.

However, on September 8, 2015, PSALM received SPPC’s Complaint with Ex-parte Application for 72-Hour Temporary Restraining Order (TRO), and Application for 20-Day TRO and Writ of Preliminary Mandatory and Prohibitory Injunction. That same day, Hon. Executive Judge Monique A. Quisumbing-Ignacio, RTC, Branch 209, Mandaluyong City issued an order granting SPPC’s ex-parte application for a 72-hour TRO.

On September 10, 2015, PSALM filed its Opposition to the Issuance of a TRO with Very Urgent Motion to Lift 72-Hour TRO. But on September 11, 2015, the RTC, Branch 208 of Mandaluyong City, issued an Order extending for another seventeen (17) days the TRO only to preserve the status quo and to afford the Court the opportunity to hear the merits of the controversy conditioned upon payment by plaintiff of a bond in the amount of one million Pesos (P1 million).

On September 28, 2015, the Court issued an Order granting Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPP AA while the main case is pending.

A Motion for Reconsideration to the September 28, 2015 Order granting Preliminary Injunction was filed by PSALM on October 14, 2015, followed by a Motion to Dismiss SPPC’s Complaint on October 15, 2015. On October 22, 2015, PSALM received an Order dated October 19, 2015 granting MERALCO’s Motion to Intervene.

However, on July 18, 2016, PSALM received the Order issued by the RTC Branch 208 of Mandaluyong City, denying the three (3) pending motions: (1) PSALM’s Motion for Reconsideration of the RTC Order Granting the Writ of Preliminary Injunction, (2) PSALM’s Motion for Reconsideration of the RTC Order granting MERALCO’s Intervention, and (3) PSALM’s Motion to Dismiss the Complaint filed by SPPC. PSALM filed its Answer Ad Cautelam on July 25, 2016.

The Mediation and Judicial Dispute Resolution were unsuccessful. On 13 October 2017, PSALM filed a Position Paper with Motion for Inhibition which was granted in the Order dated December 18, 2017. The case was then re-raffled to RTC, Branch 212, of Mandaluyong City.

On February 26, 2018, PSALM received SPPC's Pre-Trial Brief, together with Interrogatories and Request for Admission. On February 28, 2018, PSALM received SPPC's Motion for Production of Documents. On March 6, 2018, PSALM filed a Manifestation with Motion to Hear Affirmative Defense and Omnibus Objections Ad Cautelam. On October 29, 2018, PSALM received an Order issued by the RTC Branch 212 of Mandaluyong City denying PSALM's Motion to Hear Affirmative defense and directed PSALM to answer SPPC's interrogatories and Request for Admission and to produce copies of the documents enumerated in SPPC's Motion for Production of Documents. On November 14, 2018, PSALM filed its Motion for Reconsideration, which is still pending resolution.

Proceedings before the Court of Appeals

On September 16, 2016, PSALM filed a Petition for Certiorari (with urgent prayer for the issuance of a Temporary Restraining Order and/or Preliminary Mandatory Injunction) with the Court of Appeals. SPPC and PSALM filed its respective Memoranda on June 29 and July 10 2017, respectively. The Court of Appeals, in its Decision promulgated on December 19, 2017, denied the Petition. PSALM filed a Motion for Reconsideration on January 22, 2018 which was denied by the Court of Appeals in its Resolution promulgated on July 12, 2018.

Proceedings before the Supreme Court

On September 7, 2018, PSALM filed a Petition for Review on Certiorari with urgent prayer for the issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction, under Rule 45 of the Rules of Court, which as of December 31, 2018, is still awaiting resolution.

31.12 Updates on the nullification of the sale of Naga Power Plant to SPC Power Corporation

In its September 28, 2015 Decision, the Supreme Court has stopped the sale of the 153.1-megawatt (MW) Naga Power Plant to SPC Power Corporation, ruling that the company does not have the right to top an offer by a rival firm.

The high court's Third Division said, "The right of first refusal (right to top) granted to Salcon Power Corp. under the 2009 Naga land-based gas turbine land lease agreement (LBGT-LLA) is hereby declared null and void. Consequently, the asset purchase agreement and land lease agreement executed by PSALM and SPC are annulled and set aside."

The Naga Power Plant contract is a 25-year lease over the land containing the Naga complex. SPC has a land lease agreement with the government for the Naga facility until 2020, which contains a provision for the right to refusal.

PSALM conducted the third round of bidding for the Naga Power Plant on March 2014, in which Therma Power Visayas Inc. of the Aboitiz Group emerged as the highest bidder with an offer of P1.09 billion. SPC offered the second highest bid of P859 million. However, SPC exercised its right to top the bid, offering PSALM 5 percent more at P1.143 billion.

However, in its October 5, 2016 Resolution, the Supreme Court clarified that the nullification was limited only to SPC's right to top and the awarding of the Naga Power Plant Complex Land Lease Agreement (NPPC-LLA) and the Naga Power Plant Complex Asset Purchase Agreement (NPPC-APA) to SPC. Accordingly, the Supreme Court directed: (a) for the reinstatement of the April 30, 2014 Notice of Award in favor of TPVI; and (b) PSALM to execute the NPPC-APA and NPPC-LLA in favor of Therma Power Visayas Inc. with dispatch.

Both PSALM and SPC filed a Motion for Reconsideration. However, the Supreme Court in its November 28, 2016 Resolution denied the said Motions with Finality. The Court likewise declared that no further pleadings, motions, letters or other communications shall be entertained in the case and that let entry of judgment be issued.

In a subsequent Resolution dated October 5, 2017, the Supreme Court reinstated the award of the contract to TPVI and directed PSALM to execute the NPPC-APA with TPVI.

On July 13, 2018, SPC turned over the NPPC to PSALM, with the inventories and supplies in the levels that SPC received them, under certain conditions.

On July 16, 2018, PSALM turned over the 153.1-megawatt (MW) NPPC to TVPI. The turnover of the power complex is in accordance with the Supreme Court's final decision in October 2016 which resolved to nullify the Asset Purchase Agreement and Land Lease Agreement executed by PSALM and SPC and to reinstate the Notice of Award dated April 30, 2014 in favor of TPVI. PSALM issued the Certificate of Effectivity of the Asset Purchase Agreement on May 18, 2018 which TPVI accepted on May 23, 2018.

The Naga plant complex is comprised of the 52.5-MW Cebu 1 and 56.8-MW Cebu 2 coal-fired thermal power plants, and the 43.8-MW Cebu Diesel Power Plant 1 composed of six (6) 7.3-MW bunker-C fed power units. Located in Colon, Naga City, Cebu, these power plants use a combination of coal, bunker C oil and diesel as fuel.

31.13 Case involving the sale of excess capacity of the Sual Coal-Fired Power Plant

On May 20, 1994, NPC and CEPA Pangasinan Electric Limited (CEPA) entered an Energy Conversion Agreement (ECA), wherein the latter was obliged to build a 1,000 MW coal fired thermal power plant in Sual, Pangasinan. However, CEPA constructed a 1,200 MW power plant, giving rise to an excess capacity of 200 MW. CEPA, thereafter assigned its rights and obligations in the ECA to Mirant Philippines Corporation, and to Team Sual Corporation (TSC) thereafter. On the other hand, PSALM assumed all the rights and obligations of NPC under the existing IPP contracts, which in this case is the Sual Coal-Fired Power Plant, pursuant to the EPIRA.

On June 18, 2009, PSALM, TSC and Team Philippines Energy Corporation (TPEC), the trading arm of TSC, entered into a Memorandum of Agreement (MOA) - wherein TSC, by itself or through TPEC - has the right to market, offer, sell and supply the excess capacity to any customer, provided that it procures the fuel requirement for generation and/or dispatch of electricity from the available excess capacity.

Later, on August 28, 2009, PSALM held a public bidding for the Sual Coal-Fired Power Plant, where San Miguel Energy Corporation (SMEC) submitted the highest bid amount of USD1.072 billion.

Under the terms of the IPPA Agreement, SMEC has the right to administer the operations of the Sual Coal-Fired Power Plant for 1,000 MW, and take over the functions of PSALM thereon. At the end of a term, SMEC will be entitled to the ownership of the Sual Power Plant, but subject to its fulfilment of the Transaction Documents. Furthermore, SMEC assumed the rights and obligations of PSALM, including the right to trade and sell the contracted energy produced by Sual thru the facilities of WESM and thru bilateral contracts with third parties for SMEC account at its own risk and cost.

SMEC willingly entered into the IPPA Agreement despite being aware of the existence of the MOA in respect of the excess capacity of the Sual Power Plant executed on June 18, 2009.

In 2015, however, SMEC began to question the legality of the MOA on excess capacity of the Sual Power Plant.

On March 2, 2016, SMEC remitted P9.28 million to PSALM pertaining to the sale of the excess capacity, explaining on a later date that such amount was remitted because the MOA is null and void for being in violation of law since TSC is obligated to dedicate the entire power station output to PSALM. PSALM, however, returned the entire amount, advising SMEC to faithfully comply with and adhere to its obligations under the IPPAA.

On June 17, 2016, SMEC filed a Complaint for Consignation against PSALM with the RTC of Pasig City. PSALM, in collaboration with the Office of the Government Corporate Counsel (OGCC), filed its Answer on August 19, 2016. PSALM then filed a Motion for Set Preliminary Hearing on the Special and Affirmative Defenses on September 23, 2016. In this motion, PSALM requested that a hearing on its defenses be set so that the complaint may be dismissed without the rigors of trial. SMEC, on its part, filed an Omnibus Motion: (1) to Admit Supplemental Complaint; and (2) to allow Future Consignations Without Tender. In its Motion, SMEC informed the court that on three (3) separate dates, it tendered to PSALM amounts constituting the proceeds of the excess capacity of Sual Power Station but it was refused. Thus, it requested the court to allow it to consign all future proceeds of the excess capacity without formally tendering payment and serving notices of consignation to PSALM. PSALM filed a Comment/Opposition to this motion on November 7, 2016.

On October 17, 2017, PSALM filed its Comment/Opposition to San Miguel Energy Corporation's Motion to Admit Second Supplemental Complaint dated July 5, 2017.

On May 22, 2018, the Court issued an Order dismissing the complainant for lack of jurisdiction. However, on July 04, 2018 SMEC filed its Motion for Reconsideration which awaits order/resolution.

On July 26, PSALM, through the OGCC, filed its Comment/Opposition to plaintiff's Motion for Reconsideration.

31.14 Case involving the IPPA of Bakun AC Hydro Power Plant

PSALM is currently dealing with a case involving Vivant Sta. Clara Northern Renewables Generation Corporation, otherwise known as "Northern Renewables" (NR), who is the IPPA for the Bakun AC Hydro Power Plant.

On May 16, 2017, NR filed a petition with the RTC, Cebu City for corporate rehabilitation pursuant to the Financial Rehabilitation Rules of Procedure. On May 26, 2017, the RTC Branch 11, Cebu City issued a Commencement/Stay Order (Civil Case No. R-CEB-17-03542-SP), declaring NR under rehabilitation.

On June 29, 2017, the initial hearing was conducted, during which the parties presented their respective arguments. The Court gave the Rehabilitation Receiver a period of thirty (30) days to submit a Revised Rehabilitation Plan.

On July 26, 2017, NR submitted a Revised Rehabilitation Plan, with a motion to allow presentation in open court in the next hearing. PSALM manifested its opposition to the Revised Rehabilitation Plan and maintained its position that the IPPA AA with Northern Renewables should be terminated to prevent further financial losses to PSALM on August 29, 2017 hearing.

On October 31, 2018, NR filed its manifestation and motion praying for the approval of a third Revised Rehabilitation/Payment Plan. On December 07, 2018, PSALM filed its comment/opposition to the manifestation with motion.

31.15 Case involving the IPPA of Mt. Apo 1 and 2

On December 8, 2017, PSALM received a copy of a Petition for Issuance of Interim Measures of Protection (With Extremely Urgent Application for an Ex-Parte 20-day Temporary Order of Protection) filed by FDC Misamis Power Corporation (FMPC), who is the Administrator of Mt. Apo 1 and 2. On the same day, PSALM was served with a formal notice that FMPC is rescinding its IPPA AA for Mt. Apo 1 and 2.

Pursuant to Clause 3.a.3 (Compliance with Laws) in relation to Clause 1(a) Administrator Default (k) of the IPPA AA, PSALM declared FMPC in default due to its baseless and unilateral rescission of the IPPA AA. Subsequently, PSALM demanded for the full settlement of FMPC's unpaid obligations to PSALM. However, FMPC failed to do so. Thus, on December 21, 2017, PSALM exercised its rights under the IPPA AA, which include PSALM's right to manage and control the output of Mt. Apo.

On April 10, 2018, PSALM received FMPC's Motion for Leave to Withdraw the Petition which was granted in an Order dated October 2, 2018.

On April 17, 2018, PSALM received a Notice of Arbitration pursuant to Clause 29 of the IPP AA. On May 11, 2018, PSALM, through OGCC, filed a Response to the Notice of Arbitration with Counterclaim.

As of December 31, 2018, PSALM awaits the nomination of arbitrators.

31.16 Settlement with the Metropolitan Waterworks and Sewerage System (MWSS)

PSALM is currently considering settlement with MWSS claims arising from the implementation of the Angat Water Supply Optimization Project (AWSOP), Umiray-Angat Transbasin Project (UATP), and the operation of the Angat Auxiliary Unit Nos. 4 and 5 (AN-4 and AN-5).

From this settlement, PSALM could potentially have the obligation to pay MWSS a certain sum, which would be determined based on the agreed terms and conditions of the settlement.

Pending resolution, any claims that would eventually arise therefrom will be recognized in the books when it is deemed probable and reasonably estimable.

31.17 Arbitration filed by NGCP against PSALM and TransCo

On February 14, 2018, PSALM and TransCo received a notice of arbitration filed by NGCP under the rules of the Singapore International Arbitration Centre (SIAG) for alleged violations of the Concession Agreement. No further information can be provided on this proceeding in compliance with the confidentiality requirements under Republic Act No. 9285 (2004) or the Alternative Dispute Resolution Act of 2004. The foregoing notes to these Financial Statements may be affected by the on-going arbitration proceedings.

31.18 Other Legal Proceedings Involving PSALM

In addition to the tax proceedings and formal assessments, PSALM is involved in various legal and administrative proceedings, including litigation and proceedings related to electricity charges and challenges to certain provisions of the EPIRA. Because the outcome of these proceedings is difficult to predict, PSALM will record the provision for a loss when it is both probable that a loss will be incurred and the loss can be reasonably estimated. Nevertheless, a summary of notable cases that are pending resolution is provided in the table below:

Case Title	Nature
Civil Case No. 07-CV-2382 Province of Benguet vs. NPC and PSALM	Complaint for collection of Franchise Taxes from 2001-2007 covering the operations of the Binga Hydro-Electric Power Plant
Civil Case No. 04-CV-2072, RTC-Br. 10, La Trinidad, Benguet	Complaint of Recovery of Possession, Forfeiture of Improvements, etc. of private land within the Binga Hydro-Electric Power Plant
Civil Case No. 01-11356, RTC-Br. 49, Bacolod City (Felisa Agricultural Corporation vs. NPC)	Complaint for Recovery of Possession and Payment for Just Compensation with Damages involving property owned by plaintiff which was traversed by the transmission towers and transmission lines of respondent NPC located in Barangay Felisa, Bacolod City.
G.R. No. 187359, Supreme Court – 1st Division (NAPOCOR Employees Consolidated Union (NECU) and NAPOCOR Workers Union (NEWU) vs. NPC and PSALM) Note: Consolidated with G.R. No. 187420	This is a Petition for Injunction praying for issuance of Temporary Restraining Order (TRO) against both NPC and PSALM restraining/enjoining them from implementing and/or continuance of implementation/enforcement of the Operations and Maintenance Agreement (OMA) – at the very least so far as it compromised/transferred the control and ownership of gross revenues from those generated sales of its remaining generation assets by NPC in favor of PSALM. Per petitioners, the OMA would prevent petitioner from recovering from NPC the judgment obligation for unpaid Cost of Living Allowance (COLA) in the amount of P6.5 billion which was awarded by the Regional Trial Court (Br. 84) of Quezon City in Civil Case No. Q-07-61728.
ERC Case No. 2011-064MC, Team (Philippines) Energy Corporation vs. NPC, et al.	The Complaint concerns, and seeks respondents' payment to TPEC of, NPC's obligations to TPEC arising from the Agreement, which was signed by respondent Tampinco for and on behalf of NPC, which relates to the sale of excess capacity of the Sual Plant and Pagbilao Plant in 2008 and 2009, pursuant to agreements and

Case Title	Nature
	transactions entered into by TPEC and NPC and NPC's use of excess capacity from the Pagbilao Plant.
ERC Case No. 2008-083MC, Petition for Dispute Resolution – MERALCO vs. PEMC, TransCo, NPC and PSALM (Line Rentals)	Petition for Dispute Resolution filed by MERALCO against PEMC, TransCo, NPC and PSALM involving the high WESM bills to MERALCO covering June 26, 2008 to July 26, 2008 due to significant congestion arising from the twin incidents of outages of TransCo's facilities. This situation will persist until such time that the congestion in the transmission facilities in the Luzon Grid is resolved.
G.R. No. 215415 (E.B. Case No. 1065 and CTA Case No. 8552), PSALM vs. CIR	This is a Petition for Review under Rule 45 of the 1997 Rules of Procedure, filed by PSALM seeking the REVERSAL of: 1) The CTA First Division's 2 May 2013 Resolution, dismissing PSALM's appeal in CTA Case No. 8552; 2) The CTA First Division's 14 August 2013 Resolution denying PSALM's Motion for Reconsideration to the 2 May 2013 Resolution; and 3) The CTA En Banc's 12 November 2014 Decision affirming the 2 May 2013 and 14 August 2013 Resolutions of the First Division.
G.R. No. 226556 (CTA En Banc 1282 and CTA Case No. 8475), PSALM vs. CIR	This is a Petition for Review seeking the PARTIAL REVIEW of CTA Third Division's 02 December 2014 Decision, as well as its 25 February 2015 Resolutions
CTA Case No. 8587, PSALM vs. CIR	This is a Petition for Review before the First Division of the CTA seeking to CANCEL the CIR's 15 November 2012 Final Decision (FDDA) on Disputed Assessment on PSALM's protest to the Formal Letter of Demand and Final Assessment Notice (FLD and FAN).
CTA Case No. 9235, PSALM vs. CIR	This is a Petition for Review before the CTA seeking to CANCEL the CIR's Final Decision on Disputed Assessment (FDDA) dated 10 December 2015 on PSALM's protest to the Formal Letter of Demand and Final Assessment Notice (FLD and FAN), dated 5 February 2013. The petition only questions the assessment for the deficiency EWT and Final VAT and compromise penalties.

32. EVENTS AFTER THE REPORTING DATE

On April 22, 2019, the Commission on Audit (COA) Decision No. 2019-108 granted Sem-Calaca Power Corporation's (SCPC) petition for money claim, based on the reconciled amount, against PSALM seeking the enforcement of the ERC Decision dated July 6, 2011 and Order dated February 13, 2012.

PSALM met with SCPC on May 10, 2019 to discuss the settlement of the money claim. Pursuant to the COA Decision, both PSALM and SCPC agreed that the total amount of SCPC claim amounted to P656.89 million, inclusive of P180.19 million interest which runs until May 7, 2019.

33. NON-WAIVER DECLARATION

The statements contained herein shall be without prejudice to and shall not constitute a waiver of PSALM's and/or TransCo's rights and remedies under any contract, relevant laws and regulations, and jurisprudence, or any of PSALM's and /or TransCo's claims, defenses, etc. under any pending litigation or arbitration to which PSALM and/or TransCo is a party.

34. RESTATEMENT OF ACCOUNTS

The presentation of figures in CY 2018 financial statements has made it necessary, for comparative purposes, to restate relevant figures in CY 2017.