COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

0 6 9 - 0 3 9 2 7 4

COMPANY NAME

AC ENERGY PHILIPPINES, INC.

(Formerly PHINMA Energy Corporation) AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

4th Floor, 6750 Office Tower,

Ayala Avenue, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
ACFS	SEC	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
N/A	7-730-6300	–

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
3,192	April 11	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mariejo P. Bautista	bautista.mp@acenergy.com.ph	7-730-6300	–

CONTACT PERSON's ADDRESS

4th Floor, 6750 Office Tower, Ayala Avenue, Makati City, Philippines 1200

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

AC Energy PHILIPPINES

4F 6750 Office Tower, Ayala Avenue
Makati City 1226 Philippines
Tel + 632 7730 6300
www.acenergy.ph

SECURITIES & EXCHANGE COMMISSION
Secretariat Building, PICC Complex
Roxas Boulevard, Philippines

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **AC Energy Philippines, Inc. and Subsidiaries**, formerly PHINMA Energy Corporation, (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019 and December 31, 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein and submits the same to the Stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

AC Energy
PHILIPPINES

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Responsibility for Parent Company Financial Statements)

FERNANDO M. ZOBEL DE AYALA
Chairman of the Board

JOHN ERIC T. FRANCIA
President and
Chief Executive Officer

MARIA CORAZON G. DIZON
Treasurer and
Chief Financial Officer

Signed this 25th day of March 2020

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Responsibility for Parent Company Financial Statements)

(REPUBLIC OF THE PHILIPPINES)
Makati City) S.S.

SUBSCRIBED AND SWORN to before me this _____ affiant(s) exhibiting to me their Passport, as follows:

Name	Passport No.	Date of Issue	Place of Issue
Fernando M. Zobel De Ayala	P0349883B	01-22-19	DFA-Manila
John Eric T. Francia	P3923362B	11-21-19	DFA-Manila
Maria Corazon G. Dizon	P6253635A	03-02-18	DFA-NCR-East

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Book No.
Series of 2020

SGV
Building a better working world

SyCip Gorres Velayo & Co.
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Philippines

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ey.com/ph

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
AC Energy Philippines, Inc.
4th Floor, 6750 Office Tower
Ayala Avenue, Makati City

Opinion

We have audited the consolidated financial statements of AC Energy Philippines, Inc. and its Subsidiaries (collectively, the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment Testing of Goodwill

Under PFRS, the Group is required to annually test the amount of goodwill for impairment. As of December 31, 2019, the Group's goodwill that is attributable to the acquisition of One Subic Power Generation Corporation in 2014 amounted to ₱234.15 million, which is significant to our audit of the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically forecasted revenue growth rates and gross margins, prices in the energy spot market, fuel prices and discount rate.

The Group's disclosures about goodwill are included in Notes 4 and 15 to the consolidated financial statements.

Audit Response

We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include revenue growth rates and gross margins, prices in the energy spot market, fuel prices and discount rates. We compared the key assumptions used, such as forecasted revenue growth rate against the historical performance of the CGU and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment testing is most sensitive; specifically, those that have the most significant effect on the determination of the recoverable amount of goodwill.

Provisions and Contingencies

The Group is involved in legal proceedings and assessments for local and national taxes. This matter is significant to our audit because the estimation of the potential liability resulting from these tax assessments requires significant judgments by management. The inherent uncertainty over the outcome of these tax matters is brought about by the differences in the interpretation and application of laws and tax rulings.

The Group's disclosures about provisions and contingencies are included in Note 41 to the consolidated financial statements.

Audit response

We involved our internal specialist in the evaluation of management's assessment on whether or not any provision for tax contingencies should be recognized, and the estimation of such amount. We discussed with management the status of the tax assessments and obtained the Group's correspondences with the relevant tax authorities and opinions of the external tax counsel. We evaluated the tax position of the Group by considering the relevant tax laws, rulings and jurisprudence.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Benjamin N. Villacorte.

SYCIP GORRES VELAYO & CO.

Benjamin N. Villacorte
Partner
CPA Certificate No. 111562
SEC Accreditation No. 1539-AR-1 (Group A),
March 26, 2019, valid until March 25, 2022
Tax Identification No. 242-917-987
BIR Accreditation No. 08-001998-120-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 8125320, January 7, 2020, Makati City

March 25, 2020

AC ENERGY PHILIPPINES, INC.
(Formerly PHINMA Energy Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 36)	**₱8,581,663**	₱1,022,366
Short-term investments (Note 36)	**100,000**	35,326
Financial assets at fair value through profit or loss (FVTPL; Notes 6, 36 and 37)	**–**	743,739
Receivables (Notes 7, 31 and 36)	**2,728,419**	2,627,291
Fuel and spare parts (Note 8)	**855,275**	413,673
Current portion of:		
Input VAT	**148,318**	26,332
Creditable withholding taxes	**123,700**	79,443
Other current assets (Notes 9 and 36)	**139,915**	182,766
	12,677,290	5,130,936
Assets held for sale (Note 10)	**3,546**	34,328
Total Current Assets	**12,680,836**	5,165,264
Noncurrent Assets		
Property, plant and equipment (Note 11)	**21,564,260**	5,760,963
Investments in associates and joint ventures (Note 12)	**723,165**	4,322,684
Financial assets at:		
Fair value through other comprehensive income (FVOCI; Notes 13, 36 and 37)	**1,251**	257,995
FVTPL (Notes 6, 36 and 37)	**–**	5,452
Investment properties (Note 14)	**13,085**	13,085
Goodwill and other intangible assets (Note 15)	**280,193**	320,219
Right-of-use assets (Note 16)	**524,936**	–
Deferred income tax assets - net (Note 29)	**612,546**	261,346
Net of current portion:		
Input VAT (Note 41)	**335,759**	335,759
Creditable withholding taxes	**860,026**	704,726
Other noncurrent assets (Notes 17 and 36)	**2,124,748**	1,777,202
Total Noncurrent Assets	**27,039,969**	13,759,431
TOTAL ASSETS	**₱39,720,805**	₱18,924,695

(Forward)

	December 31	
	2019	2018
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 18, 30, 31 and 36)	**₱3,787,713**	₱2,269,398
Current portion of lease liability (Note 20)	**33,542**	–
Income and withholding taxes payable	**41,208**	11,762
Due to stockholders (Notes 22, 31 and 36)	**16,594**	16,651
Current portion of long-term loans (Notes 19, 36 and 37)	**593,847**	265,460
Short-term loan (Note 19)	**–**	400,000
Total Current Liabilities	**4,472,904**	2,963,271
Noncurrent Liabilities		
Long-term loans - net of current portion (Notes 19, 36 and 37)	**20,192,081**	6,071,473
Lease liability - net of current portion (Note 20)	**526,029**	–
Pension and other employee benefits liabilities (Note 30)	**60,503**	40,246
Deferred income tax liabilities - net (Note 29)	**187,624**	95,180
Other noncurrent liabilities (Note 21)	**3,176,846**	1,383,077
Total Noncurrent Liabilities	**24,143,083**	7,589,976
Total Liabilities	**28,615,987**	10,553,247
Equity		
Capital stock (Note 22)	**7,521,775**	4,889,775
Additional paid-in capital	**83,768**	83,768
Other equity reserves (Note 22)	**(2,342,103)**	18,338
Unrealized fair value gains (losses) on equity instruments at FVOCI (Note 13)	**(8,129)**	59,772
Unrealized fair value losses on derivative instrument designated under hedge accounting (Note 36)	**(14,742)**	–
Remeasurement gains (losses) on defined benefit plan (Note 30)	**(7,034)**	536
Accumulated share in other comprehensive loss of a joint venture and associates (Note 12)	**(2,107)**	(2,193)
Retained earnings (Note 22)	**2,922,514**	3,303,708
Treasury shares (Note 22)	**(27,704)**	(27,706)
Total equity attributable to equity holders of the Parent Company	**8,126,238**	8,325,998
Non-controlling interests (Note 34)	**2,978,580**	45,450
Total Equity	**11,104,818**	8,371,448
TOTAL LIABILITIES AND EQUITY	**₱39,720,805**	₱18,924,695

See accompanying Notes to Consolidated Financial Statements.

AC ENERGY PHILIPPINES, INC.
(Formerly PHINMA Energy Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Per Share Figures)

	Years Ended December 31		
	2019	2018	2017
REVENUES			
Revenue from sale of electricity (Notes 23 and 35)	**₱15,297,719**	₱15,113,601	₱17,011,044
Dividend income (Note 13)	**7,585**	9,117	8,483
Rental income	**1,359**	674	706
	15,306,663	15,123,392	17,020,233
COSTS AND EXPENSES			
Cost of sale of electricity (Notes 24, 26 and 27)	**15,014,799**	15,109,491	16,929,239
General and administrative expenses (Notes 25, 26 and 27)	**667,215**	654,517	664,550
	15,682,014	15,764,008	17,593,789
INTEREST AND OTHER FINANCE CHARGES (Note 28)	**(881,963)**	(433,649)	(513,566)
EQUITY IN NET INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES (Note 12)	**(24,461)**	532,460	1,024,995
OTHER INCOME - Net (Note 28)	**716,053**	120,252	105,617
INCOME (LOSS) BEFORE INCOME TAX	**(565,722)**	(421,553)	43,490
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	**68,673**	20,699	72,722
Deferred	**(217,492)**	150,904	(376,400)
	(148,819)	171,603	(303,678)
NET INCOME (LOSS)	**(₱416,903)**	(₱593,156)	₱347,168
Net Income (Loss) Attributable To:			
Equity holders of the Parent Company (Note 32)	**(₱331,011)**	(₱560,496)	₱353,764
Non-controlling interests (Note 34)	**(85,892)**	(32,660)	(6,596)
	(₱416,903)	(₱593,156)	₱347,168
Basic/Diluted Earnings (Loss) Per Share (Note 32)	**(₱0.05)**	(₱0.11)	₱0.07

See accompanying Notes to Consolidated Financial Statements.

AC ENERGY PHILIPPINES, INC.
(Formerly PHINMA Energy Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
NET INCOME (LOSS)	**(₱416,903)**	(₱593,156)	₱347,168
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods			
Net changes in the fair market value of AFS investments	–	–	(23,049)
Income tax effect	–	–	(393)
	–	–	(23,442)
Other comprehensive income (loss) not to be reclassified directly to profit or loss in subsequent periods			
Net changes in the fair market value of equity instruments at FVOCI	**(29,619)**	1,475	–
Unrealized fair value losses on derivative instrument designated under hedge accounting (Note 36)	**(21,060)**	–	–
Remeasurement gains (losses) on defined benefit plan (Note 30)	**(10,814)**	5,237	7,760
Income tax effect	**11,812**	(940)	(2,328)
	(49,681)	5,772	5,432
Share in other comprehensive income (loss) of a joint venture and an associate - net of deferred income tax (Note 12)	**86**	1,220	(3,136)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(49,595)**	6,992	(21,146)
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱466,498)**	(₱586,164)	₱326,022
Total Comprehensive Income (Loss) Attributable To:			
Equity holders of the Parent Company	**(₱380,606)**	(₱553,504)	₱332,618
Non-controlling interests (Note 34)	**(85,892)**	(32,660)	(6,596)
	(₱466,498)	(₱586,164)	₱326,022

See accompanying Notes to Consolidated Financial Statements.

AC ENERGY PHILIPPINES, INC.
(Formerly PHINMA Energy Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 22)	Additional Paid-in Capital	Other Equity Reserves (Note 22)	Unrealized Fair Value Gains (Losses) on Equity Instruments at FVOCI (Note 13)	Unrealized Fair Value Losses on derivative instrument designated under hedge accounting (Note 36)	Remeasurement Gains (Losses) on Defined Benefit Plan (Note 30)	Accumulated Share in Other Comprehensive Gains (Losses) of a Joint Venture (Note 12)	Retained Earnings (Note 22)	Treasury Shares (Note 22)	Total	Non-controlling Interests (Note 34)	Total Equity
BALANCES AT JANUARY 1, 2019, AS PREVIOUSLY REPORTED	**₱4,889,775**	**₱83,768**	**₱18,338**	**₱59,772**	**₱–**	**₱536**	**(₱2,193)**	**₱3,303,708**	**(₱27,706)**	**₱8,325,998**	**₱45,450**	**₱8,371,448**
Effect of initial application of PFRS 16 (Note 3)	–	–	–	–	–	–	–	**(90,715)**	–	**(90,715)**	–	**(90,715)**
BALANCES AT JANUARY 1, 2019, AS ADJUSTED	**4,889,775**	**83,768**	**18,338**	**59,772**	**–**	**536**	**(2,193)**	**3,212,993**	**(27,706)**	**8,235,283**	**45,450**	**8,280,733**
Net loss	–	–	–	–	–	–	–	**(331,011)**	–	**(331,011)**	**(85,892)**	**(416,903)**
Other comprehensive income	–	–	–	**(27,369)**	**(14,742)**	**(7,570)**	**86**	–	–	**(49,595)**	–	**(49,595)**
Total comprehensive income (loss)	–	–	–	**(27,369)**	**(14,742)**	**(7,570)**	**86**	**(331,011)**	–	**(380,606)**	**(85,892)**	**(466,498)**
Disposal of financial assets at FVOCI (Note 13)	–	–	–	**(40,532)**	–	–	–	**40,532**	–	–	–	–
Issuance of shares of stock (Note 22)	**2,632,000**	–	–	–	–	–	–	–	**2**	**2,632,002**	–	**2,632,002**
Purchase of shares of stock (Notes 1 and 22)	–	–	**(130,854)**	–	–	–	–	–	–	**(130,854)**	**(22,782)**	**(153,636)**
Acquisition of a subsidiary under common control (Notes 1, 22 and 33)	–	–	**(2,229,587)**	–	–	–	–	–	–	**(2,229,587)**	**3,041,804**	**812,217**
	2,632,000	–	**(2,360,441)**	**(40,532)**	–	–	–	**40,532**	**2**	**271,561**	**3,019,022**	**3,290,583**
BALANCES AT DECEMBER 31, 2019	**₱7,521,775**	**₱83,768**	**(₱2,342,103)**	**(₱8,129)**	**(₱14,742)**	**(₱7,034)**	**(₱2,107)**	**₱2,922,514**	**(₱27,704)**	**₱8,126,238**	**₱2,978,580**	**₱11,104,818**

(Forward)

	Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 22)	Additional Paid-in Capital	Other Equity Reserves (Note 22)	Unrealized Fair Value Gains (Losses) on Equity Instruments at FVOCI (Note 13)	Unrealized Fair Value Gains on AFS Investments (Note 13)	Remeasurement Losses on Defined Benefit Plan (Note 30)	Accumulated Share in Other Comprehensive Loss of a Joint Venture (Note 12)	Retained Earnings (Note 22)	Treasury Shares (Note 22)	Total	Non-controlling Interests (Note 34)	Total Equity
BALANCES AT JANUARY 1, 2018, AS PREVIOUSLY REPORTED	₱4,889,775	₱83,768	₱18,338	₱–	₱85,924	(₱3,130)	(₱3,413)	₱4,018,980	(₱28,793)	₱9,061,449	₱78,110	₱9,139,559
Effect of initial application of PFRS 9 (Notes 3 and 13)	–	–	–	99,513	(85,924)	–	–	(9,614)	–	3,975	–	3,975
BALANCES AT JANUARY 1, 2018, AS ADJUSTED	4,889,775	83,768	18,338	99,513	–	(3,130)	(3,413)	4,009,366	(28,793)	9,065,424	78,110	9,143,534
Net loss	–	–	–	–	–	–	–	(560,496)	–	(560,496)	(32,660)	(593,156)
Other comprehensive income	–	–	–	2,106	–	3,666	1,220	–	–	6,992	–	6,992
Total comprehensive income (loss)	–	–	–	2,106	–	3,666	1,220	(560,496)	–	(553,504)	(32,660)	(586,164)
Sale of equity investments at FVOCI (Note 13)	–	–	–	(41,847)	–	–	–	49,436	–	7,589	–	7,589
Dividends declared (Note 22)	–	–	–	–	–	–	–	(194,598)	–	(194,598)	–	(194,598)
Disposal of treasury shares (Note 22)	–	–	–	–	–	–	–	–	1,087	1,087	–	1,087
	–	–	–	(41,847)	–	–	–	(145,162)	1,087	(185,922)	–	(185,922)
BALANCES AT DECEMBER 31, 2018	₱4,889,775	₱83,768	₱18,338	₱59,772	₱–	₱536	(₱2,193)	₱3,303,708	(₱27,706)	₱8,325,998	₱45,450	₱8,371,448
BALANCES AT DECEMBER 31, 2016	₱4,885,898	₱81,209	₱18,338	₱–	₱109,366	(₱8,562)	(₱277)	₱3,859,659	(₱28,793)	₱8,916,838	₱84,706	₱9,001,544
Net income	–	–	–	–	–	–	–	353,764	–	353,764	(6,596)	347,168
Other comprehensive income (loss)	–	–	–	–	(23,442)	5,432	(3,136)	–	–	(21,146)	–	(21,146)
Total comprehensive income (loss)	–	–	–	–	(23,442)	5,432	(3,136)	353,764	–	332,618	(6,596)	326,022
Dividends declared (Note 22)	–	–	–	–	–	–	–	(194,443)	–	(194,443)	–	(194,443)
Issuance of stocks - stock options	3,877	2,559	–	–	–	–	–	–	–	6,436	–	6,436
	3,877	2,559	–	–	–	–	–	(194,443)	–	(188,007)	–	(188,007)
BALANCES AT DECEMBER 31, 2017	₱4,889,775	₱83,768	₱18,338	₱–	₱85,924	(₱3,130)	(₱3,413)	₱4,018,980	(₱28,793)	₱9,061,449	₱78,110	₱9,139,559

See accompanying Notes to Consolidated Financial Statements.

AC ENERGY PHILIPPINES, INC.
(Formerly PHINMA Energy Corporation)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (losses) before income tax	**(₱565,722)**	(₱421,553)	₱43,490
Adjustments for:			
Depreciation and amortization (Note 27)	**892,466**	405,835	399,384
Interest and other finance charges (Note 28)	**881,963**	433,649	513,566
Interest and other financial income (Note 28)	**(107,602)**	(96,851)	(87,185)
Movement of pension and other employee benefits (Note 30)	**25,220**	9,373	3,327
Equity in net loss (earnings) of associates and joint ventures (Notes 12 and 38)	**24,461**	(532,460)	(1,024,995)
Provisions for (reversals of):			
Probable losses on deferred exploration costs (Note 15)	**34,493**	48,263	4,892
Inventory obsolescence (Note 8)	**5,554**	159	–
Credit losses (Note 7)	**1,162**	14,548	4,542
Unrecoverable input VAT	**–**	43,712	–
Plug-in and abandonment	**–**	38,776	11,384
Property, plant and equipment impairment (Note 11)	**–**	2,066	–
Accrued liabilities	**–**	–	(2,236)
Loss (gain) on derivatives - net (Notes 28 and 37)	**(6,851)**	15,056	(9,399)
Dividend income (Notes 13 and 31)	**(7,585)**	(9,117)	(8,483)
Foreign exchange loss (gain) - net	**(12,900)**	(3,471)	6,851
Loss (gain) on sale of:			
Property, plant and equipment (Note 28)	**(294,100)**	(254)	–
Asset held for sale (Note 10)	**(14,289)**	–	–
Investments (Note 28)	**(1,375)**	(5,834)	17
Inventories	**461**	–	–
Changes in fair value of long-term receivable	**–**	–	165
Operating income (loss) before working capital changes	**855,355**	(58,103)	(144,680)
Decrease (increase) in:			
Receivables	**203,437**	(121,909)	(17,365)
Fuel and spare parts	**(194,059)**	(92,307)	(90,379)
Other current assets	**477,891**	(487,086)	(104,787)
Decrease in accounts payable and other current liabilities	**(1,214,897)**	(223,804)	(318,681)
Cash generated from (used in) operations	**127,727**	(983,209)	(675,892)
Income and withholding taxes paid	**(210,905)**	(20,699)	(63,011)
Net cash used in operating activities	**(83,178)**	(1,003,908)	(738,903)

(Forward)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale and redemption of financial assets at FVTPL/investments held for trading	**₱779,853**	₱16,505,872	₱23,219,212
Sale of property, plant and equipment (Note 11)	**337,336**	261	511
Sale of financial assets at FVOCI	**255,772**	53,328	–
Insurance claim (Note 11)	**222,789**	90,146	–
Sale of investment in a joint venture (Note 12)	**218,348**	–	–
Sale of asset held for sale	**45,071**	–	–
Termination of short-term investments	**35,326**	478,932	2,498
Sale of available-for-sale investments	**–**	–	92
Interest received	**61,826**	33,471	33,723
Cash dividends received (Notes 12 and 13)	**32,585**	514,030	1,090,225
Additions to:			
Investments in subsidiaries (Note 33)	**1,471,534**	–	–
Deferred exploration costs (Note 15)	**(19,426)**	(4,526)	(10,209)
Short-term investment (Note 36)	**(100,000)**	(35,326)	(485,653)
Property, plant and equipment (Note 11)	**(418,514)**	(119,680)	(125,138)
Financial assets at FVTPL/ Investments held for trading	**–**	(15,741,377)	(21,604,487)
Investment in a joint venture (Note 12)	–	(236,315)	(18,073)
Available-for-sale investments	**–**	–	(7,215)
Advances to associates (Note 12)	**–**	–	(80,250)
Decrease (increase) in other noncurrent assets	**(308,180)**	118,346	(1,399)
Net cash from investing activities	**2,614,320**	1,657,162	2,013,837
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of long-term loans (Note 19)	**5,000,000**	930,000	2,350,000
Issuance of capital stock (Note 22)	**2,632,000**	–	6,436
Sale of treasury (Note 22)	**3**	1,415	–
Availment of short-term debt	**–**	400,000	–
Sale of investment (Note 12)	**–**	225,000	–
Payments of:			
Long-term loans (Note 19)	**(1,338,971)**	(1,445,235)	(2,520,651)
Interest on loans and lease liabilities	**(791,630)**	(406,779)	(443,216)
Short-term loans	**(400,000)**	–	–
Debt issuance costs (Note 19)	**(43,003)**	(6,975)	(11,750)
Principal portion of lease liabilities	**(36,247)**	–	–
Cash dividends	**–**	(193,247)	(270,347)
Finance leases	**–**	(8,153)	(7,331)
Increase (decrease) in other noncurrent liabilities	**7,829**	(431,384)	527,115
Net cash from (used in) financing activities	**5,029,981**	(935,358)	(369,744)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,826)**	3,471	227
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**7,559,297**	(278,633)	905,417
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 5)	**1,022,366**	1,300,999	395,582
CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 5 and 36)	**₱8,581,663**	₱1,022,366	₱1,300,999

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information and Status of Operations

AC Energy Philippines, Inc., formerly PHINMA Energy Corporation ("ACEPH" or "the Parent Company"), incorporated on September 8, 1969, and registered with the Philippine Securities and Exchange Commission ("SEC"), is engaged in power generation and trading, oil and mineral exploration, development and production. The Parent Company is a licensed Retail Electricity Supplier ("RES"). As a RES, the Parent Company can supply electricity to the contestable market pursuant to the Electric Power Industry Reform Act. Other activities of the Parent Company include investing in various operating companies and financial instruments.

On February 7, 2019, Philippine Investment Management (PHINMA), Inc., PHINMA Corporation and AC Energy, Inc. ("AC Energy") signed an investment agreement for AC Energy's acquisition of PHINMA, Inc.'s and PHINMA Corporation's combined 51.476% stake in ACEPH via a secondary share sale through the Philippine Stock Exchange ("PSE").

On April 15, 2019, the Philippine Competition Commission ("PCC") approved the sale of the combined stake of PHINMA, Inc. and PHINMA Corporation in ACEPH to AC Energy. AC Energy tendered an offer to other shareholders on May 20, 2019 to June 19, 2019, with a total of 156,476 public shares of ACEPH tendered during the tender offer period.

On June 24, 2019, the PSE confirmed the special block sale of ACEPH shares to AC Energy. On the same day, AC Energy subscribed to 2.632 billion shares of ACEPH. As of December 31, 2019, AC Energy directly owns 66.34% of the Parent Company's total outstanding shares of stock.

The direct parent company (or intermediate parent company) of ACEPH is AC Energy, a wholly owned subsidiary of Ayala Corporation (AC), a publicly-listed company which is 47.33% owned by Mermac, Inc. (ultimate parent company), and the rest by the public. ACEPH is managed by AC Energy under an existing management agreement, which was assigned by PHINMA, Inc. to AC Energy on June 24, 2019. ACEPH, AC Energy, AC and Mermac, Inc. are all incorporated and domiciled in the Philippines. ACEPH and its subsidiaries below are collectively referred to as "the Group".

On July 23, 2019, the Board of Directors ("BOD") of ACEPH approved the following amendments to the ACEPH's articles of incorporation:

i) Change of the corporate name to AC Energy Philippines, Inc.;
ii) Change of the principal office of the Parent Company to 4th Floor, 6750 Office Tower, Ayala Ave., Makati City;
iii) Increase in authorized capital stock by 16 billion shares or from 8,400,000,000 common shares to 24,400,000,000 common shares. Additional capital will be used for investments in greenfield projects and acquisition of power assets, including part of AC Energy's on-shore power generation and development assets.

On September 5, 2019, the BOD approved the amendment to the articles to include a provision exempting from the pre-emptive right of shareholders the issuance of shares in exchange for property needed for corporate purposes or in payment for previously contracted debt.

The amendments were approved by the stockholders at the Annual Stockholders' Meeting on September 17, 2019.

The SEC issued the Certificate of Filing of Amended Articles of Incorporation of the Parent Company on October 11, 2019 approving the change of corporate name and principal office. Approval of the increase in authorized capital stock is pending as of March 25,2020.

On November 22, 2019, ACEPH filed with the SEC its application to increase its capital stock from ₱8,400.00 million to ₱24,400.00 million.

On October 9, 2019, the BOD approved, among others, the following matters:

i) The swap between the Parent Company and AC Energy and the issuance of shares of stock in the Parent Company in favor of AC Energy in exchange for the latter's shares of stock in its various Philippine subsidiaries and affiliates;
ii) The undertaking of a stock rights offering, subject to applicable regulatory approvals and
iii) The transfer to the Parent Company of AC Energy's right to purchase the 20% ownership stake of Axia Power Holdings Philippines, Corporation (Axia) in South Luzon Thermal Energy Corporation ("SLTEC").

On October 9, 2019 ACEPH and AC Energy executed a Deed of Assignment where AC Energy assigned to ACEPH shares of stock in various AC Energy subsidiaries and affiliates in exchange for ACEPH shares. The Deed of Assignment was amended on November 13, 2019 to reflect the correct number of common shares of AC Energy in SLTEC, ACTA Power Corporation and Manapla Sun Power Development Corp.

On November 5, 2019, the Parent Company signed a deed of assignment with AC Energy to transfer AC Energy's rights to purchase 20% ownership stake of Axia Power Holdings Philippines Corporation ("APHPC") in SLTEC, which owns and operates the 2x135 MW Circulating Fluidized Bed power plant (the "SLTEC Power Plant") in Calaca, Batangas.

On November 11, 2019, the BOD approved, among others, the following matters:

i) Ratification of the Executive Committee's approval of the Parent Company's acquisition of PINAI's ownership interest in PhilWind;
ii) Purchase of up to 100% percent of PINAI fund's ownership interest in San Carlos Solar Energy, Inc. (SACASOL), which owns and operates a 45 MW solar farm in San Carlos City, Negros Occidental;
iii) Purchase of up to 100% percent of PINAI fund's ownership interest in Negros Island Solar Power, Inc. ("ISLASOL"), which owns and operates the 80 MW solar farms in Negros Occidental;
iv) Additional short-term credit lines of up to ₱8 billion
v) Investment into, and construction of, a 60 MW solar power plant in Palauig, Zambales through ACE Endevor, Inc.'s ("ACE Endevor" or formerly AC Energy Development, Inc.), wholly owned project company, Gigasol3, Inc..

On January 28, 2020, the PCC ruled that the PINAI sale of PhilWind shares "will not likely result in substantial lessening of competition" and resolved "to take no further action with respect to the Transaction..." The Parent Company will purchase all shares of PINAI in PhilWind and following the PINAI transaction, the Parent Company will directly and indirectly own 67% of NLREC.

The Subsidiaries

PHINMA Power Generation Corporation ("PHINMA Power")
PHINMA Power, formerly Trans-Asia Power Generation Corporation, was incorporated and registered with the SEC on March 18, 1996. PHINMA Power is engaged in power generation. In October 2006, the Philippine Electricity Market Corporation ("PEMC") approved PHINMA Power's application for registration as trading participant for both generation and customer categories in the WESM. As WESM members, both the Parent Company and PHINMA Power are allowed to buy and sell electricity in the WESM. Effective December 26, 2013, PHINMA Power entered into a Power Administration and Management Agreement ("PAMA") valid for ten (10) years with the Parent Company for the administration and management by the Parent Company of the entire capacity and net output of PHINMA Power. In addition to capacity fee, the Parent Company pays PHINMA Power's transmission and fuel costs. On January 12, 2018, PHINMA Power and the Parent Company amended the PAMA to increase the capacity rate based on nominated capacity and include fuel recovery and utilization fees effective on March 26, 2018.

On July 23, 2019, the BOD and the stockholders approved the change of the corporate name to "Bulacan Power Generation Corporation." The amendment is pending SEC approval. The registered office address of PHINMA Power is Level 11 PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

One Subic Power Generation Corporation ("One Subic Power")
One Subic Power was incorporated and registered with the SEC on August 4, 2010 to engage in the business of owning, constructing, operating, developing and maintaining all types of power generation plants. On November 18, 2010, the Parent Company and One Subic Power entered into a PAMA wherein the Parent Company administers and manages the entire generation output of the 116 MW diesel power plant in Subic, Olongapo City. The PAMA became effective on February 17, 2011 and shall be valid throughout the term of the lease agreement with Subic Bay Metropolitan Authority ("SBMA"). On May 12, 2014, PHINMA Power purchased from Udenna Energy Corporation ("UDEC") the entire outstanding shares of stock of One Subic Power. Prior to the acquisition, One Subic Power was a wholly-owned subsidiary of UDEC, a company incorporated and domiciled in the Philippines.

On January 23, 2017, One Subic Power's BOD approved the amendment of the Articles of Incorporation to change the primary purpose to include exploration, discovery, development, processing and disposal of any and all kind of petroleum products. The amended Articles of Incorporation were approved by the SEC on June 19, 2017. The registered office address of One Subic Power is Causeway Extension, Subic Gateway District, Subic Bay, Freeport Zone.

CIP II Power Corporation ("CIPP")
CIPP was incorporated and registered with the SEC on June 2, 1998. CIPP is a utilities enterprise, the primary purpose of which was to develop and operate a power supply and distribution system at Carmelray Industrial Park II Special Economic Zone in Calamba, Laguna. In April 2009, CIPP sold its distribution assets resulting in the cessation of CIPP's operations and separation of substantially all of its employees effective January 31, 2010. On February 22, 2010 and March 24, 2010, the Parent Company's BOD and stockholders, respectively, approved the proposed merger of the Parent Company and CIPP subject to the approval by the SEC. In December 2010, CIPP's BOD approved the transfer of its 21 MW bunker C-fired power plant from Laguna to Barangay Quirino, Bacnotan, La Union which was completed in 2012. In 2013, CIPP and the Parent Company entered into a PAMA valid for ten (10) years for the latter's administration and management of the entire capacity and net output of CIPP. On January 12, 2018, CIPP and the Parent Company amended the PAMA, to include fuel recovery and utilization fees effective on March 26, 2018 and valid for ten (10) years.

As at March 25, 2020, the Parent Company and CIPP have not filed their application for merger with the SEC and have deferred their plan for merger. The registered office address of CIPP is Barangay Quirino, Bacnotan, La Union.

PHINMA Renewable Energy Corporation ("PHINMA Renewable")
PHINMA Renewable, formerly Trans-Asia Renewable Energy Corporation, was incorporated and registered with the SEC on September 2, 1994. It was established with the primary purpose of developing and utilizing renewable energy and pursuing clean and energy-efficient projects. On May 20, 2013, the Department of Energy (DOE) confirmed the Declaration of Commerciality of PHINMA Renewable's 54 MW San Lorenzo Wind power project ("SLWP") in Guimaras. On October 7, 2014, the SLWP started delivering power to the grid and on February 16, 2015, PHINMA Renewable received from the DOE the confirmation of start of Commercial Operations declared on December 27, 2014. On December 1, 2015, PHINMA Renewable received its Certificate of Compliance from the Energy Regulatory Commission ("ERC"). On December 8, 2015, PHINMA Renewable's BOD approved to increase its authorized capital stock from ₱2,000.00 million divided into 2 billion shares with par value of ₱1.00 per share to ₱5,000.00 million composed of ₱2,000.00 million common shares with par value of ₱1.00 per share and ₱3,000.00 million preferredshares with a par value of ₱1.00 per share. The increase in authorized capital stock was approved by the SEC on March 31, 2017. The registered office address of PHINMA Renewable is Barangay Suclaran, Municipality of San Lorenzo, Province of Guimaras.

On December 26, 2019, the BOD and the stockholders approved the change of the corporate name to "Guimaras Wind Corporation" The amendment is pending SEC approval.

One Subic Oil Distribution Corporation (One Subic Oil)
One Subic Oil, formerly Trans-Asia Gold and Minerals Development Corporation, was incorporated and registered with the SEC on July 2, 2007 to primarily engage in the business of mining and mineral exploration within the Philippines and other countries. On February 16, 2009, the BOD approved the suspension of exploration activities of One Subic Oil effective March 31, 2009. On August 9, 2017, One Subic Oil's BOD approved the amendment of the Articles of Incorporation to change the corporate name to One Subic Oil Distribution Corporation, to change its primary purpose to importation, storage, transportation, distribution and disposal of any and all kinds of fuel and petroleum products, and to change the principal office of the corporation to Causeway Extension, Subic Gateway District, Subic Bay Freeport Zone, Subic. The amended Articles of Incorporation were issued by the SEC on September 20, 2017. As at March 25, 2020, One Subic Oil has not started commercial operations for its petroleum distribution business.

ACE Enexor, Inc. ("ACEX")
ACEX, formerly PHINMA Petroleum and Geothermal, Inc., was incorporated and registered with the SEC on September 28, 1994. ACEX is engaged in oil exploration and well development. On November 28, 2012, the SEC approved the increase in authorized capital stock of ACEX from ₱40.00 million divided into 4 billion shares with a par value of ₱0.01 per share to ₱1.00 billion divided into 100 billion shares with a par value of ₱0.01 per share. It also approved the change in its primary purpose from power generation to oil and gas exploration and production.

On April 22, 2013, ACEX's BOD and stockholders voted to increase the par value of capital stock from ₱0.01 to ₱1.00 per share, which reduced the number of authorized capital stock from 100 billion to 1 billion and the issued and outstanding shares from 25 billion to 250 million. The increase in par value per share was approved by the SEC on June 3, 2013.

ACEX listed its shares with the PSE by way of introduction on August 28, 2014. On April 10, 2017, ACEX's BOD approved the amendment of its Articles of Incorporation to include on its primary and

secondary purposes the exploration and development of geothermal resources. The amended Articles of Incorporation were issued by the SEC on May 31, 2017.

On June 24, 2019, ACEPH purchased PHINMA Inc.'s and PHINMA Corporation's combined stake in ACEX representing 25.28% ownership. This increased the Parent Company's effective ownership in ACEX from 50.74% to 75.92%.

As at March 25, 2020, ACEX has not started commercial operations. The registered office address of ACEX is at 4th Floor, 6750 Office Tower, Ayala Ave., Makati City.

Palawan55 Exploration & Production Corporation ("Palawan55")
Palawan55 was incorporated and registered with the SEC on November 16, 2012. Palawan55 is engaged in the development and utilization of crude oil, natural gas, natural gas liquids and other forms of petroleum. As at March 25, 2020, Palawan55 has not started its commercial operations. The registered office address of Palawan55 is Level 11 PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

South Luzon Thermal Energy Corporation ("SLTEC")
On June 29, 2011, the Parent Company entered into a 50-50 joint venture agreement with AC Energy to form SLTEC. SLTEC was incorporated on July 29, 2011, and is engaged in the operation and maintenance of the SLTEC Power Plant. Unit 1 of the Power Plant commenced commercial operations on April 24, 2015 while Unit 2 started commercial operation on February 21, 2016. On December 20, 2016, the Parent Company and AC Energy sold 5% and 15% respectively of their interest in SLTEC to Axia Power Holdings Philippines Corporation (Axia), giving Axia a 20% ownership stake in SLTEC. The registered office address of SLTEC is KM. 117 National Road, Phoenix Industrial Park Phase II Puting Bato West, Calaca, Batangas.

On July 10, 2019 , AC Energy and Axia Power Holdings Philippines Corp. (Axia) signed a share purchase agreement where AC Energy has the right to purchase Axia's 20% interest in SLTEC. AC Energy paid the downpayment and has gained control over SLTEC over said date. As of July 10, 2019, both SLTEC and ACEPH are under the common control of AC Energy.

On November 5, 2019, the Parent Company signed a deed of assignment with AC Energy whereby AC Energy transferred its right to purchase APHPI's 20% ownership stake to the Parent Company. As a result of the assignment of right, the Parent Company exercised its right and purchased Axia's 20% interest in SLTEC for a total consideration of ₱3.40 billion. The Parent Company has gained control over SLTEC as a result of the business combination involving entities under common control. The Parent Company has consolidated SLTEC starting July 10,2019, the date when SLTEC and the Parent Company started being under the common control of AC Energy. The ownership structure of SLTEC as of December 31,2019 is as follows: 65% ACEPH and 35% AC Energy.

Buendia Christiana Holdings Corp. ("BCHC")
On December 12, 2019, the Parent Company entered into a subscription agreement with BCHC to subscribe to the increase of BCHC's authorized capital stock, as follows: i) 325,000,000 common shares with a par value of ₱0.10 per share, or for a total subscription price of ₱32.50 million; and ii) 2,925,000 redeemable preferred shares B with a par value of ₱100.00 per share, or for a total subscription price of ₱292.50 million. BCHC was incorporated and registered with the SEC on May 10, 2019. BCHC is engaged in the activities of a holding company and non-operating as of date. BCHC has an existing land located in the province of Zambales amounting to ₱273.50 million The registered office address of BCHC is Room 412 Executive Building Center, Makati Avenue cor. Gil Puyat Avenue, Bel-air, Makati City.

ACE Shared Services, Inc. ("ACES")
On November 18, 2019, the Parent Company subscribed to 250,000 shares in ACES with a par value of ₱1.00 per share, or for a total subscription price of ₱0.25 million. ACES was incorporated and registered with the SEC on December 5, 2019. ACES is engaged in providing a full range of business process outsourcing services, such as, but not limited to, financial and general accounting/ bookkeeping services (without engaging in the practice of accountancy), information technology services, procurement services, sales administration services, human resources management, manpower related services and other related functions. The registered office address of ACES is 4th Floor, 6750 Ayala Avenue Office Tower, Makati City.

Material Interest in Joint Ventures
PHINMA Solar Energy Corporation (PHINMA Solar)
PHINMA Solar, formerly Trans-Asia Wind Power Corporation and a wholly-owned subsidiary of the Parent Company, was incorporated and registered with the SEC on July 26, 2013. Its primary purpose is to construct, develop, own, operate, manage, repair and maintain wind power generation plants, to generate electricity from such power plants and to market and sell the electricity produced thereby. On January 30, 2017, PHINMA Solar's BOD approved the amendment of the Articles of Incorporation to change the corporate name to PHINMA Solar Energy Corporation, to include in its primary and secondary purposes the development, operation and maintenance of solar power generation plants and the development of solar products, and to increase the number of directors to nine (9). The amended Articles of Incorporation were issued by the SEC on June 27, 2017.

On December 11, 2018, the Parent Company and Union Galvasteel Corporation ("UGC"), a subsidiary of PHINMA Inc., entered into a Deed of Sale for the sale of the Parent Company's 50% interest in PHINMA Solar to UGC for ₱225 million. As a result of the sale transaction, PHINMA Solar ceased to be a subsidiary of the Parent Company (see Note 12). In 2018, PHINMA Solar completed installation and commenced operations of two (2) solar panel projects.

On June 19, 2019, the Parent Company sold its remaining 50% interest in PHINMA Solar to PHINMA Corporation for ₱218.30 million resulting in a gain of ₱1.38 million.

ACTA Power Corporation ("ACTA")
The Parent Company has 50% interest in ACTA, a joint venture with AC Energy. ACTA is engaged in the business of owning, developing, constructing, operating and maintaining power generation facilities as well as generation and sale of electricity. ACTA was incorporated on February 9, 2012 and has not started commercial operations as at March 25, 2020. The registered office address of ACTA is 4th Floor, 6750 Ayala Avenue Office Tower, Makati City.

Authorization for Issuance of Consolidated Financial Statements
The consolidated financial statements of the Group were approved and authorized for issuance by the Parent Company's BOD on March 25, 2020.

2. Basis of Preparation and Consolidation and Statement of Compliance

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

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), derivative financial instruments and equity instruments at fair value through other comprehensive income (FVOCI) that have been measured at fair value. The consolidated financial statements are presented in Philippine peso which is the Parent Company's functional and presentation currency. All values are rounded to the nearest thousands ('000), except par values, per share amounts, number of shares and when otherwise indicated.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using uniform accounting policies. When necessary, adjustments are made to the separate financial statements of the subsidiaries to bring its accounting policies in line with the Parent Company's accounting policies.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Parent Company and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, NCI and other components of equity while any resulting gain or loss is recognized in the consolidated statement of income. Any investment retained is recognized at fair value.

NCI represents the interests in the subsidiaries not held by the Parent Company and are presented separately in the consolidated statement of income and within equity in the consolidated statements of financial position, separately from equity attributable to holders of the Parent Company. NCI shares in losses even if the losses exceed the NCI in the subsidiary.

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

		Percentage of Ownership (%)			
		December 31, 2019		December 31, 2018	
Subsidiaries	Principal Activities	**Direct**	**Indirect**	Direct	Indirect
PHINMA Power	Power generation	**100.00**	–	100.00	–
CIPP	Power generation	**100.00**	–	100.00	–
PHINMA Renewable	Renewable energy generation	**100.00**	–	100.00	–
One Subic Oil	Distribution of petroleum products	**100.00**	–	100.00	–
One Subic Power	Power generation	–	**100.00**	–	100.00
ACEX	Oil, gas, and geothermal exploration	**75.92**	**0.40**	50.74	0.40
Palawan55	Oil and gas exploration	**30.65**	**52.93**	30.65	35.46
SLTEC	Power generation	**65.00**	–	45.00	–
BCHC	Holding company	**100.00**	–	–	–
ACES	Shared services	**100.00**	–	–	–

3. Summary of Significant Accounting Policies and Disclosures

Changes in Accounting Policies and Disclosures

The Group has adopted the following new accounting pronouncements. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance, unless otherwise indicated. The Group has not early adopted any other standard, interpretation, or amendment that has been issued but is not yet effective.

Starting January 1, 2019

- PFRS 16, *Leases*

  The Group applies, for the first time, PFRS 16, *Leases*. The nature and effect of these changes are disclosed below.

  PFRS 16 supersedes PAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

  Lessor accounting under PFRS 16 is substantially unchanged under PAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

  The Group adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect increase/(decrease) of adoption PFRS 16 as at January 1, 2019 is as follows:

Assets	
Right-of-use assets	₱548,449
Property, plant and equipment	(116,810)
Intangible assets	(24,959)
Advances	(5,865)
Prepayments	(4,317)
Deferred tax assets	143,990
Other noncurrent assets	(44,029)
Total Assets	**₱496,459**
Liabilities	
Accounts payable and other current liabilities	(₱18,305)
Current portion of lease liabilities	75,770
Lease liabilities – net of current portion	496,534
Deferred tax liabilities	105,474
Other noncurrent liabilities	(72,299)
Total Liabilities	**587,174**
Equity	
Retained earnings	(90,715)
	₱496,459

Deferred taxes is computed by using the Gross method where both the carrying amount of the ROU asset and the Lease Liability are multiplied by the applicable tax rate to set up the beginning balances of the deferred taxes.

a) **Nature of the effect of adoption of PFRS 16**

The Group has lease contracts for various items of land (for PHINMA Renewable), power plant (for One Subic Power) and office space (for ACEPH and SLTEC). Before the adoption of PFRS 16, the Group classified each of these leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group, otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under Other current assets and Accounts payable and other current liabilities, respectively. Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

- Leases previously classified as finance leases

  The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under PAS 17). The requirements of PFRS 16 were applied to these leases from January 1, 2019. The finance lease reclassed to lease liabilities amounted to ₱87.10 million.

- Leases previously accounted for as operating leases

  The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

  Operating lease commitments amounted to ₱822.87 million as at December 31, 2018. The weighted average incremental borrowing rate of the Group applied to lease liabilities is 8.14% which resulted to a discounted operating lease commitments amounting to ₱485.20 million recognized as at January 1, 2019.

  The total lease liability (previously recorded as operating and finance leases) amounted to ₱572.30 million.

b) **Summary of new accounting policies**

Set out below are the new accounting policies of the Group upon adoption of PFRS 16:

- *Right-of-use assets*

  The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

- *Lease liabilities*

  At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the remaining lease term. The lease payments include fixed payments (including in-substance fixed payments, as applicable) less any lease incentives receivable and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

  In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the

lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group has elected to use the two exemptions proposed by the standard on the following contracts:

a. Lease contracts for which the lease terms ends within 12 months from the date of initial application
b. Lease contracts for which the underlying asset is of low value

- *Significant judgement in determining the lease term of contracts with renewal options*

  The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

  The Group has the option to renew the lease contract for an additional term subject to the mutual agreement with the lessors. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

- *Deferred taxes*

  Upon adoption of PFRS 16, the Group has adopted the modified retrospective approach for accounting the transition adjustments and has elected to recognize the deferred income tax assets and liabilities pertaining to right-of-use assets and lease liabilities on a gross basis.

c) **Amounts recognized in the consolidated statements of financial position, statement of income and statement of comprehensive income**

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets					
	Land and Easement Rights	**Land with Power plants**	**Office Space and Parking Slots**	**Leasehold Rights**	**Total**	**Lease liabilities**
As at January 1, 2019	**₱167,399**	**₱356,091**	**₱–**	**₱24,959**	**₱548,449**	**₱572,304**
New lease agreements	–	–	30,075		30,075	27,323
Acquired from SLTEC	–	–	12,032		12,032	13,520
Amortization expense	(8,322)	(30,743)	(10,365)	(16,190)	(65,620)	–
Interest expense	–	–	–		–	56,560
Payments	–	–	–		–	(92,806)
Remeasurement due to termination of lease contract*	–	–	–		–	(2,604)
Foreign exchange adjustments	–	–	–		–	(14,726)
As at December 31, 2019	**₱159,077**	**₱325,348**	**₱31,742**	**₱8,769**	**₱524,936**	**₱559,571**

**Effect of pre-termination of SLTEC's office lease contract which will be effective on March 31, 2020*

The Group recognized rent expense from short-term leases of ₱0.25 million for the year ended December 31, 2019.

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

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

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

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

  The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

  Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance and assessment, that it is probable that its tax treatments (including those for its subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group, unless otherwise stated.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

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

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

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

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

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

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

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

  The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

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

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

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

  These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associates and joint ventures .

- *Annual Improvements to PFRSs* 2015-2017 Cycle

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

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

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

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

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

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

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments had no impact on the consolidated financial statements of the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

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

  Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

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

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

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

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

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

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

  The core of PFRS 17 is the general model, supplemented by:

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

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

Deferred effectivity

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

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

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

Summary of Significant Accounting Policies
The accounting policies set out below have been applied consistently to all periods presented in the Group's consolidated financial statements, unless otherwise indicated.

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in the consolidated statement of income. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

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

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

Business Combination Involving Entities Under Common Control
Business combinations involving entities under common control are accounted for by applying the pooling of interests method. The pooling of interests method generally involved the following:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their statutory carrying amounts. No adjustments are made to reflect fair value or recognize any new assets or liabilities at the date of combination. The only adjustments that are made are those adjustments to harmonize the accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the entity acquired is reflected within equity.
- The consolidated statement of income, comprehensive income and cash flows reflect the result of the combining entities in full, irrespective of when the combination takes place.
- Comparatives are presented as if the entities had always been combined since the date entities had been under common control.

Presentation of Consolidated Financial Statements
The Group has elected to present all items of recognized income and expense in two statements: a statement displaying components of profit or loss (consolidated statement of income) and a second statement beginning with profit or loss and displaying components of OCI (consolidated statement of comprehensive income).

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification. An asset is current when it is:
- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within twelve (12) months after the reporting period; or,
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve (12) months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:
- it is expected to be settled in the normal operating cycle;
- it is held primarily for the purpose of trading;

- it is due to be settled within twelve (12) months after the reporting period; or,
- there is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash and Cash Equivalents
Cash and cash equivalents in the consolidated statements of financial position is composed of cash in banks and on hand and short-term deposits with a maturity of three (3) months or less, which are subject to an insignificant risk of changes in value.

Short-term Investments
Short-term investments represent investments that are readily convertible to known amounts of cash with original maturities of more than three (3) months to one (1) year.

Fair Value Measurement
The Group measures financial assets at FVTPL, FVOCI and derivative financial instruments at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:
- Quantitative disclosures of fair value measurement hierarchy, see Note 37
- Investment properties, see Note 14
- Financial instruments (including those carried at amortized cost), see Note 37

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described in Note 37, based on the lowest level input that is significant to the fair value measurement as a whole.

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Financial Instruments – Classification and Measurement

Classification of Financial Assets
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:

- financial assets measured at amortized cost
- financial assets measured at FVTPL
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Contractual Cash Flows Characteristics
If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business Model
The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument.

The Group's business model refers to how it manages its financial assets in order to generate cash flows. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial Assets at Amortized Cost
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in "Other income-net" in the consolidated statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in "Provision for credit losses" in the consolidated statement of income.

As at December 31, 2019 and 2018, the Group's financial assets at amortized cost includes cash and cash equivalents, short-term investments, trade receivables and receivables from third parties under "Receivables" and refundable deposits (see Notes 5, 7, 9 and 36).

Financial Assets at FVOCI
Debt instruments
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

As of December 31, 2019 and 2018, the Group does not have debt instruments at FVOCI.

Equity instruments
The Group may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Group may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:
- the Group's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Group; and
- the amount of the dividend can be measured reliably.

As at December 31, 2019 and 2018, the Group's investments in quoted and unquoted equity securities and golf club shares are classified as financial asset at FVOCI (see Notes 13 and 36).

Financial Assets at FVTPL
Financial assets at FVTPL are measured at fair value unless these are measured at amortized cost or at FVOCI. Included in this classification are debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the consolidated statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the consolidated statement of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

As at December 31, 2018, the Group's investments in Unit Investment Trust Funds (UITF) and Fixed Interest Treasury Notes (FXTN) and derivative assets are classified as financial assets at FVTPL (see Notes 6 and 36).

<u>Derivative financial instruments and hedge accounting</u>
Initial recognition and subsequent measurement
The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. 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.

For the purpose of hedge accounting, hedges are classified as:
- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:
- There is 'an economic relationship' between the hedged item and the hedging instrument.

- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges
The change in the fair value of a hedging instrument is recognized in the consolidated statement of income as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated statement of income as other expense.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in consolidated statement of income.

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the consolidated statement of income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognized as other expense and the ineffective portion relating to commodity contracts is recognized in other operating income or expenses.

The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognized in OCI and accumulated in a separate component of equity under cost of hedging reserve.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

The Group uses a coal swap contract as a hedge of its exposure to coal price risk on its coal purchases (see Note 18).

Classification of Financial Liabilities

Financial liabilities are measured at amortized cost, except for the following:
- financial liabilities measured at FVTPL;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Group retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:
- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVTPL, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

As at December 31, 2019 and 2018, the Group has not designated any financial liability at FVTPL.

The Group's accounts payable and other current liabilities (excluding derivative liability and statutory payables), due to stockholders, short-term and long-term loans, deposit payables and other noncurrent liabilities are classified as financial liabilities measured at amortized cost under PFRS 9 (see Notes 18, 19, 21, 31 and 36).

Derecognition of Financial Assets and Financial Liabilities

Financial Assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statements of financial position) when:
- the rights to receive cash flows from the asset have expired; or,
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Modification of Contractual Cash Flows
When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

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

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

There are no offsetting of financial assets and financial liabilities and any similar arrangements that are required to be disclosed in the Group's consolidated financial statements as at December 31, 2019 and 2018.

Impairment of Financial Assets
PFRS 9 introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Group recognizes ECL on debt instruments that are measured at amortized. No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three (3) stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL
For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL – not credit-impaired
For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL – credit-impaired
Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

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

For cash and cash equivalents, the Group applies the low credit risk simplification. The investments are considered to be low credit risk investments as the counterparties have investment grade ratings. It is the Group's policy to measure ECLs on such instruments on a 12-month basis based on available probabilities of defaults and loss given defaults. The Group uses the ratings published by a reputable rating agency to determine if the counterparty has investment grade rating. If there are no available ratings, the Group determines the ratings by reference to a comparable bank.

For all debt financial assets other than trade receivables, ECLs are recognized using general approach wherein the Group tracks changes in credit risk and recognizes a loss allowance based on either a 12-month or lifetime ECLs at each reporting date.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Determining the Stage for Impairment
At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

Write-off policy
The Group writes-off a financial asset and any previously recorded allowance, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

Fuel and Spare Parts
Fuel and spare parts are stated at the lower of cost or net realizable value (NRV). Cost is determined using the first-in, first-out method. NRV is the current replacement cost of fuel and spare parts.

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

The criteria for held for sale classification under PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale is expected to be completed within one year from the date of the classification.

Property, plant and equipment are not depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

Property, Plant and Equipment

Property, plant and equipment, except land, is stated at cost, net of accumulated depreciation and impairment losses. Such cost includes the cost of replacing a part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred.

Land is stated at cost, net of accumulated impairment losses, if any.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The depreciation of property and equipment, except land, begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases when the assets are fully depreciated or at the earlier of the date that the item is classified as held for sale (or included in the disposal group that is classified as held for sale) in accordance with PFRS 5, and the date the item is derecognized. The estimated useful lives used in depreciating the Group's property, plant and equipment are as follows:

Category	In Years
Land improvements	10
Buildings and improvements	6-25
Machinery and equipment:	
Wind towers and equipment	25
Power plant	20
Power barges	10
Others	10-15
Tools and other miscellaneous assets	5-10
Transportation equipment	3-5
Office furniture, equipment and others	3-10

The residual values, useful lives and depreciation method are reviewed periodically to ensure that the periods and methods of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment. These are adjusted prospectively, if appropriate.

Fully depreciated property, plant and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognized.

Construction in progress is stated at cost less any impairment in value. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and ready for operational use.

Leases (Prior to adoption of PFRS 16)
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A reassessment is made after the inception of the lease, if any, if the following applies:

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

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

The Group determines whether arrangements contain a lease to which lease accounting must be applied. The costs of the agreements that do not take the legal form of a lease but convey the right to use an asset are separated into lease payments if the entity has the control of the use or access to the asset, or takes essentially all of the outputs of the asset. The said lease component for these arrangements is then accounted for as finance or operating lease.

Group as a Lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments 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 under “Other income - net” account in the consolidated statement of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as “Rent” included under “Cost of sale of electricity” and “General and administrative expenses” in the consolidated statement of income on a straight-line basis over the lease term.

Group as a Lessor
Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate used by the Group is the weighted average of the borrowing costs applicable to the borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

All other borrowing costs are expensed in the period in which these occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign Currency Denominated Transactions and Balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized as "Foreign exchange loss - net" under "Other income - net" in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair values are determined. The gains or losses arising on translation of non-monetary items measured at fair value are treated in line with the recognition of the gains or losses on the change in fair values of the items (i.e., translation differences on items which the fair value gains or losses are recognized in OCI or in profit or loss are also recognized in OCI or in profit or loss, respectively).

Interests in Joint Arrangements
Joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

Joint Operations
A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities and share in the revenues and expenses relating to the arrangement. The Group's service contracts (SC) are assessed as joint operations.

Investments in Associates and Joint Ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share in the net assets of the associate or joint venture since the acquisition date.

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The consolidated statement of income reflect the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share in profit or loss of the associate or the joint venture is shown in the consolidated statement of income outside operating profit and represents profit or loss after tax and NCI in the subsidiaries of the associate or joint venture.

If the Group's share in losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group discontinues recognizing its share of further losses.

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

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

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

Investment Properties

Investment properties are carried at cost, including transaction costs, net of accumulated depreciation. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Investment properties are derecognized either when disposed of or when permanently withdrawn from use and no future economic benefit is expected from disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of income in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Leasehold Rights (Prior to adoption of PFRS 16)
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the consolidated statement of income in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their economic useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

The useful lives of leasehold rights are assessed as finite. The amortization expense on leasehold rights are recognized as “Depreciation and amortization” under “Cost of sale of electricity” account in the consolidated statement of income.

Deferred Exploration Costs
The Group follows the full cost method of accounting for exploration costs determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are deferred pending the determination of whether the contract area contains oil and gas reserves in commercial quantities, net of any allowance for impairment losses.

Expenditures for mineral exploration and development work on mining properties are also deferred as incurred, net of any allowance for impairment losses. These expenditures are provided with an allowance when there are indications that the exploration results are negative. These are written-off against the allowance when the projects are abandoned or determined to be definitely unproductive. When the exploration work results are positive, the net exploration costs and subsequent development costs are capitalized and amortized from the start of commercial operations.

Impairment of Non-financial Assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired in accordance with PAS 36. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value-in-use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth (5th) year.

Impairment losses are recognized in the consolidated statement of income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

The following assets have specific characteristics for impairment testing:

Property, Plant and Equipment and Investment Properties
For property, plant and equipment and investment properties, the Group assesses for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage.

Investments in Associates and Interests in Joint Ventures
The Group determines at the end of each reporting period whether there is any objective evidence that the investments in associates and interests in joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and interests in joint ventures, and their carrying amounts.

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

Right-of-Use Assets and Leasehold Rights
Right of use assets and leasehold rights with finite useful lives are tested for impairment when circumstances indicate that the carrying value may be impaired.

Deferred Exploration Costs
Deferred exploration costs are reassessed for impairment on a regular basis. An impairment review is performed, either individually or at the CGU level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the reporting period in which this is determined.

Facts and circumstances that would require an impairment assessment as set forth in PFRS 6, *Exploration for and Evaluation of Mineral Resources*, are as follows:

- The period for which the Group has the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed;
- Substantive expenditure on further exploration and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;
- When a service contract where the Group has participating interest in is permanently abandoned; and
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, impairment loss is measured, presented and disclosed in accordance with PAS 36, *Impairment of Assets*.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and, a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as “Other income” in the consolidated statement of income.

Asset Retirement Obligation
The Group is legally required under a lease agreement to dismantle certain machinery and equipment and restore the leased site at the end of the lease contract term. The Group recognizes the fair value of the liability for this obligation and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment accounts, which are being depreciated on a straight-line basis over the shorter of the useful life of the related asset or the lease term. The liability is subsequently carried at amortized cost using the EIR method with the related interest expense recognized in the consolidated statement of income.

Pensions and Other Post-employment Benefits
Defined Benefit Plan
The Group operates separate and distinct retirement plans for ACEPH, PHINMA Power, PHINMA Renewable and CIPP, which require contributions to be made to separately administered funds. Other entities are covered by Republic Act (R.A.) 7641, otherwise known as "The Philippine Retirement Law", which provides for qualified employees to receive a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. 7641. The cost of providing benefits is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which these occur. Remeasurements are not reclassified to the consolidated statement of income in subsequent periods.

Past service costs are recognized in the consolidated statement of income on the earlier of:
- the date of the plan amendment or curtailment; or,
- the date that the Group recognizes related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under "Cost of sale of electricity" and "General and administrative expenses" accounts in the consolidated statement of income:
- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

Employee Leave Entitlement
Employee entitlements to annual leave are recognized as a liability when these are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Other long-term benefits
Vacation and sick leaves are recognized as a liability when these are accrued to the employees. Unused vacation and sick leave credits shall be converted to cash upon separation of employee. Leave expected to be settled wholly before twelve months after the end of the annual reporting period is reclassified to short-term benefits.

Capital Stock
Capital stock represents the portion of the paid-in capital representing the total par value of the shares issued.

Stock Options and Grants
Stock option and grants are accounted for in accordance with PFRS 2, that is, the cost of stock option awards is measured by reference to the fair value at the date on which they are granted. The fair value is determined using the binomial method. The cost of such awards is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. The cumulative expense that is recognized at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a period represents the movement in cumulative expense recognized as at the beginning and end of the period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of the award are modified, the minimum expense recognized is the expense if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where the stock option is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the preceding paragraph.

If the outstanding options are dilutive, its effect is reflected as additional share dilution in the computation of diluted earnings per share.

Additional Paid-in Capital (APIC)
APIC represents the amount paid in excess of the par value of the shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Treasury Shares
Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in APIC. Share options exercised during the reporting period are satisfied with treasury shares.

Other Equity Reserve
Other equity reserves are made up of equity transactions other than capital contributions such as share in equity transactions of associates and joint ventures and difference between considerations paid or transferred and the entity acquired through business combinations involving entities under common control.

Retained Earnings
Retained earnings include all current and prior period results of operations as reported in the consolidated statement of income, net of any dividend declaration and adjusted for the effects of changes in accounting policies as may be required by PFRS's transitional provisions.

Cash Dividend and Non-cash Dividend to Equity Holders of the Parent Company
The Group recognizes a liability to make cash or non-cash distributions to equity holders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Group. A corresponding amount is recognized directly in equity.

Revenue from Contracts with Customers
Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risks.

The specific recognition criteria described below must also be met before revenue is recognized.

Sale of Electricity
Sale of electricity is consummated whenever the electricity generated by the Group is transmitted through the transmission line designated by the buyer, for a consideration. Revenue from sale of electricity is based on sales price. Sales of electricity using bunker fuel are composed of generation fees from spot sales to the WESM and supply agreements with third parties and are recognized monthly based on the actual energy delivered.

Starting December 27, 2014, sales of electricity to the WESM using wind are based on the Feed in Tariff (FIT) rate under the FIT System and are recognized monthly based on the actual energy delivered. Meanwhile, revenue from sale of electricity through ancillary services to the National Grid Corporation of the Philippines (NGCP) is recognized monthly based on the capacity scheduled and/or dispatched and provided. Revenue from sale of electricity through Retail Supply Contract (RSC) is composed of generation charge from monthly energy supply with various contestable customers and is recognized monthly based on the actual energy delivered. The basic energy charges for each billing period are inclusive of generation charge and retail supply charge.

The Group identified the sale of electricity as its performance obligation since the customer can benefit from it in conjunction with other readily available resources and it is also distinct within the context of the contract. The performance obligation qualifies as a series of distinct services that are substantially the same and have the same pattern of transfer. The Group concluded that the revenue should be recognized overtime since the customers simultaneously receives and consumes the benefits as the Group supplies electricity.

Amounts Reimbursed to Customers
Certain revenue contracts with customers provide for the sale of any unutilized electricity to the WESM. The proceeds are recorded as reduction in "Revenue from sale of electricity" in the consolidated statement of income.

Dividend Income
Dividend income is recognized when the Group's right to receive the payment is established, which is generally when shareholders of the investees approve the dividend.

Rental Income
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of income due to its operating nature.

Claims for business interruption and property damage
Income is recognized when an acknowledgment for the proposed claims is received from insurers. The income arises from unplanned shutdown of an insured property which results to business interruption and property damage.

Other Income
Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Group through an increase in asset or reduction in liability that can be measured reliably.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized when incurred.

Taxes
Current Income Tax
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Management periodically evaluates positions taken in the tax return with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:
- when the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in the consolidated statement of income.

Creditable Withholding Taxes

Creditable withholding taxes represent amounts withheld by the Group's customers and is deducted from the Group's income tax payable.

Value-added Tax (VAT)

Expenses and assets are recognized net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and,
- When receivables and payables are stated with the amount of VAT included

The amount of VAT recoverable from the taxation authority is recognized as "Input VAT", while VAT payable to taxation authority is recognized as "Output VAT" under "Accounts payable and other current liabilities" in the consolidated statement of financial position.

Output VAT is recorded based on the amount of sale of electricity billed to third parties. Any amount of output VAT not yet collected as at reporting period are presented as "Deferred output VAT" under "Income and withholding taxes payable" account in the consolidated statement of financial position.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed based on weighted average number of issued and outstanding common shares during each year after giving retroactive effect to stock dividends declared during the year. Diluted earnings (loss) per share is computed as if the stock options were exercised as at the beginning of the year and as if the funds obtained from exercise were used to purchase common shares at the average market price during the year. Outstanding stock options will have a dilutive effect under the treasury stock method only when the fair value of the underlying common shares during the period exceeds the exercise price of the option. Where the outstanding stock options have no dilutive effect and the Group does not have any potential common share nor other instruments that may entitle the holder to common shares, diluted earnings (loss) per share is the same as basic earnings (loss) per share.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. Financial information on business segments is presented in Note 38 to the consolidated financial statements.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. If it is probable that an outflow of resources embodying economic benefits will occur and the liability's value can be measured reliably, the liability and the related expense are recognized in the consolidated financial statements.

Contingent assets are not recognized in the consolidated financial statements but disclosed in the notes to the financial statements when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it is 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 consolidated financial statements.

Events After the Reporting Period

Post year-end events that provide additional information about the Group's position as at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The Group's consolidated financial statements prepared in conformity with PFRS require management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements. In preparing the Group's consolidated financial statements, management made its best estimates and judgments of certain amounts, giving due consideration to materiality. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Actual results could differ from such estimates.

The Group believes the following represents a summary of these significant judgments, estimates and assumptions and related impact and associated risks in its consolidated financial statements.

Judgments

Revenue Recognition *(2019 and 2018)*

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

The Group assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if (i) each distinct good or service in the series are transferred over time and (ii) the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation.

For power generation, trading and ancillary services where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the customer cannot benefit from the contracted capacity alone without the corresponding energy and the customer cannot obtain energy without contracting a capacity.

The combined performance obligation qualifies as a series of distinct services that are substantially the same and have the same pattern of transfer since the delivery of energy every month are distinct services which are all recognized over time and have the same measure of progress.

Retail supply also qualifies as a series of distinct services which is accounted for as one performance obligation since the delivery of energy every month is a distinct service which is recognized over time and have the same measure of progress.

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

For ancillary services, the Group determined that the output method is the best method in measuring progress since actual energy is supplied to customers. The Group recognizes revenue based on contracted and actual kilowatt hours (kwh) dispatched which are billed on a monthly basis.

For power generation and trading and retail supply, the Group uses the actual kwh dispatched which are also billed on a monthly basis.

Determining Method to Estimate Variable Consideration and Assessing the Constraint
The Group includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group considers both likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the Group will subject to constraint. Factors such as (i) highly susceptible to factors outside of the Group's influence, (ii) timing of resolution of the uncertainty, and (iii) having a large number and broad range of possible outcomes are considered.

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

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

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are to be fully constrained based on its historical experience (i.e., prompt payment discounts), the range of possible outcomes (i.e., unspecified quantity of energy), and the unpredictability of other factors outside the Group's influence (i.e., index adjustments).

Lease Accounting
Determining Whether an Arrangement Contains a Lease (Prior to adoption of PFRS 16)
ACEPH supplies the electricity requirements of certain customers under separate Electricity Supply Agreements (ESA) (see Note 35). The Group has evaluated the arrangements and the terms of the ESA and determined that the agreements do not qualify as leases. Accordingly, fees billed to these customers are recognized as revenue from sale of electricity.

Under ACEPH's Power Purchase Agreement (PPA) with SLTEC and Maibarara Geothermal Inc. (MGI), ACEPH agreed to purchase all of SLTEC's and MGI's output (see Note 35). The Group has evaluated the arrangements and the terms of the PPA and determined that the agreements do not qualify as leases prior to adoption of PFRS 16. Accordingly, prior to the consolidation of SLTEC to the Group, the fees paid to SLTEC and MGI are recognized under "Cost of sale of electricity" (see Note 24).

PHINMA Renewable also entered into various easements and right of way agreements with various land owners to support the erection of transmission lines to be used to connect its 54 MW Wind Farm Project in Guimaras. These agreements contain a lease as the arrangements convey the right to use the item and PHINMA Renewable has control over the utility of the asset. Accordingly, the Group has accounted for these agreements as leases upon adoption of PFRS 16 (see Note 3).

Classification of Leases - the Group as Lessee (Prior to adoption of PFRS 16)
The Group exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease agreements, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased items are classified as finance leases. Otherwise, these are considered as operating leases (see Note 35).

The Parent Company has entered into a lease agreement with Guimaras Electric Company (GUIMELCO) for a parcel of land used only as a site for electric generating plant and facilities, where it has determined that the risks and rewards related to the properties are retained with the lessor (e.g., no bargain purchase option and transfer of ownership at the end of the lease term). The lease is, therefore, accounted for as an operating lease.

One Subic Power has a lease agreement with SBMA for a parcel of land and electric generating plant and facilities where it has determined that the risks and rewards related to the properties are retained with the lessor (e.g., no bargain purchase option and transfer of ownership at the end of the lease term). The lease is, therefore, accounted for as an operating lease (see Note 35).

PHINMA Renewable has entered into various lease agreements with individual land owners where the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased asset, among others, which indicates that it does not transfer substantially all the risks and rewards from the various land owners to the Group incidental to the ownership of the parcels of land. These leases are classified as operating leases.

PHINMA Renewable has entered into various lease agreements with individual land owners where the present value of the minimum lease payments amount to at least substantially all of the fair value of the leased asset, which indicates that the risks and rewards related to the asset are transferred to the Group. These leases are classified as finance leases.

The Parent Company, AC Energy, Ayala Land, Inc. (ALI) and Ayalaland Offices, Inc. entered an agreement on assignment of contract of lease. AC Energy assigned a portion of its office unit and parking slots.

Details of the above lease agreements are disclosed in Note 35.

Classification of Leases - the Group as Lessor
The Group had a lease agreement for the lease of its investment property. The Group had determined that the risks and rewards of ownership of the underlying property were retained by the Group. Accordingly, the leases are classified as an operating lease (see Note 35).

Determination of lease term of contracts with renewal and terminations options – the Group as Lessee
The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Group did not include the renewal period as part of the lease term for leases of land and power plant because as at commencement date, the Group assessed that it is not reasonably certain that it will exercise the renewal options since the renewal options are subject to mutual agreement of the lessor and the Group. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Discount rate
The Group used the risk free rate per PHP-BVAL plus the credit spread provided by the bank or the incremental borrowing rate which is the rate of interests that a lessee would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in similar economic environment.

Practical expedient
The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application. All leases with a term of 1 year and below shall be expensed outright.
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application.

Refer to Note 35 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Identification of Business Models
The Group manages its financial assets based on a business model that maintains adequate level of financial assets to match expected cash outflows while maintaining a strategic portfolio of financial assets for trading activities.

The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. The following are the Group's business models:

Portfolio 1, Operating and Liquidity Fund (Amortized Cost)
Portfolio 1 is classified as amortized cost with the objective to hold to collect the financial asset to ensure sufficient funding to support the Group's operations and project implementation. It also aims to generate interest income from low-risk, short-term investments in highly liquid assets.

Funds in this portfolio is comprised of financial assets classified by the Bangko Sentral ng Pilipinas (BSP) and trust entities as conservative assets, which are principal-protected and highly liquid. These are placed in investment outlets that are redeemable within thirty (30) to ninety (90) days. This includes the Group's cash and cash equivalents, short-term investments, receivables and refundable deposits.

Main risks are credit risk, liquidity risk, market risk and interest rate risk. The performance of the portfolio is evaluated based on the yield of the investments. For further details on risks and mitigating factors, see Note 36.

Sales may be made when the financial assets are close to maturity and prices from the sales approximate the collection of the remaining contractual cash flows. Further, disposal is permitted when the Group believes that there is a credit deterioration of the issuer.

PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost, the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

Portfolio 2, Operating and Liquidity Fund
Portfolio 2 is classified as FVOCI with the objective to hold to collect and sell to ensure sufficient funding to support operations and project implementation. It also aims to generate interest income from low-risk, short-term investments in highly liquid assets.

Funds in this portfolio is comprised of financial assets classified by the BSP and trust entities as conservative assets, which are principal-protected and highly liquid. These are placed in investment outlets that are redeemable within thirty (30) to ninety (90) days. This includes the Group's UITFs, FXTNs and derivative assets.

Main risks are credit risk, liquidity risk, market risk and interest rate risk. The performance of the portfolio is evaluated based on the yield and fair value changes of the investments. For further details on risks and mitigating factors, see Note 36.

Sales may be made when the financial assets are close to maturity and prices from the sales approximate the collection of the remaining contractual cash flows. Further, disposal is permitted when the Group believes that there is a credit deterioration of the issuer.

Portfolio 3, Strategic Fund
Portfolio 3 is classified as FVOCI with the objective to hold to collect and to sell the financial asset to generate interest income from low-risk, long-term investments in liquid assets and maximize the returns from excess funds of the Group.

Funds in this portfolio have an overall weighted duration risk exposure of one (1) year or less. These are placed in investment outlets with tenors of at least ninety (90) days. The Group does not have debt instruments at FVOCI.

Main risks are credit risk, liquidity risk, market risk, interest rate risk and foreign currency risk. The performance of the portfolio is evaluated based on the yield and fair value changes of outstanding investments. For further details on risks and mitigating factors, see Note 36.

Sales may be made when the financial assets are close to maturity and prices from the sales approximate the collection of the remaining contractual cash flows. Further, disposal is permitted when the Group believes that there is a credit deterioration of the issuer.

Definition of Default and Credit-impaired Financial Assets
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- *Quantitative criteria*
  The borrower is more than ninety (90) days past due on its contractual payments, i.e., principal and/or interest, which is consistent with the Group's definition of default.

- *Qualitative criteria*
  The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
  a. The borrower is experiencing financial difficulty or is insolvent
  b. The borrower is in breach of financial covenant(s)
  c. Concessions have been granted by the Group, for economic or contractual reasons relating to the borrower's financial difficulty
  d. It is becoming probable that the borrower will enter bankruptcy or other financial reorganization
  e. Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) throughout the Group's expected loss calculation.

Determining and Classifying Joint Arrangements
Judgment is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangements.

Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, the Group considers:

- the structure of the joint arrangement - whether it is structured through a separate vehicle;
- when the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
  a. the legal form of the separate vehicle;
  b. the terms of the contractual arrangement; and,
  c. other facts and circumstances (when relevant).

This assessment often requires significant judgments on the conclusion on joint control and whether the arrangement is a joint operation or a joint venture, which may materially impact the accounting. As at December 31, 2019 and 2018, the Group's SCs are joint arrangements in the form of a joint operation.

The Group's joint control arrangements in which the Group has rights to the net assets of the investees are classified as joint ventures.

As at December 31, 2018, the Parent Company holds 50% of the voting rights of PHINMA Solar. The Parent Company also holds 50% of the voting rights of ACTA as at December 31, 2019 and 2018. The Parent Company holds 45% of the voting rights of SLTEC as at June 30,2019 and December 31, 2018. Under the contractual agreements, the Group has joint control over these arrangements as there is a unanimous consent where any party can prevent the other party from making unilateral decisions on the relevant activities without the other party's consent (see Notes 1 and 12).

The Group's joint arrangements are also structured through separate vehicles and provide the Group and the parties to the agreements with rights to the net assets of the separate vehicle under the arrangements.

Material Partly-Owned Subsidiaries
The consolidated financial statements include additional information about subsidiaries that have NCI that are material to the Group (see Note 34). Management determined material partly-owned subsidiaries as those with balance of NCI greater than 5% of total NCI's and those subsidiaries which type of activities those engage in are important to the Group as at the end of the year.

Material Associates and Joint Ventures
The consolidated financial statements include additional information about associates and joint ventures that are material to the Group (see Note 12). Management determined material associates and joint ventures as those associates and joint ventures where the Group's carrying amount of investments is greater than 5% of the total investments and advances in associates and joint ventures as at the end of the year.

Asset acquisitions and business combinations
Where asset is acquired through the acquisition of corporate interests, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the asset.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Otherwise, corporate acquisitions are accounted for as business combinations.

The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

The Group's acquisition of SLTEC has been accounted for as a business combination involving entities under common control (see Notes 1 and 33).

The Group's acquisition of BCHC has been accounted for as a purchase of an asset and has allocated the acquisition cost to individual assets and liabilities (see Notes 1 and 33).

Judgements made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraph 122 of PAS 1, Presentation of Financial Statements
Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. The Group determined, based on its tax assessment, in consultation with its tax counsel, that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated financial statements of the Group.

<u>Estimates</u>

Estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an

asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the entities' stand-alone credit rating).

The Group's lease liabilities amounted to ₱572.30 million as at December 31, 2019.

Estimating Allowance for Credit Losses

Measurement of expected credit losses
ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.

The Group leverages existing risk management indicators, credit risk rating changes and reasonable and supportable information which allows the Group to identify whether the credit risk of financial assets has significantly increased.

Inputs, Assumptions and Estimation Techniques

General approach for cash in banks and other financial assets measured at amortized cost
The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, LGD and EAD, defined as follows:

- *Probability of Default*
  The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining life of the obligation. PD estimates are estimates at a certain date, which are calculated based on available market data using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

  The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at reporting date and future economic conditions that affect credit risk.

- *Loss Given Default*
  Loss Given Default represents the Group's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

- *Exposure at Default*
  EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

Simplified Approach for Trade Receivables
The Group uses a provision matrix to calculate ECLs for certain trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by revenue stream, customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrices to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation rate, GDP, foreign exchange rate) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

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

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Incorporation of Forward-Looking Information
The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

To do this, the Group considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. The Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities and selected private-sector and academic institutions.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

The Group has identified and documented key drivers of credit risk and credit losses of each financial instrument and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as at December 31, 2019 is Global 7 term interest rate from Macroeconomics Indicators. As of December 31, 2018, the Group included the following economic scenarios included the following ranges of key macroeconomics indicators.

Economic indicators	2018
Inflation rates	Base 3.90%
	Range between -0.4% and 6.7%
Foreign exchange rate	Base ₱52.61
	Range between ₱40.67 and ₱51.34
GDP growth	Base 6.90%
	Range between 5.10% and 7.20%

Predicted relationship between the key economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past five (5) to nine (9) years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Group has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

Grouping of Instruments for Losses Measured on Collective Basis
For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared credit risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the Group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below.

- *Universal and Commercial banks - Groupings for collective measurement*
  a. Instrument type
  b. Credit risk rating

- *Independent Electricity Market Operator of the Philippines [IEMOP; formerly Philippine Electricity Market Corporation (PEMC)], NGCP, RES, Direct and Wholesale Aggregator (WA) Customers - Groupings for collective measurement*
  a. Customer revenue classification (revenue stream)
  b. Credit risk rating band

The appropriateness of groupings is monitored and reviewed on a periodic basis. In 2019 and 2018, the total gross carrying amount of receivables for which lifetime ECLs have been measured on a collective basis amounted to nil and ₱1,597.57 million, respectively.

The carrying values of receivables and the related allowance for doubtful accounts of the Group are disclosed in Note 7. In 2019 and 2018, provision for doubtful accounts amounted to ₱1.16 million and ₱14.55 million, respectively (see Note 7).

As at December 31, 2019 and 2018, allowance for doubtful accounts on receivables amounted to ₱122.24 million and ₱131.33 million, respectively (see Notes 7 and 17).

Estimating Allowance for Doubtful Accounts (Prior to adoption of PFRS 9)
The Group maintains allowance for doubtful accounts based on the results of the individual and collective assessment. Under the individual assessment, the Group considers the significant financial difficulties of the customer or significant delays in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on age and status of the financial asset, as well as historical loss experience. Allowance for doubtful accounts is recorded when management believes that the receivable balance cannot be provided or realized after exhausting all efforts and courses of action. For the collective assessment, the Group groups its receivables based on the credit risk characteristics (customer type, past-due status and terms) of its customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. The methodology and assumptions used for the individual and collective assessments are based on management's judgments and estimates. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

The Company estimates the provision for doubtful accounts related to trade and other receivables based on specific evaluation of its receivables considering efforts exerted to collect the amounts due from customers and where the Company has information that certain customers are unable to meet their financial obligations. In 2017, provision for doubtful accounts amounted to ₱4.54 million (see Note 8).

Evaluating net realizable value of inventories
The Company writes down its inventory to NRV whenever NRV becomes lower than cost due to damage, physical deterioration, changes in price levels or other causes.

Estimates of NRV are based on the most reliable evidence available at the time the estimates are made on the amount expected to be realized. Review is performed on a regular basis to reflect the reasonable valuation of the inventory in the financial statements.

As of the December 31, 2019 and 2018, the carrying value of inventories amounting to ₱855.28 million and ₱413.67 million, respectively (see Note 8).

Recoverability of Input VAT
Input VAT represents taxes paid on purchases of applicable goods and services which can be recovered as tax credit against future output VAT liability of the Group. The Group is also allowed to recover excess input VAT by filing a claim for refund or tax credit certificate with the BIR. In 2016, PHINMA Renewable filed with the BIR a claim for tax credit certificate of its input VAT amounting to ₱335.76 million (see Note 41). Considering the uncertainty in the timing of the final decision of the Court of Tax Appeals (CTA), the input VAT claimed for refund was recognized as part of noncurrent asset in the consolidated statements of financial position.

In addition, the Parent Company has written off ₱21.90 million of input VAT in 2018 as these are considered no longer recoverable. The Parent Company also provided provisions for unrecoverable input tax amounting to nil in 2019 and 2017 and ₱43.71 million in 2018 (see Note 28). The carrying amounts of input VAT as at December 31, 2019 and 2018 amounted to ₱484.08 million and ₱362.09 million, respectively.

Realizability of Deferred Income Tax Assets
The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that sufficient taxable income will be generated to allow all or part of the deferred tax assets to be utilized.

As at December 31, 2019 and 2018, deferred income tax assets recognized by the Group amounted to ₱612.55 million and ₱261.35 million, respectively (see Note 29). The Group's deductible temporary differences, unused NOLCO and unused MCIT for which no deferred income tax assets were recognized are disclosed in Note 29.

Estimating Useful Lives of Property, Plant and Equipment, Investment Properties, Right-of-Use Assets and Leasehold Rights
The Group estimates the useful lives of property, plant and equipment, investment properties, right-of-use assets and leasehold rights based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment properties, right-of-use assets and leasehold rights are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment and investment properties are based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. In 2019, 2018 and 2017, there were no changes in the estimated useful lives of the assets.

The total depreciation and amortization of property, plant and equipment, right-of-use assets investment properties and leasehold rights amounted to ₱892.47 million, ₱405.84 million and ₱399.38 million in 2019, 2018 and 2017, respectively (see Note 27).

Impairment of Deferred Exploration Costs
The carrying value of deferred exploration costs is reviewed for impairment by management when there are indications that the carrying amount exceeds the recoverable amount under PFRS 6. Among the factors considered by management in the impairment review of deferred exploration costs are the expiration of the contracts and the technical evaluation that the remaining prospects in these areas are small and are likely to be uneconomic. In the event of impairment, the Group measures, presents and discloses the resulting impairment loss in accordance with PAS 36.

The Group considers the status of the service contracts and its plans in determining the recoverable amount of the deferred exploration costs.

The Group recognized impairment losses on deferred exploration costs amounting to ₱34.49 million, ₱48.26 million and ₱4.89 million in 2019, 2018 and 2017, respectively. The carrying value of deferred exploration costs amounted to ₱46.04 million and ₱61.11 million as at December 31, 2019 and 2018, respectively (see Notes 15 and 25).

Impairment of Non-financial Assets, Other than Goodwill and Deferred Exploration Costs
The Group assesses whether there are any indicators of impairment for all non-financial assets, other than goodwill and deferred exploration costs, at each reporting date in accordance with PAS 16. These non-financial assets (investments and advances, property, plant and equipment, right-of-use assets, investment properties and leasehold rights) are tested for impairment whenever events or changes in circumstances indicate that carrying amount of the asset may not be recoverable. This requires an

estimation of the value in use of the CGUs. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In cases where the value in use cannot be reliably measured, the recoverable amount is based on fair value less costs to sell.

The carrying amounts of the Group's non-financial assets other than goodwill and deferred exploration costs as at December 31 are as follows:

	2019	2018
Property, plant and equipment (see Note 11)	**₱21,564,260**	₱5,760,963
Creditable withholding taxes	**983,726**	784,169
Investments (see Note 12)	**723,165**	4,322,684
Right of use assets (see Note 16)	**524,936**	–
Input VAT (see Note 41)	**484,077**	362,091
Investment properties (see Note 14)	**13,085**	13,085
Leasehold rights (see Note 15)	**–**	24,959

Impairment loss on property, plant and equipment amounted to ₱2.07 million in 2018. No impairment loss was recognized on these non-financial assets in 2019 and 2017.

Accumulated impairment losses on investments amounted to ₱1.56 million as at December 31, 2019 and 2018 (see Note 12).

Impairment of Goodwill
The Group subjects goodwill to an impairment test annually and whenever there is an indication that it is impaired. This requires an estimation of the value in use of the related CGU. The value in use calculation requires the Group to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Management used an appropriate discount rate for cash flows which is consistent with the valuation practice. The management used the weighted average cost of capital (WACC) wherein the source of the cost of equity and debt financing are weighted. The pre-tax discount rates of 8.4% to 9.4% were used in 2019. The Group used a capital structure of 50.3% debt/equity (DE) ratio based on industry comparable weights and the growth rate used in extrapolating cash flows beyond the period covered by the Group's recent budget was 3%.

The carrying amount of goodwill amounted to ₱234.15 million as at December 31, 2019 and 2018 (see Note 15). No impairment loss has been recognized on goodwill in 2019, 2018 and 2017.

Estimation of Pension and Other Employee Benefits Liabilities
The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Pension and other employee benefits liability amounted to ₱60.50 million and ₱40.25 million as at December 31, 2019 and 2018, respectively (see Note 30).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 30.

Contingencies and Tax Assessments
The Group is currently involved in various legal proceedings and assessments for local and national taxes (see Note 41). The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The final settlement of these may result in material adverse impact on the Group's consolidated financial statements.

5. Cash and Cash Equivalents

	2019	2018
Cash on hand and in banks	**₱1,100,551**	₱151,317
Short-term deposits	**7,481,112**	871,049
	₱8,581,663	₱1,022,366

Cash in banks earn interest at the applicable bank deposit rates for its peso and dollar accounts. Short-term deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

Interest income earned on cash in banks and short-term deposits in 2019, 2018 and 2017 amounted to ₱61.83 million, ₱34.04 million and ₱33.12 million, respectively (see Note 28).

Short-term deposits account includes debt service reserves amounting to ₱281.65 million and ₱54.77 million as at December 31, 2019 and 2018, respectively. These accounts are reserved for the payment of loans by PHINMA Renewable and SLTEC (see Note 19).

6. Financial Assets at FVTPL

Financial assets at FVTPL as at December 31, 2018 consists of:

Current:	
UITFs	₱743,739
Noncurrent:	
UITF	5,452
	₱749,191

On January 1, 2018, the Group reclassified all of its investments held for trading to financial assets at FVTPL. Further, investment in a UITF previously recorded under AFS investments was reclassified to financial assets at FVTPL amounting to ₱5.45 million since as at date of initial application of PFRS 9, this was assessed to have contractual terms that do not represent solely payments of principal and interest (see Note 3).

The net changes in fair value of financial assets at FVTPL, included in "Interest and other financial income" account presented under "Other income - net" in the consolidated statements of income, amounted to ₱30.84 million and ₱24.83 million in 2019 and 2018, respectively (see Note 28).

Financial assets at FVTPL as at December 31, 2018 include debt service reserves amounting to ₱57.80 million for the wind project loan facility (see Note 19).

As of December 31, 2019, the Group has already liquidated all outstanding investment in marketable securities and will discontinue investing in highly volatile financial instruments to keep a risk-averse position.

7. Receivables

	2019	2018
Trade	**₱2,233,782**	₱2,154,348
Due from related parties (see Note 31)	**9**	333,576
Receivables from:		
Third parties (see Note 17)	**376,351**	179,550
Employees	**102,628**	2,881
Assignment of Mineral Production Sharing Agreement (MPSA) (see Note 15)	**39,365**	39,365
Consortium - SC 50 (see Note 15)	**20,000**	20,000
Consortium - SC 52 (see Note 15)	**19,444**	19,444
Others	**59,076**	9,461
	2,850,655	2,758,625
Less allowance for credit losses	**122,236**	131,334
	₱2,728,419	₱2,627,291

Trade receivables mainly represent receivables from PEMC, NGCP, National Transmission Corporation (TransCo) for the FIT and from the Group's bilateral customers. Trade receivables consist of both noninterest-bearing and interest-bearing receivables. The term is generally thirty (30) to sixty (60) days.

Receivables from third parties as at December 31, 2019 and 2018 mainly represent the current portion of the Group's noninterest-bearing receivables from NGCP (see Note 17).

As at December 31, the aging analysis of receivables is as follows:

	2019						
			Past Due but not Impaired				
	Total	**Neither Past Due nor Impaired**	**<30 Days**	**30–60 Days**	**61–90 Days**	**More than 90 Days**	**Past Due and Impaired**
Trade	**₱2,233,782**	**₱1,944,167**	**₱6,159**	**₱6,793**	**₱8,819**	**₱228,831**	**₱39,013**
Due from related parties	**9**	**9**	**–**	**–**	**–**	**–**	**–**
Others	**616,864**	**96,640**	**12,755**	**45,506**	**4,219**	**374,521**	**83,223**
	₱2,850,655	**₱2,040,816**	**₱18,914**	**₱52,299**	**₱13,038**	**₱603,352**	**₱122,236**

	2018						
			Past Due but not Impaired				
	Total	Neither Past Due nor Impaired	<30 Days	30–60 Days	61–90 Days	More than 90 Days	Past Due and Impaired
Trade	₱2,154,348	₱1,712,945	₱40,844	₱19,387	₱191,896	₱148,354	₱40,922
Due from related parties	333,576	320,642	–	–	–	2,674	10,260
Others	270,701	183,751	8	106	39	6,645	80,152
	₱2,758,625	₱2,217,338	₱40,852	₱19,493	₱191,935	₱157,673	₱131,334

The movements in the allowance for credit losses on individually impaired receivables in 2019 and 2018 are as follows:

	2019		
	Trade	**Others**	**Total**
Balances at beginning of year	**₱37,851**	**₱93,483**	**₱131,334**
Effect of consolidation of SLTEC	**–**	**(10,260)**	**(10,260)**
Provision for the year - net (see Note 25)	**1,162**	–	**1,162**
Balances at end of year	**₱39,013**	**₱83,223**	**₱122,236**

	2018		
	Trade	Others	Total
Balances at beginning of year	₱25,015	₱82,103	₱107,118
Effect of adoption of PFRS 9	9,668	–	9,668
Provision for the year (see Note 25)	6,239	8,309	14,548
Balances at end of year	₱40,922	₱90,412	₱131,334

Mineral Production Sharing Agreement (MPSA) 252-2007-V (Camarines Norte)
On July 28, 2007, the Parent Company was awarded MPSA No. 252-2007-V by the Philippine Department of Environment and Natural Resources (DENR) covering parcels of land with an aggregate area of more or less 333 hectares, located in the municipality of Camarines Norte, Philippines (the "Property"). On February 14, 2008, One Subic Oil, then TA Gold, and the Parent Company, entered into an Operating Agreement where the Parent Company granted unto and in favor of One Subic Oil the exclusive right to explore, develop and operate for commercial mineral production the Property under the MPSA. In June 2009, the Parent Company received a notice of an Order of the Secretary of the DENR excising portions of the MPSA area that are covered by alleged mineral patents of a third party for which the Parent Company filed a Motion for Reconsideration.

In December 2009, the DENR denied the Parent Company's Motion for Reconsideration. The Parent Company filed a timely Appeal of the DENR's ruling with the Office of the President, which was also denied. The Parent Company then elevated the case to the Court of Appeals.

The Parent Company signed an Agreement on October 18, 2011 for the assignment of the MPSA to Investwell Resources, Inc. (Investwell), subject to certain conditions for a total consideration of US$4.00 million payable in four tranches. The receipt of the first nonrefundable tranche amounting to US$0.50 million (₱21.93 million) was recognized as income in 2011. The receipt of the second and third nonrefundable tranches amounting to US$1.00 million (₱42.20 million), net of the related deferred exploration cost of ₱11.47 million, was also recognized as income in the year payments were received.

On October 30, 2012, the Court of Appeals granted the Parent Company's petition to reverse and set aside the resolutions of the DENR and the Office of the President that ordered and affirmed, respectively, excision of certain areas covered by alleged mining patents of a third party from the contract area of the MPSA. Subsequently, the third party elevated the case to the Supreme Court.

In Agreements dated May 29, 2012, March 19, 2013, June 25, 2013 and December 18, 2013, the Parent Company and Investwell amended and restructured the payment of the fourth tranche of the total consideration.

The DENR approved on February 7, 2013 the assignment of the MPSA to Investwell, and the Parent Company recognized US$0.87 million (₱37.93 million) income representing a portion of the final tranche.

On January 12, 2015, the Supreme Court ruled that the rights pertaining to mining patents issued pursuant to the Philippine Bill of 1902 and existing prior to November 15, 1935 are vested rights that cannot be impaired by the MPSA granted by the DENR to the Parent Company on July 28, 2007.

As at December 31, 2019 and 2018, the receivable from Investwell amounted to ₱39.37 million which was provided with a full allowance for impairment in 2014 since Investwell did not comply with the restructured payment schedule.

8. Fuel and Spare Parts

	2019	2018
Fuel - at cost	**₱247,570**	₱315,737
Fuel - at net realizable value	**66,217**	2,027
Spare parts - at cost	**216,212**	84,900
Spare parts - at net realizable value	**325,276**	11,009
	₱855,275	₱413,673

Fuel charged to "Cost of sale of electricity" in the consolidated statements of income amounted to ₱2,568.33 million, ₱766.48 million and ₱763.87 million in 2019, 2018 and 2017, respectively (see Note 24).

In 2019, 2018 and 2017, the Group recognized provision for impairment of fuel inventory amounting to ₱5.55 million, ₱0.16 million and nil, respectively. No such provision was recognized as spare parts in those years.

The carrying amount of the fuel - at net realizable value as at December 31, 2019 and 2018 amounted to ₱71.83 million and ₱2.19 million, respectively.

The carrying amount of the spare parts - at net realizable value as at December 31, 2019 and 2018 amounted to ₱326.62 million and ₱11.50 million, respectively.

9. Other Current Assets

	2019	2018
Deposits	**₱77,284**	₱100,185
Prepaid expenses	**62,225**	82,577
Derivative assets (see Notes 36 and 37)	**33**	4
Others	**373**	–
	₱139,915	₱182,766

Prepaid expenses pertain to insurance, subscriptions, rent and other expenses paid in advance.

Deposits include advances to suppliers, contractors and deposits to distribution utilities.

10. Assets Held For Sale

ACEPH

On August 7, 2018, the BOD approved the Parent Company's decision to sell the Guimaras Power Plant located in Jordan, Guimaras. As at December 31, 2018, the Guimaras Power Plant was classified as "Assets held for sale" in the consolidated statements of financial position in accordance with PFRS 5, as the sale is highly probable (i.e., sale transaction will be completed within a year from the reporting date) and the asset is available for immediate sale in its present condition. The asset was previously presented as part of investment properties (see Note 14).

As at December 31, 2018, no impairment loss was recognized as the carrying value amounting to ₱30.71 million is below its fair value less costs to sell.

Subsequently, on January 7, 2019, the BOD approved the sale of the Guimaras Power Plant and on January 24, 2019, the Asset Purchase Agreement (APA) between the Parent Company and S.I. Power Corporation (the buyer) was signed and notarized with an agreed selling price of ₱45.00 million. The sale resulted in a gain of ₱14.29 million (see Note 28).

One Subic Oil

In 2018, the management communicated with its affiliates, suppliers, and other third-party buyers its plan to sell some of its equipment and parts presented as part of "Machinery and equipment". Although nothing yet has been finalized, management has been actively looking for interested buyers.

The remaining unsold assets as at December 31, 2019 and 2018 were classified as "Assets held for sale" in the consolidated statements of financial position as the sale is highly probable (i.e., sale transaction will be completed within a year from the reporting date) and the asset is available for immediate sale in its present condition.

Immediately before the reclassification of the equipment and parts as held for sale, the recoverable amount was estimated. An impairment loss amounting to ₱1.13 million was recognized in 2018 to reduce the carrying amount of the assets held for sale to their fair value less costs to sell. The carrying value of the remaining asset classified as assets held for sale amounted to ₱3.55 million and ₱3.62 million as at December 31, 2019 and 2018, respectively.

SLTEC

Under the Republic Act No. 9136 Electric Power Industry Reform Act (EPIRA) of 2001, NGCP, as National Transmission Commission's concessionaire, is solely responsible for the operation and/or maintenance of the connection assets and is designated as the only entity which possesses the required technical expertise to maintain and operate the nationwide power grid. Following a decision by the ERC based on the EPIRA, SLTEC determined on June 19, 2017 that certain transmission line assets need to be transferred, conveyed, and turned-over to NGCP, hence, it classified said assets as noncurrent assets held for sale. The transmission line assets pertain to the easements or Right-of-Way (ROW) granted by land owners over portions of land, for the installation and maintenance of the 230kV Salong-Calaca Line.

However, in 2018, NGCP informed SLTEC of additional requirements relating to the documentation of the ROW which need to be complied with as a condition for the sale and transfer of the assets.

Due to the significant change in the circumstances, the transmission line assets are not readily available for immediate sale as at December 31, 2019. As a result, SLTEC reclassified the 230kV Salong-Calaca Line back to Property, Plant and Equipment. The cost of the transmission line assets transferred to Property, plant and Equipment amounted to ₱152.38 million and the accumulated depreciation amounted to ₱15.30 million (see Note 11).

11. Property, Plant and Equipment

The details and movements of this account for the years ended December 31 are shown below:

	2019							
	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Tools and Other Miscellaneous Assets	Office Furniture, Equipment and Others	Construction in Progress	Total
Cost								
Balance at beginning of year	₱252,241	₱489,170	₱6,863,611	₱38,971	₱68,746	₱51,179	₱419	₱7,764,337
Acquisition through business combination – net of accumulated depreciation (see Note 33)	669,850	6,508,629	8,505,210	10,206	10,949	20,627	252,952	15,978,423
Additions	135,930	26,295	433,007	2,589	16,062	45,359	243,500	902,742
Transfer from asset held for sale (see Note 10)	–	–	152,376	–	–	–	–	152,376
Transfer to right of use assets (see Note 16)	(116,810)	–	–	–	–	–	–	(116,810)
Insurance claims	–	–	–	–	–	–	(222,789)	(222,789)
Disposals and retirement	–	(209,095)	(55,225)	(23,102)	(23)	(87)	–	(287,532)
Reclassification	–	1,538	94,467	–	–	–	(96,005)	–
Balance at end of year	941,211	6,816,537	15,993,446	28,664	95,734	117,078	178,077	24,170,747
Accumulated depreciation								
Balance at beginning of year	1,236	363,926	1,466,138	20,642	33,968	40,859	–	1,926,769
Depreciation (see Note 27)	–	179,136	584,306	8,392	5,199	49,813	–	826,846
Disposals and retirement	–	(170,389)	(50,983)	(17,564)	(14)	(82)	–	(239,032)
Transfer from asset held for sale (see Note 10)	–	–	15,299	–	–	–	–	15,299
Balance at end of year	1,236	372,673	2,014,760	11,470	39,153	90,590	–	2,529,882
Accumulated impairment loss								
Balance at beginning and end of year	–	933	75,672	–	–	–	–	76,605
Net Book Value	₱939,975	₱6,442,931	₱13,903,014	₱17,194	₱56,581	₱26,488	₱178,077	₱21,564,260

2018

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Tools and Other Miscellaneous Assets	Office Furniture, Equipment and Others	Construction in Progress	Total
Cost								
Balance at beginning of year	₱252,241	₱476,418	₱6,881,019	₱38,869	₱54,662	₱60,750	₱419	₱7,764,378
Additions	–	10,907	83,571	2,891	15,705	2,070	4,536	119,680
Disposals	–	–	–	(2,789)	(1,125)	(11,525)	–	(15,439)
Deconsolidation	–	–	(6,083)	–	–	(116)	(4,536)	(10,735)
Insurance claims	–	–	(90,146)	–	–	–	–	(90,146)
Transfer to asset held for sale (see Note 10)	–	–	(4,750)	–	(496)	–	–	(5,246)
Transfer from investment property (see Note 14)	–	1,845	–	–	–	–	–	1,845
Balance at end of year	252,241	489,170	6,863,611	38,971	68,746	51,179	419	7,764,337
Accumulated depreciation								
Balance at beginning of year	1,236	288,599	1,175,938	15,942	29,201	47,589	–	1,558,505
Depreciation (see Notes 27)	–	75,327	290,354	7,489	6,388	4,813	–	384,371
Disposals	–	–	–	(2,789)	(1,125)	(11,518)	–	(15,432)
Deconsolidation	–	–	(154)	–	–	(25)	–	(179)
Transfer to asset held for sale (see Note 10)	–	–	–	–	(496)	–	–	(496)
Balance at end of year	1,236	363,926	1,466,138	20,642	33,968	40,859	–	1,926,769
Accumulated impairment loss								
Balance at beginning of year	–	–	75,672	–	–	–	–	75,672
Allowance for impairment loss	–	933	1,133	–	–	–	–	2,066
Transfer to asset held for sale (see Note 10)	–	–	(1,133)	–	–	–	–	(1,133)
Balance at end of year	–	933	75,672	–	–	–	–	76,605
Net Book Value	₱251,005	₱124,311	₱5,321,801	₱18,329	₱34,778	₱10,320	₱419	₱5,760,963

Sale of Properties
The Parent Company executed Deeds of Sale with PHINMA Inc. and Mariposa Properties, Inc. (MPI) on July 4, 2019 for the sale of the Group's share in the Mezzanine, 3rd and 11th floors of the PHINMA Plaza amounting to ₱316.97 million, resulting in a gain of ₱286.75 million.

Land Held under Finance Leases
The Group entered into finance leases of land in Barangay Suclaran and Cabano in San Lorenzo, Guimaras and Barangay Zaldivar and Sawang in Buenavista, Guimaras to facilitate the construction of the San Lorenzo wind farm (see Note 35). The carrying amount of land held under finance leases, included under "Land and land improvements", as at December 31, 2018 amounted to ₱116.81 million. These were reclassified to right-of-use assets as at January 1, 2019 upon adoption of PFRS 16.

Mortgaged Property and Equipment
PHINMA Renewable's wind farm with carrying value of ₱4,106.00 million and ₱4,310.28 million as at December 31, 2019 and 2018, respectively, included under "Machinery and equipment" account is mortgaged as security for the ₱4.30 billion term loan (see Note 19).

Pledges of Shares, Assignment of Receivables and all Material Contracts
As security for the timely payment, discharge, observance and performance of the secured obligations, AC Energy, ACEPH, and Axia, to the extent of their ownership interests in SLTEC, pledged shares owned by it, whether now owned or existing or hereafter acquired to the Security Trustee for the benefit of the Lenders and the Security Trustee.

In addition, SLTEC, and AC Energy, ACEPH and/or APHPC, as the relevant Sponsor under the New Omnibus Agreement, have assigned, conveyed and transferred unto the Security Trustee, for the benefit of the Lenders and the Security Trustee, all of its respective rights, title and interest in, to and under the following: (i) all monies standing in the cash flow waterfall accounts, with respect to SLTEC; (ii) all project receivables, with respect to SLTEC; (iii) the proceeds of any asset and business continuity insurance obtained by SLTEC; (iv) any advances or subordinated loans, if any, granted by any of AC Energy, ACEPH and APHPC to SLTEC; and (v) the proceeds, products and fruits of those provided under items (i) to (iv) hereof.

SLTEC, as continuing security for the timely payment and discharge of the secured obligations, has also assigned, conveyed and transferred to the Security Trustee all of its rights, title and interests in and to the Project Agreements to which it is a party. Project agreements include: (i) power purchase agreements; (ii) all fuel purchase agreements, together with corresponding performance guarantees and bonds having a total amount of at least ₱25.00 million per agreement; (iii) all operations and maintenance agreements, together with corresponding performance guarantees and bonds, for the operation and maintenance of the power plant; (iv) all asset and business continuity insurance obtained in relation to the power plant and its operation; (v) government approvals obtained by SLTEC in relation to the ownership, operation and maintenance of the power plant, except governmental approvals covered by excluded assets; and (vi) any and all other material contracts as may be agreed upon by SLTEC and the Lenders.

Power Plant Rehabilitation
The Group has contractual commitments and obligations for the rehabilitation of One Subic Power amounting to ₱550.00 million as of December 31, 2019.

SLTEC's Contract for the Design and Supply of Hip Rotor with Harbin Electric International Co., Ltd.,(HEI)
On July 29, 2019, SLTEC engaged the services of HEI to design, fabricate, and supply SLTEC with the brand-new spare HIP rotor and it is expected to be completed and delivered within the next seven (7) months. SLTEC recognized the advance payment made on September 19, 2019.

Insurance Claims
In 2019, SLTEC recognized a claim amounting to ₱222.79 million as compensation for the property damage covered by industrial all risk insurance. This was deducted from the construction-in-progress.

In 2018, ACEPH recognized a claim amounting to ₱90.15 million for the net insurance proceeds from third parties for the reimbursement of capital expenditures relating to the repair of Power Barge 103 as a result of damages due to typhoon.

12. Investments in Associates and Joint Ventures

Details of this account as at December 31 are as follows:

	Percentage of Ownership	**2019**	2018
Investments in associates:			
MGI	25.00	**₱685,133**	₱630,173
Asia Coal Corporation (Asia Coal)*	28.18	**631**	631
		685,764	630,804
Interests in joint ventures:			
ACTA	50.00	**37,401**	36,676
SLTEC**	45.00	–	3,438,199
PHINMA Solar	50.00	–	217,005
		37,401	3,691,880
		₱723,165	₱4,322,684

**Shortened corporate life to October 31, 2009. As at March 25, 2020, Asia Coal is still in the process of securing a tax clearance with the BIR in connection with the filing with the SEC of its application for dissolution.*
***45% interest as of December 31, 2018 and as of June 30, 2019, prior to consolidation of SLTEC (see Notes 1 and 33)*

The movements of the investments under the equity method are as follows:

	2019	2018
Investments in associates and joint ventures		
Acquisition costs:		
Balance at beginning of year	**₱3,911,572**	₱3,675,257
Effect of a business combination (see Note 33)	**(3,224,723)**	–
Sale of joint venture interest	**(225,000)**	–
Additions	**–**	236,315
Balance at end of year	**461,849**	3,911,572
Accumulated equity in net earnings:		
Balance at beginning of year	**397,633**	370,086
Equity in net earnings (losses) for the year	**(24,461)**	532,460
Dividends received	**(25,000)**	(504,913)
Sale of joint venture interest	**8,027**	–
Effect of a business combination (see Note 33)	**(91,217)**	–
Balance at end of year	**264,982**	397,633

(Forward)

	2019	2018
Accumulated share in OCI:		
Balance at beginning of year	**(₱2,193)**	(₱3,413)
Share in other comprehensive income	**86**	1,220
Balance at end of year	**(2,107)**	(2,193)
Accumulated impairment losses	**(1,559)**	(1,559)
Other equity transactions:		
Balance at beginning of year	**17,231**	17,231
Effect of a business combination (see Note 33)	**(17,231)**	–
Balance at end of year	**–**	17,231
Total investments	**₱723,165**	₱4,322,684

Investment in an Associate

MGI
The Parent Company subscribed to 25% of the capital stock of MGI which was incorporated and registered with the SEC on August 11, 2010, to implement the integrated development of the Maibarara geothermal field in Calamba, Laguna and Sto. Tomas, Batangas for power generation. MGI's registered business address is 7th F JMT Building, ADB Avenue, Ortigas Center, Pasig City.

The summarized financial information of MGI, a material associate of the Parent Company, and the reconciliation with the carrying amount of the investments and advances in the consolidated financial statements are shown below:

Summarized Statement of Financial Position as of December 31:

	2019	2018
Current assets	**₱1,101,966**	₱997,778
Noncurrent assets	**4,796,719**	4,860,066
Total assets	**5,898,685**	5,857,844
Current liabilities	**(496,559)**	(450,925)
Noncurrent liabilities	**(2,661,593)**	(2,887,058)
Net assets	**2,740,533**	2,519,861
Proportion of the Parent Company's ownership	**25%**	25%
Carrying amount of the investment	**₱685,133**	₱629,965

Summarized Statement of Income for the Years Ended December 31:

	2019	2018	2017
Revenue from sale of electricity	**₱1,139,163**	₱1,110,004	₱832,084
Cost of sale of electricity	**574,002**	507,587	384,475
Gross profit	**565,161**	602,417	447,609
Interest expense - net	**(203,611)**	(181,323)	(129,147)
General and administrative expenses	**(59,978)**	(55,341)	(35,163)
Other income - net	**19,255**	10,843	4,976
Income before income tax	**320,827**	376,596	288,275
Provision for (benefit from) income tax	**154**	(903)	163
Net income	**320,673**	377,499	288,112
Other comprehensive income (loss)	**–**	346	(7,772)
Total comprehensive income	**₱320,673**	₱377,845	₱280,340

On September 16, 2011, the Parent Company entered into an ESA with MGI under which the Parent Company will purchase the entire net electricity output of MGI's power plant for a period of 20 years at an agreed price, subject to certain adjustments (see Note 35). Commercial operations of MGI started in February 2014.

The Parent Company is also a Project Sponsor for MGI's ₱2.40 billion Term Loan Facility for the 20 MW Maibarara Geothermal Power Plant and ₱1.40 billion Project Loan Facility for its 12 MW Maibarara Expansion Project. In the event of a default of MGI, as a Project Sponsor, the Parent Company is obligated to:

- assign, mortgage or pledge all its right, title and/or interest in and its shares of stocks in MGI, including those that may be issued in the name of the Parent Company;
- assign its rights and/or interests in the Joint Venture Agreement executed on May 19, 2010 with PNOC Renewables Corporation;
- secure the debt service reserve account (DSRA) with a standby letter of credit, when reasonably required and pursuant to the terms of the facilities;
- guarantee the completion of the projects and for this purpose, the Parent Company undertakes to:
  i. contribute to MGI its pro-rata share of the funds necessary to enable MGI to complete the construction of its projects; and,
  ii. make cash advances or otherwise arrange to provide MGI with funds sufficient to complete construction, in the event that MGI does not have sufficient funds available to cover the full cost of constructing and completing the project due to costs overrun.

The loan covenants covering the outstanding debt of MGI include, among others, maintenance of debt-to-equity and debt-service ratios. As at December 31, 2019 and 2018, MGI is in compliance with the said loan covenants.

In 2015, the construction of Phase 2 of the project commenced. MGI successfully commissioned the 12-megawatt (MW) Maibarara Geothermal Power Plant-2 (MGPP-2) and successfully synchronized to the Luzon grid on March 9, 2018. On April 30, 2018, MGPP-2 commenced its commercial operations.

The Parent Company received dividend amounting to ₱25.00 million and ₱80.25 million in 2019 and 2018, respectively. It also invested additional capital of ₱12.50 million in 2018.

Interests in Joint Ventures

SLTEC
The summarized financial information of SLTEC, a material joint venture of the Parent Company, and the reconciliation with the carrying amount of the investment in the consolidated financial statements are shown below:

Summarized Statement of Financial Position

	December 31, 2018
Current assets	₱4,219,021
Noncurrent assets	16,497,811
Current liabilities	(3,024,932)
Noncurrent liabilities	(10,098,160)
Net assets	7,593,740

(Forward)

	December 31, 2018
Proportion of the Parent Company's ownership	45%
Parent Company's share in the net assets	₱3,417,183
Other adjustments*	21,016
Carrying amount of investment	₱3,438,199

**Alignment of accounting policies on excess revenue over costs of testing and commissioning.*

Additional Information

	December 31, 2018
Cash and cash equivalents	₱1,337,712
Current financial liabilities*	1,556,016
Noncurrent financial liabilities	10,082,253

**Excluding trade and other payables and provision.*

Summarized Statement of Income

	December 31, 2018	December 31, 2017
Revenue from sale of electricity	₱6,270,087	₱8,248,140
Cost of sale of electricity	4,674,873	5,163,660
Gross profit	1,595,214	3,084,480
General and administrative expenses	(109,274)	(152,125)
Interest expenses - net	(749,724)	(868,554)
Other income - net	346,691	70,302
Income (loss) before income tax	1,082,907	2,134,103
Provision for (benefit from) income tax	(104,953)	13,421
Net income (loss)	977,954	2,120,682
Other comprehensive income (loss) – net	1,976	(2,171)
Total comprehensive income (loss)	₱979,930	2,118,511

Additional Information

	2018	2017
Depreciation and amortization	₱781,075	₱742,782
Interest income	68,776	49,983
Interest expense	749,724	868,554

Dividends earned from SLTEC amounted to ₱492.42 million in 2018.

On November 5, 2019, the Parent Company signed a deed of assignment with AC Energy to transfer AC Energy's rights to purchase 20% ownership stake of Axia. As a result of the assignment, the Parent Company's interest in SLTEC increased from 45% to 65%. SLTEC ceased to be a joint venture and became a subsidiary. The Parent Company accounted for the business combination using the pooling-of-interests method which resulted in the consolidation of SLTEC from July 1, 2019. The Parent Company's share in the net losses of SLTEC for the period ended June 30, 2019 amounted to ₱108.45 million.

PHINMA Solar
On December 11, 2018, the Parent Company and UGC, a subsidiary of PHINMA Inc., entered into a Deed of Sale for the sale of the Parent Company's 50% interest to UGC amounting to ₱225 million. The sale resulted in a gain of ₱5.83 million. As a result of the sale transaction, PHINMA Solar ceased to be a subsidiary as at December 31, 2018. In 2018, PHINMA Solar completed installation and commenced operations of two (2) solar panel projects.

On June 19, 2019, the Parent Company sold its remaining 50% interest in PHINMA Solar to PHINMA Corporation for ₱218.3 million which resulted in a gain of ₱1.38 million. The Parent Company recognized a share in PHINMA Solar's net loss amounting to ₱0.03 million for the period January 1 to June 19, 2019

The summarized financial information of PHINMA Solar, a material joint venture of the Parent Company, are shown below:

Summarized Statement of Financial Position as of December 31, 2018:

	2018
Current assets	₱390,840
Noncurrent assets	45,856
Current liabilities	(2,463)
Noncurrent liabilities	(224)
Net assets	434,009
Proportion of the Parent Company's ownership	50%
Parent Company's share in the net assets	217,005
Carrying amount of investment	₱217,005

Additional Information

	2018
Cash and cash equivalents	₱213,103
Investments held for trading	81,612
Current financial liabilities	2,463
Noncurrent financial liabilities	224

Summarized Statement of Income

	2018
	Oct – Dec
Revenue from sale of electricity	₱467
Cost of sale of electricity	183
Gross profit	284
General and administrative expenses	(7,755)
Other income - net	480
Loss before income tax	(6,991)
Benefit from income tax	2,439
Net loss	(4,552)
Other comprehensive income - net	231
Total comprehensive loss	(₱4,321)

Additional Information

	2018
	Oct – Dec
Depreciation and amortization	₱190
Interest income	1,659

13. Financial assets at FVOCI

This account consists of the following:

	2019	2018
Shares of stock:		
Listed	**₱21**	₱137,096
Unlisted	–	109,399
Golf club shares	**1,230**	11,500
	₱1,251	₱257,995

The movements in net unrealized gain on financial assets at FVOCI for the years ended December 31 are as follows:

	2019	2018
Balance at beginning of year - net of tax	**₱59,772**	₱–
Changes upon adoption of PFRS 9 - net of tax:		
Unrealized gain on AFS equity securities transferred to FVOCI	–	85,924
Remeasurement gain of unlisted equity securities (Note 3)	–	13,643
Unrealized gain on investment in a UITF closed to retained earnings due to change in classification (Note 3)	–	(54)
Unrealized loss (gain) recognized in other comprehensive income	**(27,369)**	2,106
Cumulative unrealized gain on disposal of equity instruments at FVOCI transferred to retained earnings	**(40,532)**	(41,847)
Balance at end of year - net of tax	**(₱8,129)**	₱59,772

As at December 31, 2019, some of the Group's financial assets at FVOCI were sold in relation to the purchase agreement between AC Energy and PHINMA in which the latter have excluded certain assets which it intends to keep within the PHINMA Group. The "excluded assets" pertains to the following: 50% share in PHINMA Solar, Guimaras Power Plant, various PPE and some of the Group's financial assets at FVOCI. Sale and transfer of the said assets were approved by the Board of Directors last January 7, 2019.

Dividend income earned from financial assets at FVOCI amounted to ₱7.59 million, ₱9.12 million in 2019 and 2018, respectively. Available for sale investments earned dividend income amounted to ₱8.48 million in 2017.

14. Investment Properties

As at December 31,2019 and 2018, this account pertains to land amounting to ₱13.09 million, which is stated at cost.

Below is the rollforward of investment properties for the year ended December 31,2018.

	2018			
	Land	Property and Equipment	Office Unit	Total
Cost:				
Balance at January 1,2018	₱13,085	₱106,902	₱–	₱119,987
Transfer to PPE (see Note 11)	–	(9,005)	–	(9,005)
Transfer to asset held for sale (see Note 10)		(97,897)		(97,897)
Balance at December 31,2018	13,085	–	–	13,085
Less accumulated depreciation				
Balance at January 1,2018	₱–	₱69,072	₱–	₱69,072
Transfer to PPE (see Note 11)	–	(7,160)	–	(7,160)
Depreciation for the year ended December 31,2018 (see Note 27)	–	5,274	–	5,274
Transfer to asset held for sale (Note 10)	–	(67,186)	–	(67,186)
Balance at December 31,2018	–	–	–	–
Net book value	₱13,085	₱–	₱–	₱13,085

The fair value of the land is based on the latest valuation as at June 24, 2018 by an independent firm of appraisers amounted to ₱13.98 million. Management expects that there is no significant change in fair value as at December 31, 2019. The investment property is valued at a weighted average of ₱1,732/sqm given the range of inputs between ₱800 to ₱2,500.

The fair value of the land is arrived using the Market Data Approach which estimates the value of the land based on sales and listings of comparable property registered within the vicinity. This technique requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity of the land. The comparison was premised on the factors of location, size and shape of lot, time element and bargaining allowance.

Revenue from investment properties amounted to nil, ₱16.44 million and ₱18.24 million in 2019, 2018 and 2017, respectively, which was recognized in the consolidated statement of income, while related direct costs and expenses amounted to ₱0.01 million, ₱15.68 million and ₱17.91 million in 2019, 2018 and 2017, respectively, which was included as part of under “Cost of sale of electricity” account in the consolidated statement of income.

15. Goodwill and Other Intangible Assets

Changes in goodwill and other intangible assets for the years ended December 31, 2019 and 2018 are as follows:

	2019			
	Goodwill	**Deferred Exploration Costs**	**Leasehold Rights**	**Total**
Cost:				
Balance at beginning of year	**₱234,152**	**₱136,976**	**₱99,839**	**₱470,967**
Cash calls	**–**	**19,426**	**–**	**19,426**
Write-off	**–**	**(48,263)**	**–**	**(48,263)**
Reclassification to right-of-use assets (see Note 3)	**–**	**–**	**(99,839)**	**(99,839)**
Balance at end of year	**234,152**	**108,139**	**–**	**342,291**
Accumulated depreciation:				
Balance at beginning of year	**₱–**	**₱–**	**₱74,880**	**₱74,880**
Reclassification to right-of-use assets (see Note 3)	**–**	**–**	**(74,880)**	**(74,880)**
Balance at end of year	**–**	**–**	**–**	**–**
Accumulated impairment:				
Balance at beginning of year	**–**	**75,868**	**–**	**75,868**
Provisions for the year (see Note 25)	**–**	**34,493**	**–**	**34,493**
Write-off	**–**	**(48,263)**	**–**	**(48,263)**
Balance at end of year	**–**	**62,098**	**–**	**62,098**
Net book value	**₱234,152**	**₱46,041**	**₱–**	**₱280,193**

	2018			
	Goodwill	Deferred Exploration Costs	Leasehold Rights	Total
Cost:				
Balance at beginning of year	₱234,152	₱132,450	₱99,839	₱466,441
Cash calls	–	4,526	–	4,526
Balance at end of year	234,152	136,976	99,839	470,967
Accumulated depreciation:				
Balance at beginning of year	–	–	58,690	58,690
Amortization (see Note 27)	–	–	16,190	16,190
Balance at end of year	–	–	74,880	74,880
Accumulated impairment:				
Balance at beginning of year	–	27,605	–	27,605
Provisions for the year (see Note 25)	–	48,263	–	48,263
Balance at end of year	–	75,868	–	75,868
Net book value	₱234,152	₱61,108	₱24,959	₱320,219

Leasehold Rights and Goodwill

The leasehold rights and goodwill arose from PHINMA Power's acquisition of the entire outstanding shares of stocks of One Subic Power in 2014. One Subic Power and SBMA have an existing Facilities Lease Agreement (FLA) for a period of five (5) years up to July 19, 2020, as amended, with the option to extend subject to mutually acceptable terms and conditions. On December 21, 2017, the SBMA Board approved and ratified the amendment of the Facilities Lease Agreement extending the lease term until July 19, 2030. As at January 1, 2019, the leasehold rights were reclassified as right-of-use assets as a result of adoption of PFRS 16 (see Note 3).

Impairment Testing of Goodwill

The Parent Company performs its annual impairment test in December and when circumstances indicated that the carrying value may be impaired. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual consolidated financial statements as of December 31, 2019 and 2018 (see Note 4). The recoverable amount of the CGU was determined using the value-in-use approach calculated using all cash flow projections related to CGU based on the financial budgets and forecasts approved by the BOD, which management believes are reasonable and are management's best estimate of the ranges of economic conditions that will exist over the forecast period.

The recoverable amount exceeded the carrying amount of the CGU and, as a result, no impairment was recognized for the years ended December 31, 2019 and 2018.

Key assumptions used in the value-in-use calculations

The calculations of value-in-use for the CGUs are most sensitive to the following assumptions:

- Forecasted revenue growth - Revenue forecasts are management's best estimates considering factors such as historical/industry trend, target market analysis, government regulations and other economic factors.

- EBITDA margin - It is a measure of a firm's profit that includes all expenses except interest, depreciation and income tax expenses. It is the difference between operating revenues and operating expenses. EBITDA was adjusted for tax, depreciation, interest expenses and changes in net working capital and maintenance capital expenditures in arriving in the free cash flow

- Discount rates - represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

An increase of 100 basis points in the Group's pre-tax discount rate will not result in an impairment of goodwill.

Deferred Exploration Costs
Details of deferred exploration costs are as follows:

	2019	2018
Petroleum and gas:		
SC 55 (Southwest Palawan)	**₱23,063**	₱6,817
SC 6 (Northwest Palawan)		
Block A	**22,978**	22,568
Block B	**4,892**	4,892
SC 50 Northwest Palawan	**11,719**	11,719
SC 52 (Cagayan Province)	**10,994**	10,994
SC 51/Geophysical Survey and Exploration Contract (GSEC) No. 93 (East Visayas)	–	32,666
SC 69 (Camotes Sea)	–	15,597
Geothermal - SC 8 (Mabini, Batangas)	**34,493**	31,723
	108,139	136,976
Allowance for impairment loss	**(62,098)**	(75,868)
Net book value	**₱46,041**	₱61,108

The foregoing deferred exploration costs represent the Group's share in the expenditures incurred under petroleum SCs with the Department of Energy (DOE). The contracts provide for certain minimum work and expenditure obligations and the rights and benefits of the contractor. Operating agreements govern the relationship among co-contractors and the conduct of operations under an SC.

The following summarizes the status of the foregoing projects:

Palawan55

a. SC 55 (Southwest Palawan)

On June 14, 2016, the DOE extended the term of SC 55 until December 23, 2017.

On November 21, 2016, Otto Energy and Otto Energy Philippines notified the DOE of their withdrawal from SC 55.

On November 22, 2017, Palawan55 notified the DOE of its willingness to assume its pro-rata, post- adjustment share (37.50%) amounting to US$64,613 of Otto Energy's outstanding training fund obligation of US$172,300 in conjunction with the DOE's approval of the assignment of interests and favorable consideration for a reasonable extension of the moratorium period that would allow execution of the committed technical studies.

On March 26, 2018, the DOE approved the transfer of participating interests from Otto Energy to its Partners, Palawan55, Century Red and Pryce Gases, Inc. Palawan55's 6.82% participating interest in SC 55 was adjusted to 37.50% upon the DOE's approval of the withdrawal of Otto Energy. The Moratorium Period until April 26, 2019 was also approved with a budget of US$478,750 for 3D seismic reprocessing and Quantitative Inversion Study.

On August 23, 2018, Palawan55 awarded the 3D Marine PreSTM and PreSDM Reprocessing and Quantitative Services Contract to a third party. The Notice to Proceed was issued on September 10, 2018. Said work program is currently ongoing.

On November 19, 2018, Palawan55 requested for an extension of the SC 55 Moratorium Period up to December 31, 2019 due to the fact that the Quantitative Interpretation Study and Resource Assessment will only be completed after April 2019. The work program was completed in October 2019. Palawan55 is currently interpreting the reprocessed seismic data to generate additional prospects in the Greater Hawkeye Area and to refine the mapping of the CINCO Prospect. The DOE acknowledged the receipt of this request from Palawan55 on November 23, 2018. The said request is still pending approval as at March 25, 2020.

In December 2018, a third party Partner in the consortium advanced its payment for its share in the 2019 work program amounting to US$69,669 or ₱3.66 million. This shall be applied to the third party's share in the subsequent expenditure of SC 55. Palawan55 also accrued its share in the training obligations for SC55 payable to the DOE amounting to ₱3.49 million.

On August 9, 2019, the SC 55 Consortium formally notified the DOE that is directly proceeding into the Appraisal Period effective August 26, 2019. The Consortium committed to drill one (1) deepwater well within the first two years of the Appraisal period and re-interpretation of legacy seismic data over the rest of the block which may lead to the conduct of new 3D seismic campaign to mature other identified prospects to drillable status.

On September 26, 2019, Palawan55 informed the DOE of Century Red Pte. Ltd. Withdrawal from SC 55 and accordingly requested for the approval of the transfer of Century Red's entire 37.50% participating interest.

On February 13, 2020, Palawan55 received DOE's approval on the transfer of the 37.50% participating interest of Century Red in SC 55. After careful review and evaluation of DOE, Palawan55 is found to be technically, financially and legally qualified to assume the participating interests of Century Red. Palawan55's participating interest in SC 55 is adjusted from 37.50% to 75.00%.

No impairment was recognized for SC 55 in 2019 and 2018 as the Group believes that the related deferred exploration costs are recoverable.

Enexor

b. SC 6 (Northwest Palawan)

Block A

On December 20, 2016, the consortium submitted to the DOE its proposed 2017 work program consisting of advanced geophysical studies. On February 13, 2017, the program was approved by the DOE. The work program of advanced seismic data reprocessing and quantitative seismic inversion study was completed in December 2017. The studies yielded significant improvement in the imaging of complex and deeper geological structures.

On January 8, 2018, the consortium submitted to the DOE its proposed 2018 work program composed of seismic interpretation and mapping and integration of quantitative inversion results that would serve as input to preliminary well design and cost estimates.

The Consortium completed its 2018 work program and said undertaking have improved the resource evaluation of the mapped leads and prospects in the area.

On December 18, 2018, the Partners have approved and the Operator, Philodrill Corporation (Philodrill), submitted to the DOE the proposed 2019 SC 6A Work Program and Budget amounting to US$314,116 composed of geological and geophysical evaluation and engineering projects. The same was approved by the DOE on January 23, 2019.

No impairment was recognized for SC 6 Block A in 2019 and 2018 as the Group believes that the related deferred exploration costs are recoverable.

Block B

Enexor holds 7.78% and 14.063% participating interests in Block A and Block B, respectively. SC 6 is valid until February 28, 2024 subject to fulfillment of work commitments for each of the three 5-year terms comprising the 15-year extension period of SC 6 in respect of Block A and B and payment of training assistance, development assistance and scholarship funds to the DOE.

On February 20, 2017, Enexor gave notice to the consortium of relinquishment of its 14.063% participating interest in SC 6 Block B and the Operating Agreement, but said relinquishment shall not include its 2.475% carried interest. The retained carried interest would entitle the Group for a share in the gross proceeds from any production in the block, once all exploration costs have been recovered. The carried interest will be valued upon establishment of the commercial viability of the project.

In 2017, the Group recognized full provision for probable loss on SC 6B amounting to ₱4.89 million due to the Group's relinquishment of its participating interest.

On April 12, 2018, the transfer of participating interest from Enexor to SC6 Block B continuing parties was approved by the DOE.

c. SC 50 (Northwest Palawan)

In 2013, Enexor commenced negotiations with Frontier Energy Limited (Frontier Energy), the Operator, regarding a Farm-in Agreement that would provide for the Group's acquisition of 10% participating interest in SC 50.

Subject to execution of said Farm-in Agreement, Enexor has committed to subscribe to 136,000,000 in Frontier Oil shares through the latter's planned initial public offering.

On September 1, 2014, the Parent Company made advance payment to Frontier Oil amounting to ₱20.00 million pursuant to the Memorandum of Agreement with Frontier Energy and Frontier Oil dated August 22, 2014 subject to execution of a Farm-in Agreement and Loan Agreement among the parties not later than 30 days from date of execution of the MOA. The advances are due 24 months after the release of the funds. In the event a Loan Agreement for ₱136.00 million is signed between the Group and Frontier Oil, the advances shall be considered as initial drawdown on the Loan.

On October 16, 2014, Enexor signed the following agreements providing for its acquisition of 10% participating interest in SC 50:

1. Farm-in Agreement with Frontier Energy and Frontier Oil
2. Deed of Assignment with Frontier Energy
3. Loan Agreement with Frontier Oil

Frontier Oil, the Operator, applied for a Force Majeure in view of the unilateral cancellation of its rig contract by the other partners in the consortium.

On October 5, 2015, the DOE denied the Operator's request and, consequently, ruled that the contract effectively expired in March 2015. On October 20, 2015, Frontier Oil contested DOE's position and engaged the DOE in discussions aimed at a mutually acceptable resolution of the issue.

In 2016, the advances to Frontier Oil amounting to ₱20.00 million was fully provided with an allowance for credit losses account (see Note 7) and the deferred exploration costs amounting to ₱11.72 million was fully provided with an allowance for probable losses, due to the expiration of the SC's term and denial by the DOE of the request for Force Majeure.

In January 2016, Frontier Oil requested a 2-year moratorium on contract obligations. A subsequent letter was sent to the DOE, dated December 14, 2016, requesting for reconsideration of the termination of SC 50.

As at March 25, 2020, approval of the assignment of 10% participating interest in SC 50 to Enexor remains pending with the DOE.

d. SC 51/GSEC 93 (East Visayas)

On May 15, 2018, Enexor notified the DOE of its withdrawal from SC 51 and advised the latter that it would no longer pursue its entitlement to Otto Energy's participating interest under the Deed of Undertaking dated March 3, 2017. The DOE acknowledged this formal notification from Enexor on May 23, 2018.

On June 1, 2018, the DOE approved the transfer of Otto Energy's participating interests in SC 51 to the Filipino Partners. Enexor's participating interest was adjusted from 6.67% to 33.34% after the DOE's approval of the withdrawal of Otto Energy.

On July 4, 2018, the SC 51 Consortium, noting that the attendant requested conditions that would allow full implementation of the proposed work program were not covered in the said approval (i.e., SC 51 term extension, revision of work program), notified the DOE of their decision to relinquish SC 51 block, to withdraw from SC 51 and to waive their rights to Otto Energy's interest.

The SC 51 Consortium met with the DOE on several occasions to craft the best way forward in SC 51. On December 17, 2018, as had been agreed in a number of meetings, the Consortium provided further justification for waiver to pay the outstanding financial obligation of Otto Energy, as executed in the Deed of Undertaking, given that the aforementioned conditions were not met.

In 2018, Enexor recognized full provision for probable loss on SC 51 amounting to ₱32.67 million due to deemed expiration of the exploration period. On July 1, 2019, Enexor received the DOE's approval of the relinquishment of SC51. Consequently, the deferred exploration costs and related allowance for probable losses of SC51 were written off.

e. SC 69 (Camotes Sea)

On June 4, 2018, the SC 69 Consortium notified the DOE of its relinquishment of SC 69 block in view of the strong oppositions to the Project from various stakeholders, including several Local Government Units and Non-Government Organizations, making the conduct of petroleum exploration business in the area very challenging, if not impossible.

In 2018, Enexor recognized full provision for probable loss on SC 69 amounting to ₱15.60 million due to vigorous opposition of stakeholders and recent issuances of concerned LGUs declaring the Visayan Sea as a protected area and marine reserve. On July 29, 2019, Enexor received DOE's approval of the relinquishment of SC69. Consequently, the deferred exploration costs and related allowance for probable losses of SC69 were written off.

In 2018, the Group neither incurred nor capitalized share in various expenses to deferred exploration costs due to its operatorship in SC 69. No similar costs were incurred and capitalized in 2019.

ACEPH

f. SC 52 (Cagayan Province)

In 2016, the Parent Company assessed and fully provided for probable losses for deferred exploration costs pertaining to SC 52 amounting to ₱10.99 million due to the expiration of its terms and subsequent denial of the DOE of the request for Force Majeure.

In December 2016, Frontier Oil, as instructed by the DOE, submitted certain documents in support of its request for Force Majeure. As at March 25, 2020, the requests for Moratorium and appeal for contract reinstatement are still pending DOE's approval.

g. SC 8 (Batangas - Mabini Geothermal Service Contract)

In 2018, the Consortium held continuing Information and Electronic Campaigns (IEC) together with the DOE and PHIVOLCS to obtain support from the local government units towards lifting of the Cease-and-Desist Order.

On July 3, 2018, the Parent Company formally notified Basic Energy, the Operator, of its withdrawal from the service contract and Joint Operating Agreement (JOA) for the block.

In August 2018, Basic Energy proposed to conduct the forward drilling program on its own, "Operation by Fewer than all the Parties: under the JOA" and carry the Parent Company's share of attendant costs. The Parent Company expressed its willingness to consider the said proposal and requested Basic Energy's key terms for the Parent Company's consideration.

In June 2019, the Parent Company decided to push through with the withdrawal from the SC and JOA. As at December 31, 2019, the Parent Company recognized full provision for probable loss on SC 8 amounting to ₱34.49 million.

<u>Pililia Hydropower Service Contract (HSC) (Rizal)</u>
The Parent Company requested for the reinstatement of Pililia HSC and the DOE approved the reinstatement until July 7, 2016, subject to certain conditions.

The Parent Company also requested a three-year extension of the pre-development stage of the service contract and as at March 25, 2020, is still waiting for the response from the DOE.

16. Right-of-Use Assets

The rollforward analysis of this account follows:

	Right-of-Use Assets				
	Land and Easement Rights	Land and Power plants	Office Space and Parking Slots	Leasehold Rights	Total
As at January 1, 2019	**₱167,399**	**₱356,091**	**₱–**	**₱24,959**	**₱548,449**
New lease agreements	–	–	30,075	–	30,075
Acquired from SLTEC	–	–	12,032	–	12,032
Amortization expense	(8,322)	(30,743)	(10,365)	(16,190)	(65,620)
As at December 31, 2019	**₱159,077**	**₱325,348**	**₱31,742**	**₱8,769**	**₱524,936**

The Group's Right-of-Use Asset arise from the lease agreements of the following entities:

- ACEPH - the rental of office space in 22nd Floor of Ayala Tower together with 8 parking slots.
- OSPGC – Facilities and Lease agreement with SBMA for the Land in Subic including the 116 MW Diesel Powerplant.
- PREC – Operating and Finance lease commitments from various land owners in Guimaras for land, easement rights and right of way use to connect to the grid.
- SLTEC – the rental of office space in 8 Rockwell, Plaza Dr. Makati City.

The Group recognized rent expense from short-term leases of ₱0.25 million in 2019.

The Group elected to use the modified retrospective method to account for the transition provisions of PFRS 16. The assessment led to computing the PV unpaid cashflows as of January 1, 2019 up to the end of the lease term and then accounted any balance of prepaid rent or accrued rent to be closed out as an addition to or deduction from to the Right-of-Use Asset account respectively.

There were no land or lease improvements noted. Each entity did not exercise or avail any renewal, extension, or termination option.

No practical expedient was elected such as short-term lease or lease of low-value assets except for PREC which used the short-term lease practical expedient which impact amounted to ₱0.25 million.

At year-end, there was no indication of impairment on the Right-of-Use Asset of the Group.

17. Other Noncurrent Assets

	2019	2018
Trade receivable (see Note 21)	**₱1,123,511**	₱1,123,511
Receivables from third parties (see Note 7)	**423,705**	501,266
Advances to suppliers	**292,113**	–
Advances to affiliates	**176,000**	–
Deposits	**109,419**	102,346
Prepaid rent	**–**	50,079
Balance at end of year	**₱2,124,748**	₱1,777,202

Noncurrent trade receivable (see Note 21) relate to receivable from the execution of the Multilateral Agreement.

Due to its interpretation of the WESM Rules, PEMC allocates its uncollected receivables due from power purchasers in the WESM to the generators which sold power to the WESM. On December 23, 2013, the Supreme Court (SC) issued a 60-day Temporary Restraining Order ("TRO") enjoining the Manila Electric Company (MERALCO) and the ERC from implementing the Automatic Generation Rate Adjustment (AGRA) mechanism for the November 2013 billing period. The AGRA allows automatic pass through of the cost of power purchased from WESM. In turn, MERALCO did not pay PEMC a significant portion of its November and December 2013 power bills. PEMC in turn, did not pay the Group the full amount of its electricity sales. On April 22, 2014, the SC extended indefinitely the TRO it issued over the collection of the November 2013 power rate increase.

The ERC issued an Order (ERC Case No. 2014-021 MC) dated March 3, 2014 voiding the WESM prices of November and December 2013 power bills. As directed by the ERC, PEMC recalculated the regulated prices and issued WESM adjusted power bills in March 2014 which the Group recorded resulting in an increase in receivables and net trading revenues.

Certain market players filed motions for reconsideration resulting in ERC's issuance of another Order dated March 27, 2014 for PEMC to provide market participants an additional forty-five (45) days, or up to May 12, 2014 to settle their WESM power bills covering the adjustments for the period October 26 to December 25, 2013. ERC extended the settlement of WESM power bills to a non-extendible period of thirty (30) days up to June 11, 2014 which resulted in a Multilateral Agreement where the WESM Trading Participants agreed to be bound to a payment schedule of six (6) months or twenty-four (24) months subject to certain conditions. The Group signed the Agreement on June 23, 2014. In 2016, the Group collected ₱205.31 million, under the said Multilateral Agreement. In June 2016, the 24-month period of repayment prescribed; hence, the Group provided an allowance for doubtful accounts related to the receivables under the Multilateral Agreement amounting to ₱13.75 million.

Receivables from third parties include interest-bearing receivables of ACEPH collectible until April 2021 and noninterest-bearing receivables from NGCP arising from the sale of transmission assets, which are collectible annually within three (3) years from the date of sale, discounted using the PHP BVAL Reference Rates on transaction date ranging from 2.14% - 4.56%. It includes also SLTEC's receivable from NGCP for the remaining uncollected consideration for the sale of the 230KV Salong Switching Station and related assets in 2016. The receivable is noninterest-bearing and is expected to be collected over five (5) years.

Advances to suppliers consist of advance payments for capital expenditures which will be capitalized to property, plant and equipment once fully rendered by the suppliers.

Advances to affiliates consist of advances to Ingrid Power Holdings, Inc. (Ingrid) and SolarAce1 Energy Corp. (SolarAce1) amounting to ₱150.00 million and ₱26.00 million, respectively, for the purchase of shares (see Notes 31, 35 and 40).

Deposits include deposits to distribution utilities and noncurrent portion of the refundable security deposit with SBMA.

18. Accounts Payable and Other Current Liabilities

	2019	2018
Nontrade	**₱1,957,480**	₱192,154
Trade payables	**961,726**	519,505
Output VAT	**427,752**	144,366
Due to related parties (see Note 31)	**190,062**	801,165
Accrued interest expense (see Note 36)	**137,618**	79,297
Accrued expenses	**66,798**	121,534
Derivative liability (see Note 36)	**21,060**	–
Retention payables	**2,050**	1,096
Accrued directors' and annual incentives (see Note 31)	**50**	–
Deferred revenue - current portion	**–**	387,289
Finance lease obligations - current portion (see Note 35)	**–**	14,803
Others	**23,117**	8,189
	₱3,787,713	₱2,269,398

Accounts payable and other current liabilities are noninterest-bearing and are normally settled on thirty (30) to sixty (60)-day terms.

Nontrade payables include liabilities for various purchases such as acquisition of 20% interest in SLTEC (see Note 1) and additions to property, plant and equipment and spare parts.

Trade payables refer to liabilities to suppliers of electricity and fuel purchased by the Group.

Deferred revenue pertains to the upfront payment received from a customer in consideration of the contract amendments and modifications. The deferred revenue was amortized over the remaining term of the contract until December 2019.

Accrued expenses include insurance, sick and vacation leave accruals (see Note 30), station use, One Subic Power variable rent in SBMA (see Note 35) and accruals for incentive pay.

Finance lease obligations refer to lease agreements entered into by the Group with individual land owners. These leases have terms of twenty (20) to twenty-five (25) years (see Note 35).

Retention payables pertain to amounts retained from liabilities to suppliers and contractors.

Derivative liability pertains to coal swaps contracts with a bank used to hedge the risks associated with changes in coal prices.

Others consist of liabilities to employees, statutory payables, deposit payables and installment payable pertaining to BCHC's acquisition of land.

The Group is a party to certain claims and assessments in the ordinary conduct of business. The information usually required by PAS 37 is not disclosed on the ground that it can be expected to prejudice the outcome or the Group's position with respect to these matters.

19. Loans

Long-term loans

As at December 31, this account consists of:

	2019	2018
ACEPH long-term loans	**₱8,634,812**	₱4,728,870
SLTEC long-term loans	**10,870,683**	–
PHINMA Renewable term-loan facility	**1,531,734**	1,644,743
	21,037,229	6,373,613
Add premium on long-term loans (embedded derivative)	**2,429**	4,247
Less unamortized debt issue costs	**253,730**	40,927
	20,785,928	6,336,933
Less current portion of long-term loans (net of unamortized debt issue costs)	**593,847**	265,460
Noncurrent portion	**₱20,192,081**	₱6,071,473

Movements in derivatives and debt issue costs related to the long-term loans follow:

	Derivatives	Debt Issue Costs
As at December 31, 2017	₱6,009	₱45,482
Additions	–	6,975
Amortization/accretion for the year*	(1,762)	(11,530)
As at December 31, 2018	4,247	40,927
Acquired from SLTEC	–	186,314
Additions	–	43,003
Amortization/accretion for the year*	(1,818)	(16,514)
As at December 31, 2019	**₱2,429**	**₱253,730**

**Included under "Interest and other financial charges" in the "Other income - net" account in the consolidated statements of income (see Note 28).*

ACEPH

The relevant terms of the long-term loans of the Parent Company are as follows:

Description	Interest Rate (per annum)	Terms	**2019**	2018
₱5.00 billion loan with BDO	5.0505% per annum for the first 5 years; repricing for the succeeding 5 years is the average of the 5-year BVAL, three (3) days prior to Repricing Date, plus a margin of ninety basis points per annum (0.90%), with the sum divided by 0.95	Availed on November 15, 2019, payable in semi-annual installment within 10 years with final repayment on November 14, 2029; contains negative pledge	**₱4,957,717**	₱–
₱1.50 billion loan with China Banking Corporation (CBC)	The higher of 7-year PDST-F at interest rate setting date which is one (1) banking day prior to issue date plus a spread of 1.625% or 5.675% for the first 7 years; repricing for the last 3 years, the higher of 3-year PDST-F plus a spread of 1.625% or initial interest rate.	Availed on April 14, 2014, payable in quarterly installment within 10 years to commence 1 year after the first interest payment date with final repayment on April 30, 2024; contains negative pledge	**1,358,727**	1,388,693

(Forward)

Description	Interest Rate (per annum)	Terms	**2019**	2018
₱1.18 billion loan with SBC	Fixed at a rate of 6.50% per annum which shall be payable at the end of the interest period of six months	Availed on January 11, 2017 payable in semi-annual installments within 12.5 years to commence 6 months after the Drawdown Date and every 6 months thereafter with final repayment on July 11, 2029; contains negative pledge	**₱904,018**	₱965,456
₱1.18 billion loan with DBP	Fixed at a rate of 6.00% for the first 7 years; repricing for the last 5.5 years, the higher of 5-year PDST-R2 plus a spread of 1.625% or 6.25%	Availed on January 10, 2017 payable in semi-annual installments within 12.5 years to commence 6 months after the Drawdown Date and every 6 months thereafter with final repayment on July 10, 2029; contains negative pledge	**904,004**	965,469
₱0.50 billion loan with Banco De Oro Unibank, Inc. (BDO)	The higher of 7Y PDST-F at interest rate setting date which is one (1) banking day prior to issue date plus a spread of 1.625% or 5.8146% for the first 7 years; repricing for the last 3 years), the higher of 3-year PDST-F plus a spread of 1.625% or initial interest rate	Availed on July 30, 2014, payable in quarterly installments within 10 years to commence 1 year after the first interest payment date with final repayment on April 30, 2024; contains negative pledge	**452,083**	461,467
₱0.93 billion loan with SBC	The applicable peso benchmark (based on BVAL) plus minimum of 2.0% spread, with quarterly repricing, which shall be payable quarterly in arrears.	Availed on December 28, 2018 payable on June 28, 2020; up to 18 months from drawdown date	–	923,061
Carrying value (net of unamortized debt issue costs and embedded derivatives of ₱58.26 million and ₱24.72 million as of December 31, 2019 and 2018, respectively)			**₱8,576,549**	₱4,704,146

In 2019 and 2018, principal repayments made relative to Group's loans amounted to ₱1,094.06 million and ₱1,357.42 million, respectively. ACEPH paid ₱43.00 million debt issue costs for the ₱5.00 billion additional loans availed in 2019.

ACEPH's long-term loans also contain prepayment provisions as follows:

Description	Prepayment provision
₱5.00 billion loan with BDO	Early redemption is at the option of the Borrower any time after the 4th Interest Payment Date. Prepayment shall be in integral multiples of ₱50 Million. Prepayment is not subject to penalty on the Repricing Date, else a prepayment premium of 3.0%, 2.5%, 2.0%, 1.0% and 0.5% is applied to the outstanding principal amounts prepaid from after the 4th to until before the 10th Interest Payment Date, from after the 10th to until before the 14th Interest Payment Date, from the 14th to until before the 16th Interest Payment Date, from the 16th to until before the 18th Interest Payment Date, and from the 18th to until before the 20th Interest Payment Date, respectively.
₱1.50 billion loan with CBC	Early redemption is at the option of the issuer exercisable on an interest payment date every anniversary starting from the 7th year from Issue date. Prepayment amount is at par. Transaction cost is minimal.

Description	Prepayment provision
₱0.50 billion loan with BDO	Early redemption is at the option of the issuer exercisable on an interest payment date every anniversary starting from the 7th year from Issue date. Prepayment amount is at par. Transaction cost is minimal.
₱1.18 billion loan with SBC	Early redemption is at the option of the issuer exercisable on an interest payment date at par plus break-funding cost. Transaction cost is minimal.
₱1.18 billion loan with DBP	Early redemption is at the option of the issuer exercisable on the interest repricing date (8th anniversary of the drawdown date). Prepayment amount is at par. If redemption is exercised on a date that is not the interest repricing date, prepayment amount is at par plus break-funding cost. Transaction cost is minimal.
₱0.93 billion loan with SBC	Early redemption is at the option of the issuer exercisable on an interest payment date at par plus break-funding cost. Break-funding cost on principal repayment shall be based on the difference between the contracted interest rate and the comparable benchmark rate. The negative difference shall be multiplied by the prepaid amount and the remaining tenor to come up with break-funding cost, which in no case is less than zero.

The prepayment option on all loans were assessed as closely related and, thus, not required to be bifurcated.

In 2019, ACEPH prepaid ₱930 million of its long term debt accordance with the terms of the Agreement with SBC. In 2018, ACEPH prepaid ₱1,210.00 million of its long-term debt in accordance with the terms of the Agreements with SBC and DBP.

Covenants
Under the loan agreements, ACEPH has certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control.

Description	Covenants
₱5.00 billion loan with BDO	(a) Maximum Net Debt to Equity ratio of 3 times
₱1.50 billion loan with CBC	(a) Minimum DSCR of 1.0 times (b) Maximum Debt to Equity ratio of 1.5 times
₱0.50 billion loan with BDO	(a) Minimum DSCR of 1.0 times (b) Maximum Debt to Equity ratio of 1.5 times
₱1.18 billion loan with SBC	(a) Minimum DSCR of 1.0 times (b) Maximum Consolidated Debt to Equity ratio of 1.5 times (c) Minimum Current ratio of 1.0 times*
₱1.18 billion loan with DBP	(a) Minimum DSCR of 1.0 times (b) Maximum Consolidated Debt to Equity ratio of 1.5 times (c) Minimum Current ratio of 1.0 times*
₱0.93 billion loan with SBC	(a) Minimum DSCR of 1.0 times (b) Maximum Consolidated Debt to Equity ratio of 1.5 times (c) Minimum Current ratio of 1.0 times*

**Applicable only if there's short-term borrowing*

In addition, there is also a restriction on the payment or distribution of dividends to its stockholders other than dividends payable solely in shares of its capital stock if payment of any sum due the lender is in arrears or such declaration, payment or distribution shall result in a violation of the financial ratios prescribed.

ACEPH was in compliance with loan covenants as at December 31, 2018. ACEPH was able to obtain waivers of compliance from BDO, CBC, SBC, and DBP for the Debt Service Cover Ratio and Debt-to-Equity ratio covenant testing for 2019 required by the terms of each respective Lender's loan agreement. ACEPH, therefore, classified the loans amounting to ₱8.36 billion as noncurrent as of December 31, 2019.

PHINMA Renewable

On December 18, 2013, PHINMA Renewable entered into a ₱4.30 billion Term Loan Facility with Security Bank Corporation ("SBC") and Development Bank of the Philippines ("DBP"). The proceeds were used to partially finance the 54 MW San Lorenzo Wind Farm composed of 272 MW wind turbine generators and related roads, jetty, substations, transmission line facilities and submarine cable to connect to the grid. The loan facility is divided into two tranches amounting to ₱2.15 billion each - DBP as the Tranche A lender and SBC as the Tranche B lender.

Both tranches have a term of 15 years with semi-annual interest payments starting on the date on which the loan is made. The Tranche A's interest is to be fixed at the higher of 10-year PDS Treasury Fixing ("PDST-F") plus a spread of 1.625% or a minimum interest rate of 6.25% for the first 10 years, to be repriced at higher of existing rate or 5-year PDST-F plus a spread of 1.25% for the last 5 years. The Tranche B will be fixed at higher of interpolated 15-year PDST-F plus a spread of 1.625% or a minimum interest rate of 6.5%. The interest rate floor on the loan is an embedded derivative that is required to be bifurcated. In 2013, the Group did not recognize any derivative liability arising from the bifurcated interest floor rate since the fair value is not significant.

On April 1, 2015, the publication of PDST-F rates ceased pursuant to the memo of the Bankers Association of the Philippines ("BAP") dated January 8, 2015. Subsequently, the parties agreed to adopt PDST-R2 and BVAL rates as benchmark rate in lieu of PDST-F rates. BVAL rates were adopted starting October 29, 2018 when the Bankers Association of the Philippines (BAP) launched its new set of reference rates to replace the current set of PDST Reference Rates, PDST-R1 and PDST-R2.

The loan facility also contains a prepayment provision which allows PHINMA Renewable to make optional prepayment for both Tranche A and Tranche B in the amount calculated by the facility agent as accrued interest and other charges on the loan up to the prepayment date plus, the higher of (a) the principal amount of the loan being prepaid, or (b) the amount calculated as the present value of the remaining principal amortizations and interest payments on the loan being prepaid, discounted at the comparable benchmark tenor as shown in the Philippine Dealing and Exchange Corporation ("PDEx") Market Page, Reuters and the PDS website (www.pds.com.ph) at approximately 11:16 am on the business day immediately preceding the prepayment date. In addition, PHINMA Renewable is allowed to prepay the Tranche A loan, without penalty or breakfunding cost, on the interest re-pricing date. The prepayment option was assessed as closely related to the loan and, thus, was not bifurcated.

On April 28, 2016, PHINMA Renewable prepaid ₱150.50 million of its long-term debt in accordance with the terms of the Agreement as follows:

- The PHINMA Renewable shall effect a mandatory prepayment of the loan, without premium or penalty, within three (3) business days from receipt by PHINMA Renewable of any transmission line proceeds;
- Prepay the loan to the extent of seventy percent (70%) of the transmission line proceeds;
- The remaining thirty percent (30%) shall be transferred directly into PHINMA Renewable controlled distribution account for further distribution to the Project Sponsor.

On December 20, 2016, the BOD resolved to amend the Omnibus Loan and Security Agreement (OLSA) to allow PHINMA Renewable to prepay a portion of the long-term debt to SBC and DBP without penalties. On January 11, 2017, PHINMA Renewable prepaid ₱2,350.00 million of its long-term debt.

Under the terms of the Agreement, ACEPH, as the Project Sponsor, shall:

- Provide equity contributions equivalent to 30% of the project cost;
- Fund any cost overruns on the project and the required debt service reserve amount DSRA in the event of delays in obtaining FIT eligibility or Renewable Energy Payment Agreement; and,
- Redeem the loan in the event that PHINMA Renewable defaults on the loan and titles to the project properties have not been issued to PHINMA Renewable or notwithstanding such titles, lenders fail to acquire title to the project properties due to lack of annotation or third party claims.

The loan agreement provides loan disbursement schedule for the drawdown of the loan. PHINMA Renewable made the following drawdowns during the years 2015 and 2014 with the corresponding carrying values as at December 31, 2019:

	Tranche A (DBP)		Tranche B (SBC)	
Drawdown date	Gross Amount[a]	Carrying Value[b]	Gross Amount[a]	Carrying Value[b]
February 14, 2014	₱110,427	₱111,281	₱110,427	₱109,689
May 27, 2014	195,919	196,092	195,919	194,799
August 5, 2014	195,920	197,949	195,920	194,860
September 2, 2014	178,109	178,965	178,109	177,206
July 30, 2015	85,492	82,103	85,492	82,065
	₱765,867	₱766,390	₱765,867	₱758,619

[a]*Net of prepayments made in 2016 and 2017*
[b]*Net of unamortized debt issue costs.*

In 2019, 2018 and 2017 PHINMA Renewable made the following payments with their corresponding carrying values:

	Tranche A (DBP)		Tranche B (SBC)	
Payment date	Gross Amount	Carrying value	Gross Amount	Carrying value
January 11, 2017	₱1,175,000	₱1,169,712	₱1,175,000	₱1,172,004
February 14, 2017	16,735	16,422	16,735	16,558
August 14, 2017	16,735	15,093	16,735	15,809
February 14, 2018	16,735	15,047	16,735	15,786
August 14, 2018	27,172	25,491	27,172	26,231
February 14, 2019	27,173	25,466	27,173	26,225
August 14, 2019	29,332	27,784	29,332	28,479
	₱1,308,882	₱1,295,015	₱1,308,882	₱1,301,092

The loan's principal repayment is variable amount payable semi-annually; amount of principal repayment to be determined during the due diligence stage based on the required debt service coverage ratio ("DSCR") and financial projections using the Financial Model validated by an independent financial model auditor. Any incremental revenue resulting from a subsequent increase in the applicable FIT rate shall be applied to principal repayment of the loan in the inverse order of maturity. Incremental revenue is the difference in the revenue based on existing FIT rate of ₱7.40/kwh and a new base rate as defined by the relevant government agency excluding annual adjustments to account for inflation and foreign exchange movements.

Under the loan facility agreement, PHINMA Renewable must maintain a debt service account into which will be paid the maximum interest forecasted to be due and payable for the next two following payment dates that will fall within the construction period and the amount of debt service after the construction period. The funds in the debt service reserves can be used by PHINMA Renewable provided that thirty (30) days prior to payment, the fund is replenished. Debt service reserves are included in the consolidated statement of financial position under "Cash and cash equivalents" (see Note 5).

Covenants.
The Term Loan Facility includes, among others, certain restrictive covenants and requirements with respect to the following, effective upon commercial operations of PHINMA Renewable:

(a) Historical DSCR post dividend declaration of 1.20x and Debt to Equity Ratio not exceeding 70:30 throughout the term of the loan;
(b) Equity infusion amounting to ₱328.13 million for retention and contingencies;
(c) Limitation on investments (not to enter into joint ventures, partnership; create subsidiary/branch); and
(d) Restricted payments (not to distribute dividends, make payments to affiliates).

PHINMA Renewable is in compliance with loan covenants as at December 31, 2019 and 2018.

The loan facility is secured by PHINMA Renewable's wind farm, included in "Machinery and equipment" account under "Property, plant and equipment" with carrying values amounting to ₱4,106.00 million and ₱4,310.28 million as at December 31, 2019 and 2018, respectively (see Note 11). In addition, as a security for the timely payment, discharge, observance and performance of the obligations, ACEPH entered into a Pledge Agreement covering the subscriptions of stocks of ACEPH and its nominees.

<u>SLTEC</u>

On April 29, 2019, SLTEC entered into an Omnibus Loan and Security Agreement (the "New Omnibus Agreement") with the following:

a) BDO, SBC and Rizal Commercial Banking Corporation ("RCBC") as the Lenders;
b) AC Energy, ACEPH, and APHC as the Sponsors;
c) BDO Capital & Investment Corporation as the Mandated Lead Arranger and Sole Bookrunner;
d) RCBC Capital Corporation and SB Capital Investment Corporation as the Lead Arrangers; and,
e) Banco de Oro Unibank, Inc. - Trust and Investments Group as the Facility Agent, Security Trustee and Paying Agent

The New Omnibus Agreement covering a ₱11,000.00 million syndicated loan facility was entered into for the purpose of re-leveraging and optimizing the capital structure of SLTEC as permitted by law and other agreements to which SLTEC is a party and to fund its general corporate requirements. Tenor of the loan in 12 years from initial drawdown date.

SLTEC incurred deferred financing costs amounting to ₱188.70 million in connection with the credit facility obtained from creditor banks.

On May 7, 2019, SLTEC paid-off the outstanding loans payable from the old Omnibus Agreement amounting to ₱10,950.00 million using the proceeds from the New Omnibus Agreement with principal amount of ₱11,000.00 million received on the same date. SLTEC accounted the transaction as extinguishment of financial liability. The difference between the carrying amount of the old loan and the total consideration paid amounting to ₱78.10 million was charged to interest expense.

Consequently, SLTEC also paid prepayment penalties amounting to ₱25.36 million which was charged as other financing charge. Furthermore, SLTEC paid additional gross receipts tax due to the pre-termination of the old loan of ₱161.18 million charged as other financing charge.

Details of the loan are as follows:

a) Interest

SLTEC shall pay the interest at the applicable interest rate on the unpaid principal amount of each advance on each interest payment date for the interest period then ending. Such interest shall accrue from and including the first day of each interest period and excluding the last day of such interest period. Interest rates range from 4.44% to 7.11% for the New Omnibus Agreement and 4.49% to 6.60% for the old Omnibus Agreement.

b) Repayment

The principal amount shall be paid in consecutive semi-annual installments on each of the repayment dates as specified in the New Omnibus Agreement, adjusted to coincide with the relevant interest payment date occurring in the same month (each, a "Repayment Date") with a final repayment date falling on the last day of the initial term. Provided it is not in default in the payment of any sum due, SLTEC may, at its option, prepay the loan in part or in full on any Interest Payment Date together with accrued interest thereon up to and including the date immediately preceding the date of prepayment, subject to prepayment penalties ranging from nil to 1.25%.

Under the terms and conditions of the loan, the security trust indentures are the following: a) real estate mortgage and chattel mortgage on project assets; b) pledge on 66.67% of the voting shares of SLTEC; c) assignment of receivables; d) assignment of all material contracts, guarantees, insurance and; e) assignment of cash flow waterfall accounts.

Covenants

The New Omnibus Agreement provides for covenants which include, among others, maintaining historical DSCR of not less than 1.10x and net debt to equity ratio not exceeding 3.00x. SLTEC has complied with these contractual agreements and is compliant with these covenants as of reporting dates.

Total interest expense recognized on ACEPH's, PHINMA Renewable's and SLTEC's long-term loans amounted to ₱797.86 million, ₱396.90 million and ₱432.59 million in 2019, 2018 and 2017, respectively (see Note 28).

Short-term loan

As at December 31, 2018, the Parent Company has outstanding short-term loan amounting to ₱400.00 million which was obtained thru a promissory note to BDO Unibank Inc. on August 14, 2018 with a maturity date of February 8, 2019. Interest on principal amount is 5.25% per annum fixed for 31 days to be repriced every 30 to 180 days as agreed by the parties. This was subsequently extended on February 8, 2019 for six (6) months. As at December 31, 2019, the Parent Company has paid out its short-term loan.

In 2019 and 2018, the Parent Company recognized interest expense amounting to ₱7.02 million and ₱8.12 million, respectively (see Note 28).

20. Lease Liabilities

The rollforward analysis of lease liabilities follows:

As at January 1, 2019	**₱572,304**
Interest expense (see Note 28)	56,560
New lease agreements (see Note 3)	27,323
Effect of business combination (see Note 3)	13,520
Remeasurement due to termination of lease contract	(2,604)
Foreign exchange adjustments	(14,726)
Payments	(92,806)
As at December 31, 2019	**₱559,571**

As at December 31, 2019, the current portion of lease liability amounts to ₱33.54 million and the noncurrent portion amounts to ₱526.03 million.

21. Other Noncurrent Liabilities

	2019	2018
Trade payable (see Note 17)	**₱1,123,511**	₱1,123,511
Nontrade payable	**1,870,755**	–
Deposit payables	**169,773**	174,370
Accrued expenses	**12,807**	12,897
Finance lease obligation - noncurrent portion (see Note 35)	**–**	72,299
	₱3,176,846	₱1,383,077

Nontrade payable amounting to ₱1.87 billion pertains to the noncurrent portion of the amount payable to Axia for the purchase of the additional 20% interest in SLTEC thru the assignment of ACEI to ACEPH of the Share Purchase Agreement executed by ACEI and Axia. The amount is payable on September 30, 2021.

Deposit payables consist of security deposits from RES Customers refundable at the end of the contract.

Finance lease obligation refer to lease agreements entered by the Group with individual landowners. These leases have terms of 20 to 25 years. This has been reclassified under lease liabilities as a result of adoption of PFRS 16 (see Note 20).

Accrued expenses pertain to accrual of asset retirement obligation and various provisions.

The Group is a party to certain claims and assessments in the ordinary conduct of business. The information usually required by PAS 37, Provisions, Contingent Liabilities and Contingent Assets, is not disclosed on the ground that it can be expected to prejudice the outcome or the Group's position with respect to these matters recorded under accrued expenses.

22. Equity

Capital Stock

Following are the details of the Parent Company's capital stock:

	Number of Shares	
	2019	2018
Authorized capital stock - ₱1 par value	**8,400,000,000**	8,400,000,000
Issued shares:		
Balance at beginning of year	**4,889,774,922**	4,889,774,922
Issuance during the year	**2,632,000,000**	–
Balance at end of year	**7,521,774,922**	4,889,774,922

The issued and outstanding shares as at December 31, 2019 and 2018 are held by 3,192 and 3,191 equity holders, respectively.

The following table presents the track record of registration of capital stock:

Date of SEC Approval	No. of Shares Registered	No. of Shares Issued	Par Value	Issue/ Offer Price
08-Feb-69	2,000,000,000	1,000,000,000	₱0.01	₱0.01
22-Jul-75	2,000,000,000	937,760,548	0.01	0.01
16-Jul-79	6,000,000,000	6,058,354,933	0.01	0.01
12-Feb-88	10,000,000,000	7,643,377,695	0.01	0.02
08-Jun-93	10,000,000,000	8,216,141,069	0.01	0.01
15-Jul-94	70,000,000,000	50,170,865,849	0.01	0.01
24-Aug-05	1,000,000,000	264,454,741	1.00	1.00
06-Jun-11	2,200,000,000	1,165,237,923	1.00	1.00
12-Nov-12	4,200,000,000	2,027,395,343	1.00	1.00
15-Apr-19	156,476	156,476	1.00	1.00
24-Jun-19	2,632,000,000	2,632,000,000	1.00	1.00

Retained Earnings
The Group's retained earnings balance amounted to ₱2.92 billion and ₱3.30 billion, respectively, as at December 31, 2019 and 2018. Retained earnings not available for declaration, computed based on the guidelines provided in Revised SRC Rule 68, to the extent of (a) undistributed earnings of subsidiaries, associates and joint venture included in the Group's retained earnings amounted to ₱1,109.97 million and ₱1,285.25 million as at December 31, 2019 and 2018, respectively; and (b) cost of treasury shares amounted to ₱27.70 million and ₱27.71 million as at December 31, 2019 and 2018, respectively.

Treasury Shares
As a result of PHINMA Power becoming a wholly owned subsidiary of ACEPH effective January 1, 2013, the Parent Company's shares of stock held by PHINMA Power amounting to ₱28.79 million were considered as treasury shares. On December 21, 2018, PHINMA Power sold 1,152,000 shares of the Parent Company.

Other Equity Reserves
This account consists of:

	2019	2018
Effect of purchase of SLTEC's 20% share (a)	**(₱2,229,587)**	₱–
Effect of purchase of ACEX shares (b)	**(130,854)**	–
Other equity reserves from a joint venture (c)	**17,231**	17,231
Effect of distribution of property dividends - ACEX shares (d)	**1,107**	1,107
	(₱2,342,103)	₱18,338

a. This represents the impact of step acquisition where ACEI assigned to ACEPH the purchase of the 20% interest in SLTEC thereby increasing ACEPH's ownership of SLTEC to 65% which already qualifies as a controlling interest (see Note 33).

b. This represents the impact of ACEPH's purchase of PHINMA Inc.'s and PHINMA Corporation's combined stake in ACEX on June 24, 2019. As at December 31, 2019, the Parent Company's effective ownership in ACEX increased from 50.74% to 75.92%.

c. This relates to the accumulated share in expenses directly attributable to issuance of shares of stocks of SLTEC, one of the Parent Company's joint ventures (see Note 12).

d. This represents the impact of the property dividend distribution in the form of ACEX's shares to the equity attributable to equity holders of the Parent Company when the Parent Company's ownership interest decreased but did not result in loss of control. The Parent Company's effective ownership in ACEX decreased from 100% to 50.74% in 2014.

Dividends
Cash dividends declared follows:

	Dividend			
Date of Declaration	Type	Rate	Amount *	Record Date
March 3, 2017	Cash	0.04 per share	₱195,436	March 17, 2017
February 28, 2018	Cash	0.04 per share	195,591	March 14, 2018

**Includes dividends on shares held by PHINMA Power amounting to ₱993.00 million each declaration.*

There was no dividend declared in 2019.

23. Revenue from Sale of Electricity

The table presents the Group's revenue from different revenue streams:

	2019	2018
Revenue from power supply contracts	**₱13,217,501**	₱13,079,769
Revenue from power generation and trading	**1,743,276**	1,639,533
Revenue from ancillary services	**336,942**	394,299
	₱15,297,719	₱15,113,601

24. Cost of Sale of Electricity

	2019	2018	2017
Costs of power purchased	**₱10,330,590**	₱13,327,756	₱15,158,639
Fuel (see Note 8)	**2,568,330**	766,480	763,872
Depreciation and amortization (see Notes 11, 14, 15, 16 and 27)	**842,976**	379,901	370,332
Repairs and maintenance	**456,936**	185,872	192,145
Taxes and licenses	**190,590**	72,633	76,028
Insurance	**183,690**	71,749	68,631
Salaries (see Note 26)	**140,659**	96,682	90,380
Stations used	**87,077**	13,901	4,690
Transmission costs	**63,317**	66,855	76,541
Pension and other employee benefits (see Notes 26 and 30)	**48,984**	25,498	25,983
Rent	**13,611**	79,461	75,774
Filing fees	**1,337**	2,627	337
Others	**86,702**	20,076	25,887
	₱15,014,799	₱15,109,491	₱16,929,239

25. General and Administrative Expenses

	2019	2018	2017
Salaries and directors' fees (see Notes 26 and 30)	**₱166,896**	₱149,127	₱138,818
Management and professional fees (see Note 31)	**125,874**	103,240	187,814
Taxes and licenses	**121,379**	139,233	132,493
Bank charges	**57,933**	11,874	9,493
Depreciation and amortization (see Notes 11, 16, and 27)	**49,490**	25,934	29,052
Provision for probable losses on deferred exploration costs (see Note 15)	**34,493**	48,263	4,892
Pension and other employee benefits (see Notes 26 and 30)	**26,136**	22,618	22,838
Insurance, dues and subscriptions	**24,946**	10,759	21,197
Building maintenance and repairs	**12,830**	20,314	18,681
Provision for inventory obsolescence (see Note 8)	**5,554**	159	–
Contractor's fee	**5,220**	6,674	15,158
Provisions for claims and professional fees	**5,000**	600	16,720
Transportation and travel	**4,428**	13,786	12,808
Communication	**4,107**	4,365	5,374

(Forward)

	2019	2018	2017
Meeting and conferences	**₱4,082**	₱2,979	₱4,476
Office supplies	**3,900**	4,322	5,278
Advertisements	**2,756**	1,721	2,334
Corporate social responsibilities	**2,300**	640	5,539
Provision for credit losses (see Note 7)	**1,162**	14,548	4,542
Donation and contribution	**367**	592	870
Plug and abandonment	**202**	38,776	4,384
Entertainment, amusement and recreation	**92**	180	41
Provision for impairment of property, plant and equipment (see Note 11)	**–**	2,066	–
Others	**8,068**	31,747	21,748
	₱667,215	₱654,517	₱664,550

26. Personnel Expenses

	2019	2018	2017
Salaries and directors' fees included under:			
Cost of sale of electricity (see Note 24)	**₱140,659**	₱96,682	₱90,380
General and administrative expenses (see Note 25)	**166,896**	149,127	138,818
Pension and other employee benefits included under:			
Cost of sale of electricity (see Notes 24 and 30)	**48,984**	25,498	25,983
General and administrative expenses (see Notes 25 and 30)	**26,136**	22,618	22,838
	₱382,675	₱293,925	₱278,019

27. Depreciation and Amortization

	2019	2018	2017
Property, plant and equipment (see Notes 11)	**₱826,846**	₱384,371	₱380,117
Right-of-use assets (see Note 16)	**65,620**	–	–
Investment property (see Note 14)	**–**	5,274	3,077
Leasehold rights (see Note 15)	**–**	16,190	16,190
	₱892,466	₱405,835	₱399,384
Cost of sale of electricity (see Note 24)	**₱842,976**	₱379,901	₱370,332
General and administrative expenses (see Note 25)	**49,490**	25,934	29,052
	₱892,466	₱405,835	₱399,384

28. Other Income (Charges)

	2019	2018	2017
Claims for business interruptions	**₱236,306**	₱10,167	₱–
Interest and other financial income (see Notes 5, 6 and 7)	**107,602**	96,851	87,185
Gain (loss) on sale of:			
Property and equipment	**294,100**	254	–
Asset held for sale (see Note 10)	**14,289**	–	–
Fly ash and scrap	**13,226**	–	–

(Forward)

	2019	2018	2017
Investments (see Note 12)	**₱1,375**	₱5,834	₱–
Inventories	**(461)**	–	–
AFS investments	**–**	–	(17)
Recovery of costs from third party	**–**	28,626	–
Foreign exchange gain (loss) - net	**12,330**	29,329	(8,373)
Gain (loss) on derivatives - net (see Note 37)	**(6,851)**	(15,056)	9,399
Provision for unrecoverable input tax (see Note 4)	**–**	(43,712)	–
Others	**44,137**	7,959	17,423
	₱716,053	₱120,252	₱105,617

Claims for business interruptions pertain to insurance claimed due to the temporary shutdown of the power plant.

Others pertains to reimbursement of feasibility cost, reversal of outstanding payables, sale of scrap materials, refund of excess business taxes paid, oil hauling and disposal and reimbursement from a third party.

Financial Income

The details of interest and other financial income are as follows:

	2019	2018	2017
Interest income on:			
Cash in banks and Short-term deposits (see Note 5)	**₱61,826**	₱34,041	₱33,117
Receivables and others*	**14,934**	37,983	17,093
Net gains on financial asset at FVTPL (see Note 6)	**30,842**	24,827	–
Net gains on investments held for trading	**–**	–	36,975
	₱107,602	₱96,851	₱87,185

**Includes amortization of security deposit amounting to nil and ₱0.32 million in 2019 and 2018, respectively. The security deposit has been reclassed to Right of Use Asset*

Interest and Other Finance Charges

The details of interest and other finance charges are as follows:

	2019	2018	2017
Interest expense on:			
Long-term loans* (see Note 19)	**₱797,858**	₱396,901	₱432,594
Lease obligations (see Note 35)	**56,560**	16,635	14,656
Amortization of debt issue cost (see Note 19)	**16,514**	11,530	39,139
Short-term loans (see Note 19)	**7,019**	8,115	–
Asset retirement obligation	**–**	372	372
Contract termination (see Note 35)	**–**	–	15,032
Others	**–**	35	10,732
Other finance charges	**4,012**	61	1,041
	₱881,963	₱433,649	₱513,566

** Net of accretion of interest expense of ₱1.82 million, ₱1.76 million and ₱1.71 million for the years ended December 31, 2019, 2018 and 2017, respectively, as an effect of amortization of embedded derivatives (see Note 19).*

29. Income Taxes

a. Current income tax pertains to the following:

	2019	2018	2017
RCIT	**₱68,611**	₱20,496	₱63,514
MCIT	**62**	203	9,208
	₱68,673	₱20,699	₱72,722

b. The components of the Group's net deferred income tax assets (liabilities) as at December 31 are as follows:

	2019	2018
Deferred income tax assets:		
NOLCO	**₱459,737**	₱81,306
Lease liability	**140,759**	–
Accrued expenses	**67,369**	8,211
Allowance for credit losses	**35,952**	36,008
Allowance for probable losses on deferred exploration costs	**13,646**	3,298
Pension and other employee benefits	**12,973**	15,292
Allowance for impairment on property and equipment	**2,550**	280
Asset retirement obligation	**2,792**	2,095
Unamortized discount on long-term receivable	**2,252**	3,228
Unrealized forex loss	**883**	48
Unamortized past service cost	**772**	2,528
Derivative liabilities on long-term loans	**729**	1,274
Deferred revenue	**420**	116,186
Allowance for inventory obsolescence	**404**	194
PAS 17 lease levelization	**–**	1,051
Others	**–**	202
	741,238	271,201
Deferred income tax liabilities:		
Accrual of trading revenues	**(63,584)**	–
Unamortized interest cost on payable to Axia	**(50,773)**	–
Unamortized debt issue costs	**(14,557)**	(6,235)
Right-of-use assets	**(7,929)**	–
Accrual of bonus	**(848)**	–
Unrealized foreign exchange gain	**(274)**	(517)
Unrealized fair value gains on FVTPL	**(133)**	(958)
Asset retirement obligation-asset	**(10)**	–
Others	**(303)**	(1)
	(138,411)	(7,711)
	602,827	263,490

(Forward)

	2019	2018
Presented in other comprehensive income		
Deferred tax asset:		
Unrealize FV Loss on Derivative	**6,318**	–
Remeasurement loss on defined benefit obligation	**3,244**	–
Unrealized fair value losses on financial assets at FVOCI	**187**	3,778
	9,749	3,778
Deferred tax liabilities:		
Remeasurement gain on defined benefit obligation	–	(1,571)
Unrealized fair value gains on financial assets at FVOCI	**(31)**	(4,351)
	(31)	(5,922)
Total deferred income tax assets - net	**₱612,545**	₱261,346

	2019	2018
Deferred income tax assets:		
Excess of cost over fair value of power plant	**₱2,421**	₱2,421
Pension and other employee benefits	–	289
Allowance for credit losses	–	181
Unamortized past service costs	–	27
	2,421	2,918
Deferred income tax liabilities:		
Right-of-use asset	**(100,146)**	–
Excess of fair value over cost of power plant	**(76,902)**	(87,827)
Unamortized capitalized borrowing costs	**(12,576)**	(1,946)
Unrealized forex gain	**(260)**	(3)
Unrealized fair value gains on FVTPL	**(161)**	(834)
Leasehold rights	–	(7,488)
	(190,045)	(98,098)
Total deferred income tax liabilities - net	**(₱187,624)**	(₱95,180)

The Group's deductible temporary differences and unused NOLCO for which no deferred income tax assets were recognized in the consolidated statement of financial position are as follows:

	2019	2018
NOLCO	**₱1,457,445**	₱1,680,346
Accrued expenses	**138,568**	–
Allowance for impairment loss on property and equipment	**106,141**	106,885
Allowance for probable losses	**64,874**	64,874
Allowance for credit losses	**20,000**	20,000
Excess MCIT	**9,208**	9,559

Deferred income tax assets have not been recognized on these temporary differences as management believes it is not probable that sufficient future taxable income will be available against which the related deferred income tax assets can be used.

As at December 31, 2019 and 2018, NOLCO totaling ₱2,989.90 million and ₱1,951.37 million, respectively, can be claimed as deduction from regular taxable income and MCIT amounting to ₱9.21 million and ₱9.56 million, respectively, can be credited against future RCIT. The movement in NOLCO and MCIT is shown in the tables below:

Year	NOLCO					Expiry
Incurred	Beginning	Additions	Application	Expiration	Ending	Date
2017	₱102,230	₱470,200	₱–	(₱48,077)	₱524,353	2020
2018	524,353	1,443,190	–	(16,177)	1,951,366	2021
2019	1,951,366	1,048,227	–	(9,691)	2,989,902	2022

Year	MCIT					Expiry
Incurred	Beginning	Additions	Application	Expiration	Ending	Date
2017	₱371	₱9,208	₱–	₱–	₱9,579	2020
2018	9,579	–	(20)	–	9,559	2021
2019	9,559	–	–	351	8,680	2022

The reconciliation between the effective income tax rates and the statutory income tax rates follows:

	2019	2018	2017
Applicable statutory income tax rates	**(30.00%)**	(30.00%)	30.00%
Increase (decrease) in tax rate resulting from:			
Financial income subject to final tax	**(6.40)**	(3.80)	(32.72)
Net loss (income) under tax holiday	**(5.14)**	(3.89)	(37.69)
Dividend income exempt from tax	**(0.44)**	(0.65)	(5.85)
Nondeductible expenses	**1.32**	(1.83)	21.00
Equity in net loss (income) of associates and joint ventures	**1.41**	(37.89)	(707.05)
Movement in temporary differences, NOLCO and MCIT for which no deferred income tax assets were recognized and others	**12.94**	115.11	34.05
Effective income tax rates	**26.31%**	40.71%	(698.26%)

c. R.A. No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date.

   The TRAIN changes the existing tax law and includes several provisions that generally affected businesses on a prospective basis. In particular, management assessed that amendment of Section 148 - Excise tax on manufactured oil and other fuels - which increases the excise tax rates of lubricating oil, diesel fuel oil and bunker fuel oil, among others that are used for the power plants, may have material impact to the operations of the Group. Management has considered the impact of TRAIN in managing the operation hours of its power plants.

d. On April 8, 2019, SLTEC submitted to the Board of Investments (BOI) an Application for Extension of Income Tax Holiday of Unit 1. The period applied for extension is from April 24, 2019 to April 23, 2020. SLTEC used the cost of indigenous raw (local coal) criterion wherein the ratio of indigenous raw materials to total raw materials used should not be lower than fifty percent (50%).

On August 13, 2019, the BOI approved the extension, subject to the to the following conditions:

1. At the time of the actual availment of the ITH bonus year incentive, the derived ratio of the cost of indigenous raw materials shall be at least 50% of the raw materials cost wherein SLTEC complied with a ratio of 75:25; and

2. SLTEC undertake Corporate Social Responsibilities (CSR) activities which shall be completed on the actual availment of the bonus year. The CSR activity shall be aligned with the priority programs/projects of the National Anti-Poverty Commission and/or other special laws such as R.A. 7942 or the Mining ACT and DOE Energy Regulation 1-94. Failure to complete the CSR activity shall mean forfeiture of the approved ITH bonus year. SLTEC undertook the required CSR activities in 2019.

e. PREC is a duly registered renewable energy developer under Renewable Energy (RE) Act of 2008, PREC is entitled to income tax holiday (ITH) for the first seven years of its commercial operations on all its registered activities starting 2015. Under the RE Act, PREC can avail a corporate tax rate of 10% after the ITH period. Since PREC will avail the 10% after the ITH, the deferred tax asset expected to be reversed after the ITH period were set up at 10%.

30. Pension and Other Employee Benefits

The Group has a funded, noncontributory defined benefit retirement plan covering all of its regular and full time employees.

Pension and employee benefits consist of:

	2019	2018
Pension liability	**₱44,673**	₱23,781
Vacation and sick leave accrual	**22,734**	30,370
	67,407	54,151
Less current portion of vacation and sick leave accrual*	**6,904**	13,905
	₱60,503	₱40,246

**Included in "Accrued expenses" under "Accounts payable and other current liabilities".*

Pension and other employee benefits included under "Cost of sale of electricity" and "General and administrative expenses" accounts in the consolidated statement of income, consist of the following:

	2019	2018	2017
Pension expense	**₱19,160**	₱14,571	₱18,401
Vacation and sick leave accrual (reversal)	**(7,393)**	(5,488)	1,343
	₱11,767	₱11,767	₱19,744

Net Defined Benefit Liability

The fund is managed by a trustee under the PHINMA Jumbo Retirement Plan.

Changes in net defined benefit liability of funded plan in 2019 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Net Defined Benefit Liability**
At January 1, 2019	**₱166,279**	**₱142,498**	**₱23,781**
Effect of business combination	**22,316**	**18,249**	**4,067**
Pension expense in consolidated statement of income:			
Current service cost	**21,238**	**–**	**21,238**
Net interest	**10,739**	**9,823**	**916**
Effect of curtailment	**(2,994)**	**–**	**(2,994)**
Net acquired/(transferred) obligation	**(4,801)**	**(4,801)**	**–**
	24,182	**5,022**	**19,160**
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	**–**	**(2,461)**	**2,461**
Experience adjustments	**(13,577)**	**–**	**(13,577)**
Changes in demographic assumption	**7,179**	**–**	**7,179**
Actuarial changes arising from changes in financial assumptions	**14,751**	**–**	**14,751**
	8,353	**(2,461)**	**10,814**
Benefits paid	**(79,395)**	**(76,980)**	**(2,415)**
Contributions	**–**	**10,734**	**(10,734)**
At December 31, 2019	**₱141,735**	**₱97,062**	**₱44,673**

Changes in net defined benefit liability of funded plan in 2018 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Defined Benefit Liability
At January 1, 2018	₱154,912	₱126,518	₱28,394
Pension expense in consolidated statement of income:			
Current service cost	14,240	–	14,240
Net interest	7,573	6,137	1,436
Net acquired/(transferred) obligation	426	–	426
	22,239	6,137	16,102
Return on plan assets (excluding amount included in net interest)	–	6,115	(6,115)
Experience adjustments	14,819	–	14,819
Changes in demographic assumption	(2,796)	–	(2,796)
Actuarial changes arising from changes in financial assumptions	(11,145)	–	(11,145)
	878	6,115	(5,237)
Benefits paid	(11,750)	(11,750)	–
Contributions	–	15,478	(15,478)
At December 31, 2018	₱166,279	₱142,498	₱23,781

Changes in net defined benefit liability of funded plan in 2017 are as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
At January 1, 2017	₱156,854	₱123,043	₱33,811
Pension expense in consolidated statement of income:			
Current service cost	16,818	–	16,818
Net interest	6,532	4,949	1,583
	23,350	4,949	18,401

(Forward)

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	₱–	(₱7,786)	₱7,786
Experience adjustments	(13,454)	–	(13,454)
Changes in demographic assumption	99	–	99
Actuarial changes arising from changes in financial assumptions	(2,191)	–	(2,191)
	(15,546)	(7,786)	(7,760)
Benefits paid	(9,746)	(9,746)	–
Contributions	–	16,058	(16,058)
At December 31, 2017	₱154,912	₱126,518	₱28,394

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

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

	2019	2018	2017
Investments in:			
Equity instruments	**₱47,248**	₱89,409	₱79,382
UITFs	**41,916**	4,461	3,961
Government securities	**5,000**	48,607	43,156
Cash and cash equivalents	**3,150**	226	201
Liabilities	**(252)**	(205)	(182)
	₱97,062	₱142,498	₱126,518

Investments in government securities, mutual funds and UITFs can be readily sold or redeemed. Marketable equity securities, which can be transacted through the PSE, account for less than 10% of plan assets; all other equity securities are transacted over the counter.

The plan assets include shares of stock of the Parent Company with fair value of nil and ₱1.15 million as at December 31, 2019 and 2018 respectively. The shares were acquired at a cost of ₱0.03 million in 2018. There are no restrictions or limitations on the shares and there was no material gain or loss on the shares for the years ended December 31, 2019 and 2018. The voting rights over the shares are exercised through the trustee by the retirement committee, the members of which are directors or officers of the Parent Company.

The plan assets have diverse investments and do not have any concentration risk.

The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions.

The principal assumptions used in determining pension and post-employment benefit obligations for the defined benefit plans are shown below:

	2019	2018
Discount rate	**5.92%**	7.34%
Salary increase rate	**5.00%**	5.00%

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming all other assumptions were held constant:

		2019		2018	
			Increase (Decrease) in Pension Liability		Increase (Decrease) in Pension Liability
Discount rate	(Actual + 1.00%)	**6.92%**	**(₱10,466)**	8.34%	(₱6,040)
	(Actual – 1.00%)	**4.92%**	**12,416**	6.34%	6,911
Salary increase rate	(Actual + 1.00%)	**6.00%**	**₱12,906**	6.00%	7,889
	(Actual – 1.00%)	**4.00%**	**(11,084)**	4.00%	(7,035)

Management performs an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Group's current strategic investment strategy consists of 68% of equity instruments, 28% fixed income instruments and 4% cash and cash equivalents.

The Group expects to contribute ₱17.28 million to the defined benefit pension plan in 2020.

The following table sets forth the expected future settlements by Plan of maturing defined benefit obligation as at December 31:

	2019	2018
Less than one year	**₱27,173**	₱82,379
More than one year to five years	**60,434**	57,159
More than five years to 10 years	**82,800**	73,705
More than 10 years to 15 years	**91,177**	40,976
More than 15 years to 20 years	**94,088**	83,435
More than 20 years	**506,959**	296,129

The average duration of the expected benefit payments at the end of the reporting period ranges from 9.53 to 23.25 years.

Vacation and Sick Leave

The following tables summarize the components of vacation and sick leave expense (income) recognized in the consolidated statement of income and the amounts recognized in the consolidated statement of financial position.

	2019	2018	2017
Current service costs	**₱4,445**	₱2,041	₱2,772
Interest costs	**1,696**	1,937	1,290
Actuarial loss (gain)	**(13,534)**	1,510	(2,719)
	(₱7,393)	5,488	₱1,343

Changes in present value of the vacation and sick leave obligation are as follows:

	2019	2018
Balance at the beginning of year	**₱30,370**	₱26,174
Current service cost	**4,445**	2,041
Net interest	**1,696**	1,937
Actuarial loss (gain)	**(13,534)**	1,510
Benefits paid	**(243)**	(1,292)
Balance at the end of year	**₱22,734**	₱30,370

31. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individual or corporate entities.

Outstanding balances at year-end are unsecured and are to be settled in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. Provision for credit losses recognized for receivables from related parties amounted to nil, ₱10.26 million and nil for 2019, 2018 and 2017, respectively. The assessment of collectability of receivables from related parties is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

In the ordinary course of business, the Group transacts with associates, affiliates, jointly controlled entities and other related parties on advances, loans, reimbursement of expenses, office space rentals, management service agreements and electricity supply. The transactions and balances of accounts as at and for the years ended December 31 with related parties are as follows:

	As at and for the Year Ended December 31, 2019					
			Outstanding Balance			
Company	**Amount/ Volume**	**Nature**	**Receivable**	**Payable**	**Terms**	**Conditions**
Parent						
AC Energy, Inc.						
General and administrative expenses	**₱38,664**	Management fee and bonus	**₱–**	**(₱31,489)**	30-day, non-interest bearing	Unsecured
General and administrative expenses	**9**	Transportation and travel expense	**9**			
General and administrative expenses	**638**	Miscellaneous-Guarantee fee	**–**	**(354)**	30-day, non-interest bearing	Unsecured

(Forward)

	As at and for the Year Ended December 31, 2019					
			Outstanding Balance			
Company	**Amount/ Volume**	**Nature**	**Receivable**	**Payable**	**Terms**	**Conditions**
Associates						
MGI						
Cost of sale of electricity	**₱758,974**	Purchase of electricity	**₱–**	**(₱157,965)**	30-day, non-interest bearing	Unsecured; no impairment
Asia Coal						
Due to related parties	–	Advances	–	**(254)**	Non-interest bearing	Unsecured
Entities Under Common Control						
Direct Power Services, Inc.						
Revenue from sale of electricity	**193,644**	Sale of electricity	–	–	30-day, non-interest bearing	Unsecured; no impairment
Ingrid Power Holdings, Inc.						
Advances to affiliates	**150,000**	Advances	**150,000**	–	Subsequently on demand	Unsecured
SolarAce1 Energy Corp.						
Advances to affiliates	**26,000**	Advances	**26,000**	–	Subsequently on demand	Unsecured
Parent						
Other Related Parties						
Directors						
General and administrative expenses	**8,993**	Directors' fee and annual incentives	–	**(50)**	On demand	Unsecured
Stockholders						
Due to stockholders	–	Cash Dividends	–	**(16,594)**	On demand	Unsecured
Due from related parties (see Note 7)			**₱9**	**₱–**		
Advances to affiliates (see Note 17)			**176,000**	–		
Due to related parties (see Note 18)			–	**(190,062)**		
Accrued director's and annual incentives (see Note 18)			–	**(50)**		
Due to stockholders (see Note 36)			–	**(16,594)**		

	As at and for the Year Ended December 31, 2018					
			Outstanding Balance			
Company	Amount/ Volume	Nature	Receivable	Payable	Terms	Conditions
Ultimate Parent						
PHINMA, Inc.						
Rental and other income	₱103	Rent and share in expenses	₱–	₱–	30-60 day, non-interest bearing	Unsecured
Due to related parties/ General and administrative expenses	27,968	Management fees and share in expenses	–	(23,521)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	49,308	Cash dividend	–	–	Payable on April 05, 2018; subsequently on demand	Unsecured
Due to related parties	–	Rental deposit	–	(186)	End of lease term	Unsecured
Joint Ventures						
SLTEC						
Due to related parties/ Cost of sale of electricity	6,283,516	Purchase of electricity	–	(508,808)	30-day, non-interest bearing	Unsecured
Revenue from sale of electricity, rental, dividend and other income	517,911	Sale of electricity, rent, dividend and share in expenses	288,453	–	30-day, non-interest bearing	Unsecured, with impairment
Investments and advances (see Note 13)	–	Dividends received	–	–	30-day, non-interest bearing	Unsecured
Due to related parties	–	Rental deposit	–	(497)	End of lease term	Unsecured
PHINMA Solar						
Due to related parties	–	Advances	–	(90,000)	Non-interest bearing	Unsecured

(Forward)

Company	Amount/ Volume	Nature	Outstanding Balance Receivable	Outstanding Balance Payable	Terms	Conditions
	As at and for the Year Ended December 31, 2018					
Associates						
MGI						
Due to related parties/ Cost of sale of electricity	₱1,142,885	Trading cost	₱–	(₱144,224)	30-day, non-interest bearing	Unsecured
Investments and advances (see Note 13)	12,500	Dividend received	–	–	Non-interest bearing	Unsecured
Asia Coal						
Due to related parties	–	Advances	–	(253)	Non-interest bearing	Unsecured
Entities Under Common Control						
PHINMA Property Holdings Corporation (PPHC)						
Due to related parties	–	Advances	–	(171)	30-60 day, non-interest bearing	Unsecured
PHINMA Corporation						
Dividend and other income	5,804	Cash dividend and share in expenses	–	–	30-60 day, non-interest bearing	Unsecured
Due to related parties/ Other expenses	3,778	Share in expenses	–	(490)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	51,293	Cash dividends	–	–	Payable on April 05, 2018; subsequently on demand	Unsecured
Union Galvasteel Corp. (UGC)						
Due from related parties/	619	Rental income and advances	123	–	30-60 day, non-interest bearing	Unsecured, no impairment
Receivables	225,000	Sale of 50% Interest in PHINMA Solar	45,000		Noninterest-bearing	Unsecured, no impairment
Due to related parties		Rental deposit	–	(158)		
Dividend income	3,458	Cash dividend	–	–	30-60 day, non-interest bearing	Unsecured
General and administrative expenses	136	Roofing materials	–	–	30-60 day, non-interest bearing	Unsecured
T-O Insurance, Inc.						
Due to related parties/ General and administrative expenses	59,146	Insurance expense and membership fees	–	(32,857)	30-60 day, non-interest bearing	Unsecured
Other Related Parties						
Directors						
General and administrative expenses	10,145	Directors' fee and annual incentives	–	–	On demand	Unsecured
Stockholders						
Due to stockholders	89,718	Cash dividends	–	(16,651)	On demand	Unsecured
Due from related parties (see Note 7)			₱333,576	₱–		
Due to related parties (see Note 18)			–	(801,165)		
Due to stockholders (see Note 36)		–	(16,651)			

AC Energy

The Parent Company and its subsidiaries PHINMA Power, CIPP and PHINMA Renewable have management contracts with PHINMA, Inc. This Management Contracts were assigned to AC Energy on June 25, 2019 through the executed Deed of Assignment. The management fees billed by ACEI in 2019 include ₱15.60 million which pertain to compensation of officers.

For each coal swap transaction which the Parent Company enters, AC Energy charges guarantee fee. It is payable 30 days post the confirmation of the transaction.

SLTEC
The transactions with SLTEC include the sale and purchase of electricity (see Note 35), reimbursements of expenses and receipt of dividends. SLTEC became a subsidiary and was consolidated effective July 1, 2019.

MGI
The Parent Company purchases the entire net electricity output of MGI (see Note 35). Other transactions with MGI include reimbursements of expenses and advances for future subscriptions. In 2018, the Parent Company invested additional capital to MGI amounting to ₱12.50 million (see Note 12).

Ayala Land, Inc. (ALI)
The Parent Company leases office unit and parking slots from ALI (see Note 35).

Retirement Fund
The fund is managed by a trustee under the PHINMA Jumbo Retirement Plan (see Note 30).

Indebtedness of or Advances to Related parties
As at December 31, 2019, the Group's advances to related parties arise from the acquisition of shares of Ingrid Power Holdings, Inc. and Solar Ace1 Energy, Corp of the Parent Company.

The Risk Management and Related Party Transactions (RPT) Committee shall review and the Board of Directors approve all SEC defined and Company Recognized Material RPTs before its commencement. SEC defined material related party transactions are any RPT, either individually, or in aggregate over a 12-month period of the Group with the same related party, amounting to 10% or higher of the Group's total consolidated assets based on the latest audited financial statements. Company Recognized Material RPT are any related party transaction/s that meet the threshold values approved by the RPT Committee, i.e. 50 million or 5% of the Group's total consolidated assets, whichever is lower, and other requirements as may be determined by the Committee upon the recommendation of the Risk Management Group.

Identification, review and approval of related party transactions
All (1) SEC-defined material related party transactions, i.e., related party transaction/s, either individually or in aggregate over a twelve (12)-month period of the Group with the same related party, amounting to ten percent (10%) or higher of the Group's total consolidated assets based on its latest audited consolidated financial statements; and (2) any related party transaction/s that meet the threshold values approved by the Risk Management and Related Party Transactions Committee (the Committee), i.e., ₱50.00 million or five percent (5%) of the Group's total consolidated assets, whichever is lower, shall be reviewed by the Committee and approved by the BOD before its commencement, except transactions that are explicitly excluded/exempted by the SEC and transactions delegated to management.

For SEC-defined material related party transactions, the approval shall be by at least 2/.3 vote of the BOD, with at least a majority vote of the independent directors. In case that the vote of a majority of the independent directors is not secured, the material related party transactions may be ratified by the vote of the stockholders representing at least 2/3 of the outstanding capital stock.

For related party transactions that, aggregately within a 12-month period, breach the SEC materiality threshold, the same board approval would be required for the transaction/s that meets and exceeds the materiality threshold covering the same related party.

Compensation of Key Management Personnel
Compensation of key management personnel of the Group are as follows:

	2019	2018	2017
Short-term employee benefits	**₱47,943**	₱57,702	₱74,447
Post-employment benefits	**4,405**	4,643	4,810
	₱52,348	₱62,345	₱79,257

32. Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share are computed as follows:

	2019	2018	2017
	(In Thousands, Except for Number of Shares and Per Share Amounts)		
(a) Net income (loss) attributable to equity holders of Parent Company	**(₱331,011)**	(₱560,496)	₱353,764
Common shares outstanding at beginning of year (see Note 22)	**4,889,774,922**	4,889,774,922	4,885,897,908
Weighted average number of shares issued during the year	**1,316,000,000**	–	1,614,537
(b) Weighted average common shares outstanding	**6,205,774,922**	4,889,774,922	4,887,512,445
Basic/Diluted earnings (loss) per share (a/b)	**(₱0.05)**	(₱0.11)	₱0.07

On June 25, 2019, AC Energy subscribed to 2,632,000,000 shares of ACEPH at par value of ₱1.00 per share on closing date.

In 2019, 2018 and 2017, the Parent Company does not have any potential common shares or other instruments that may entitle the holder to common shares. Consequently, diluted earnings (loss) per share is the same as basic earnings (loss) per share in 2019, 2018 and 2017.

33. Business Combinations, Asset Acquisitions and Non-controlling Interests

Acquisition of SLTEC
As discussed in Note 1, the Parent Company gained control of SLTEC through purchase of Axia's 20% interest in SLTEC. Pooling of interests was adopted for business combination involving entities under common control.

The carrying values of the identifiable assets and assumed liabilities arising as at July 1, 2019 (earliest period when the parties were under common control), the date the business combination was accounted for, follow:

Assets	
Cash and cash equivalents	₱1,967,463
Receivables - current portion	254,907
Inventories	611,090
Other current assets	526,920
Property, plant and equipment (see Note 11)	15,839,996
Receivables - net of current portion	91,453
Other noncurrent assets	304,977
Liabilities	
Accounts payable and other current liabilities	798,933
Loans payable - current portion (see Note 19)	254,047
Loans payable - net of current portion (see Note 19)	10,560,408
Other noncurrent liabilities	635,424
Net assets	7,347,994
Less: Non-controlling interests	3,041,805
Net assets acquired	4,306,189
Cost of acquisition	(6,535,776)
Other equity reserves (see Note 22)	(₱2,229,587)

From July 1 to December 31, 2019, SLTEC's contribution to revenue and net loss amounted to ₱2,420.99 million and ₱225.72 million, respectively, where the revenue is fully eliminated since the sale was made solely to the Parent Company. If the business combination had taken place at the beginning of 2019, SLTEC's contribution to revenue and net loss would have been ₱4,735.04 million and ₱458.24 million, respectively.

Acquisition of BCHC

As discussed in Note 1, the Parent Company acquired BCHC through the execution of a subscription agreement. The transaction was concluded as a purchase of asset since BCHC does not currently have any substantive process that, together with its inputs, significantly contribute to the ability to create outputs.

The carrying values of the identifiable assets and assumed liabilities arising as at December 12, 2019, the date the business combination was accounted for, follow:

Assets	
Cash and cash equivalents	₱168
Other current assets	88,116
Land (see Note 11)	138,427
Liabilities	
Accounts payable and other current liabilities	224,252
Net assets	2,459
Cost of acquisition	₱2,500

34. Material Partly-Owned Subsidiaries

Financial information of SLTEC and ACEX are provided below:

Equity interest held by NCI as at December 31, 2019 and 2018 are as follows:

	Percentage of Ownership (%)	
Name	**2019**	2018
ACEX	**23.684%**	48.868%
Palawan55	**16.425%**	33.891%
SLTEC	**35.000%**	–

Accumulated balances of NCI as at December 31 are as follows:

Subsidiary	**2019**	2018
SLTEC	**₱2,962,804**	₱–
Enexor	**15,392**	44,658
Palawan55	**384**	792
	₱2,978,580	₱45,450

Net loss allocated to NCI for the years ended December 31 are as follows:

Subsidiary	**2019**	2018	2017
SLTEC	**₱79,001**	₱–	₱–
Enexor	**6,473**	30,800	6,583
Palawan55	**418**	1,860	13
	₱85,892	₱32,660	₱6,596

Summarized statement of financial position as at December 31, 2019 and 2018 are as follows:

Enexor	**2019**	2018
Current assets	**₱54,097**	₱63,753
Noncurrent assets	**30,702**	29,527
Current liabilities	**11,256**	1,590
Noncurrent liability	**16**	281
Total equity	**₱73,527**	₱91,409
Attributable to:		
Equity holders of the Parent Company	**₱58,135**	₱46,751
NCI	**15,392**	44,658
	₱73,527	₱91,409

Palawan55	**2019**	2018
Current assets	**₱16,542**	₱5,777
Noncurrent assets	**23,063**	6,816
Current liabilities	**39,090**	10,249
Noncurrent liability	**–**	6
Total equity	**₱515**	₱2,338
Attributable to:		
Equity holders of the Parent Company	**₱131**	₱1,546
NCI	**384**	792
	₱515	₱2,338

Summarized statement of income and statement of comprehensive income for the years ended December 31, 2019, 2018 and 2017 are as follows:

Enexor	**2019**	2018	2017
Expenses	**₱19,463**	₱64,405	₱14,850
Other income - net	**1,320**	1,543	1,249
Provision for (benefit from) deferred income tax	**(293)**	170	(128)
Net loss	**₱17,850**	₱63,032	₱13,473
Total comprehensive loss attributable to:			
Equity holders of the Parent Company	**₱11,377**	₱32,232	₱6,890
NCI	**6,473**	30,800	6,583
	₱17,850	₱63,032	₱13,473

Palawan55	**2019**	2018	2017
Expenses	**₱1,631**	₱5,516	₱50
Other expenses (income)	**(198)**	35	13
Provision for (benefit from) deferred income tax	**(6)**	6	–
Net loss	**₱1,823**	₱5,487	₱37
Total comprehensive loss attributable to:			
Equity holders of the Parent Company	**₱1,405**	₱3,627	₱24
NCI	**418**	1,860	13
	₱1,823	₱5,487	₱37

Summarized statement of cash flows for the years ended December 31, 2019, 2018 and 2017 are as follows:

Enexor	**2019**	2018	2017
Operating activities	**(₱25,374)**	(₱16,061)	(₱8,903)
Investing activities	**57,739**	19,025	8,454
Net increase (decrease) in cash and cash equivalents	**₱32,365**	₱2,964	(₱449)

Palawan55	**2019**	2018	2017
Operating activities	**₱4,519**	₱2,757	(₱39)
Investing activities	**(16,588)**	(1,102)	–
Financing activities	**22,465**	1,950	–
Net increase (decrease) in cash and cash equivalents	**₱10,396**	₱3,605	(₱39)

There were no dividends paid to NCI for the years ended December 31, 2019, 2018 and 2017.

Summarized statement of financial position of SLTEC as at December 31, 2019 are as follows:

SLTEC	
Current assets	₱2,642,266
Noncurrent assets	15,987,044
Current liabilities	1,042,651
Noncurrent liability	10,452,349
Total equity	₱7,134,310
Attributable to:	
Equity holders of the Parent Company	₱4,171,506
NCI	2,962,804
	₱7,134,310

Summarized statement of income and statement of comprehensive income of SLTEC for the period July 10 to December 31, 2019 are as follows:

SLTEC	
Revenues	₱2,420,993
Expenses	(2,512,018)
Other income	(95,823)
Provision for deferred income tax	(38,868)
Net loss	₱225,716
Total comprehensive loss attributable to:	
Equity holders of the Parent Company	₱146,715
NCI	79,001
	₱225,716

Summarized statement of cash flows of SLTEC for the period July 10 to December 31, 2019 are as follows:

SLTEC	
Operating activities	₱701,507
Investing activities	69,137
Financing activities	(407)
Net increase in cash and cash equivalents	₱770,237

There were no dividends paid to NCI for the period July 10 to December 31, 2019.

35. Significant Laws, Commitments and Contracts

Electric Power Industry Reform Act (EPIRA)

R.A. No. 9136, the EPIRA, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector which include, among others, the following:

(1) The unbundling of the generation, transmission, distribution and supply, and other disposable assets of the Group, including its contracts with independent power producers, and electricity rates;
(2) Creation of a WESM;
(3) Open and non-discriminatory access to transmission and distribution systems;

(4) Public listing of generation and distribution companies; and,
(5) Cross-ownership restrictions and concentrations of ownership.

The Group believes that it is in compliance with the applicable provisions of the EPIRA and its IRR.

Retail Competition and Open Access (RCOA)
Upon meeting all conditions set forth in the EPIRA, the ERC promulgated the Transitory Rules for the RCOA, by virtue of ERC Resolution No. 16 Series of 2012.

Through RCOA, licensed Electricity Suppliers, such as the Group, are empowered to directly contract with Contestable Customers (bulk electricity users with an average demand of 1 MW). This major development in the Power Industry enabled the Group to grow.

Secondary Price Cap
Significant events in November and December 2013 resulted in a surge of electricity prices that affected the end-consumers, which led the ERC to impose a supplemental regulatory cap under the ERC Resolution 20, Series of 2014. The said resolution established a preemptive mitigating measure in the WESM meant to limit significant increases in the WESM prices.

This regulatory cap was made permanent and requires all trading participants in the WESM to comply. ACEPH and its subsidiaries that sell to WESM are subject to this cap.

Renewable Energy (RE) Act of 2008
As provided for in R.A. 9513, RE developers shall be entitled to incentives, such as, income tax holiday, duty-free importation of RE machinery, equipment and materials, zero percent VAT rate on sale of power from RE sources, and tax exemption of carbon credits, among others.

The Group ventured into wind resource development projects through its subsidiary, PHINMA Renewable. The Act significantly affected the operating results of PHINMA Renewable due to a guaranteed FIT rate and reduction in taxes.

Wind Energy Service Contracts
PHINMA Renewable was awarded 12 wind service contract areas with an aggregate capacity estimated at 400 MW. This includes the 54 MW San Lorenzo Wind Project (SLWP) which started delivering power to the grid on October 7, 2014 and declared commercial operations on December 27, 2014. PHINMA Renewable sells its generated electricity to the WESM under the FIT System.

Feed-in-Tariff (FIT)
On June 10, 2015, the SLWP was issued a Certificate of Endorsement for FIT Eligibility by the DOE. On December 1, 2015, PHINMA Renewable received its Certificate of Compliance from the ERC which entitles PHINMA Renewable to recognize its FIT at an approved rate of ₱7.40, with a retroactive period beginning December 27, 2014, for a guaranteed period of twenty (20) years until December 26, 2034.

Power Purchase Agreement / Contract to Purchase Generated Electricity
ACEPH entered into contracts with MGI and third parties where the Parent Company will purchase the entire or a portion of the net electricity output of the power plants for a period ranging from three (3) to twenty (20) years at an agreed price, subject to certain adjustments.

Administration and Management Agreement (AMA)
ACEPH entered into contract with SLTEC where the Parent Company will purchase the entire net electricity output of SLTEC from April 24, 2015 to April 23, 2040 for Unit 1 and from February 21, 2016 to February 20, 2041 for Unit 2. The contract was amended effective August 26, 2019 to include the supply of the necessary coal to generate electricity at an agreed price, subject to certain adjustments.

Power Administration and Management Agreement (PAMA)
ACEPH entered into PAMAs with its subsidiaries PHINMA Power, CIPP and One Subic Power. Under the terms of the PAMA, ACEPH will administer and manage the entire generation output of the plants and will pay for all electricity delivered by the power plant based on a formula as set forth in the PAMA and shall be payable monthly. The PAMAs with PHINMA Power and CIPP are valid for ten (10) years and are subject to regular review, while the PAMA with One Subic Power is valid throughout the life of the related Facilities Lease Agreement with SBMA (see Note 1).

On January 12, 2018, the PAMAs of the Group with CIPP and PHINMA Power were amended, providing for certain capacity rates based on nominated capacity and billing of fuel recovery and utilization fee. The new PAMAs became effective starting March 26, 2018 and valid for ten years and are subject to regular review.

Ancillary Services Procurement Agreements (ASPA) with NGCP
ACEPH and certain subsidiaries executed ASPAs with NGCP. Under the ASPA, the power plants will provide contingency and dispatchable reserves to NGCP to ensure reliability in the operation of the transmission system and the electricity supply in the Luzon Grid for five (5) years upon the effectivity of the provisional approval or final approval issued by the ERC. ERC's provisional approval is extended every year.

Electricity Supply Agreement (ESA) / Contract for the Sale of Electricity (CSE) with GUIMELCO
On November 12, 2003, ACEPH signed an ESA with GUIMELCO, under which ACEPH agreed to construct, operate and maintain a 3.4 MW bunker C-fired diesel generator power station and to supply GUIMELCO with electricity based on the terms and conditions set forth in the ESA. The power plant commenced commercial operations on June 26, 2005.

Upon the expiration of the ESA, the parties entered into a CSE on March 2015. Under the contract, ACEPH shall supply, for a period of 10 years from fulfillment of the conditions precedent indicated in the contract, all of GUIMELCO's electricity requirements that are not covered by GUIMELCO's base load supply. On February 1, 2018, ACEPH has invoked a change in circumstances under the CSE considering that the passage of Tax Reform for Acceleration and Inclusion (TRAIN) law was not contemplated by parties during execution of CSE. The parties executed a Termination Agreement on March 21, 2018 effectively terminating the CSE.

Power Supply Agreement with MERALCO

Baseload Demand
On September 9, 2019, the bid submitted by ACEPH was declared as one of the best bids of MERALCO's 1200 MW. The Parent Company will supply MERALCO a baseload demand of 200MW from December 26, 2019 until December 25, 2029 subject to the approval of the Energy Regulatory Commission.

Mid-merit Supply
On September 11, 2019, the bid submitted by ACEPH was declared as one of the best bids of MERALCO's 500 MW. The Parent Company will supply MERALCO a baseload demand of 110MW from December 26, 2019 until December 25, 2024 subject to the approval of the Energy Regulatory Commission.

Other ESAs / CSEs with customers
ACEPH signed contracts to supply the energy requirements of various bilateral and RES contestable customers with a duration ranging from one (1) to fifteen (15) years.

Service Contracts with the DOE

SC 14 (North Matinloc)
ACEPH holds a 6.103% participating interest in SC 14 Block B-1 which hosts the North Matinloc-2 (NM-2) production well. The well is produced on cyclical mode with rest period longer than the flow phase, to enable the reservoir to build up enough pressure to push the crude to surface. In 2016, the well produced a total of 9,123 barrels of crude oil for an average 760 barrels monthly production.

SC 664 (Mabinay, Negros Oriental)
On November 10, 2016, the DOE awarded Hydropower Service Contract 2016-06-664 ("Ilog") to the Parent Company covering certain areas in Mabinay, Negros Oriental. The contract provides for a two-year Pre-Development Stage during which the Group shall evaluate the commercial feasibility of the project. Upon Declaration of Commerciality, the project shall proceed to the Development Stage which is valid for twenty-five (25) years. All costs during 2016 and 2017 with the Ilog Hydro projects were not capitalized as these were costs incurred prior to exploration and development activities.

Solar Energy Service Contract (SESC) (Bugallon, Pangasinan)
On May 22, 2017, the DOE awarded a SESC to the Parent Company, which grants the Parent Company the exclusive right to explore, develop and utilize the solar energy resource in a 648-hectare area in the Municipality of Bugallon, Province of Pangasinan. Pre-development activities, such as, yield assessment, environmental impact study and system impact study are underway and are expected to be completed within the year. The Parent Company hopes to construct a 45MW ground mount fixed-tilt grid tied solar PV plant in the service contract area. The term of the service contract is twenty-five (25) years, extendable for another 25 years. As at March 25, 2020, all costs of the Bugallon Solar project were not capitalized as these were costs incurred prior to exploration and development activities.

Solar Energy Service Contract (Lipa City and Padre Garcia, Batangas)
On July 18, 2017, the DOE awarded a SESC to the Parent Company, which grants the Parent Company the exclusive right to explore, develop and utilize the solar energy resource in a 486 hectare area in the City of Lipa and Municipality of Padre Garcia, Province of Batangas. The Parent Company hopes to construct a 45MW ground mount fixed-tilt grid connected solar plant in the service contract area. All technical studies were completed and necessary permits were secured such as the ECC as well as local government endorsement. The term of the service contract is twenty-five (25) years, extendable for another 25 years. As at March 25, 2020, all costs of the Lipa and Padre Garcia Solar project were not capitalized as these were costs incurred prior to exploration and development activities.

Lease Commitments

ACEPH*'s Lease Agreement with GUIMELCO*
The Parent Company has entered into a lease agreement with GUIMELCO for a parcel of land used only as a site for electric generating plant and facilities. The term of the lease is 10 years with a renewal option included in the contract. The Parent Company is given the first option to buy the property if the lessor decides to sell the land. The lease is at a fixed monthly rate of ₱0.04 million for the duration of the lease term. On March 27, 2015, the lease agreement was extended for another 10 years. On January 24, 2019, the Guimaras Power Plant was sold to S. I. Power Corporation. Consequently, in view of the sale, the Parent Company terminated the lease with GUIMELCO in 2019.

One Subic Power's Facilities Lease Agreement with SBMA
One Subic Power has a lease contract with SBMA for a parcel of land and electric generating plant and facilities. The lease was originally entered on July 20, 2010 and was valid for five years. The agreement was amended on October 24, 2012 to extend the term of the lease to July 19, 2020 with an option to renew for another five years. On December 21, 2017, SBMA informed One Subic Power that its BOD has approved the amendments of the FLA extending the lease term until July 19, 2030. On April 3, 2018, the third amendments were signed and approved.

For the year-ended December 31, 2019, One Subic Power recognized finance charges on the lease liabilities amounting to ₱37.85 million, included under "Interest and Other Finance Charges" account (see Note 28). OSPGC recognized rent expense of nil, ₱75.78 million and ₱71.23 million in 2019, 2018 and 2017, respectively, included in "Rent" account under "Cost of sale of electricity (see Note 24).

PHINMA Renewable's Lease Agreement with Various Land Owners
PHINMA Renewable has entered into various lease agreements with individual land owners where the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased assets, which indicates that the risks and rewards relates to the asset are retained with the land owners. These leases are previously classified as operating leases and have terms of twenty (20) to twenty-five (25) years. For the year ended December 31, 2019, PHINMA Renewable recognized finance charges on the lease liabilities amounting to ₱17.62 million included in "Interest and Other Finance Charges" account (see Note 28).

PHINMA Renewable recognized rent expense of nil, ₱0.71 million and ₱0.73 million in 2019, 2018 and 2017, respectively, included in "Rent" account under "Cost of sale of electricity" (see Note 24).

Easements and Right of Way Agreements
In 2014, the Group also entered to various easements and right of way agreements with land owners in Guimaras for the erection of transmission lines that will connect the 54 MW wind farm project located in San Lorenzo, Guimaras to the grid. One-off payments made by PHINMA Renewable to various land owners to cover the 25-year easement and right of way agreements were recognized as prepaid rent in the consolidated statement of financial position and amortized over the term of the lease. The amortization of the lease during the construction period was capitalized as part of the cost of the wind farm.

PHINMA Renewable recognized rent expense of nil, ₱2.01 million and ₱1.99 million in 2019, 2018 and 2017, respectively, included in "Rent" account under "Cost of sale of electricity" (see Note 24).

ACEPH's Agreement on Assignment of Contract of Lease
On November 20, 2019, the Parent Company, AC Energy, Ayala Land, Inc. (ALI) and Ayalaland Offices, Inc. entered an agreement on assignment of contract of lease. AC Energy assigned a portion of its office unit and parking slots effective September 1, 2019. The lease is until May 31, 2022. The lease is at a fixed monthly rate of ₱0.83 million and ₱0.01 million for the office unit and parking slots, respectively with an escalation rate of 5% every year, beginning on the second year. For the year-ended December 31, 2019, ACEPH recognized finance charges on the lease liabilities amounting to ₱0.46 million, included under "Interest and Other Finance Charges" account (see Note 28).

SLTEC's Contract of Lease for Office Space
On December 19, 2019, SLTEC notified the lessor of their intent to pre-terminate their office lease contract effective March 31, 2020. SLTEC remeasured the lease liability and ROU asset as a result of the termination of the contract (see Note 3).

Subscription Agreements

ACEPH's Agreement with Philippine Investment Alliance for Infrastructure ("PINAI") for North Luzon Renewable Energy Corporation ("NLREC") and Philippine Wind Holdings Corporation ("PhilWind") shares
On November 4, 2019, the Parent Company's Executive Committee approved and authorized the share purchase agreement with the Philippine Investment Alliance for Infrastructure ("PINAI") to acquire PINAI's ownership interest in North Luzon Renewable Energy Corporation ("NLREC") and Philippine Wind Holdings Corporation ("PhilWind"), which was formally executed on November 5, 2019.

PINAI effectively has a 31% preferred equity and 15% common equity ownership in NLREC. NLREC is a joint venture of AC Energy, UPC Philippines, Luzon Wind Energy Holdings and PINAI. NLREC owns and operates an 81 MW wind farm in Pagudpud, Ilocos Norte, which started operations in November 2014. PhilWind is the parent company of NLREC. PhilWind directly and indirectly owns 67% of NLREC, through its 38% direct interest and 28.7% indirect interest through its 100% wholly-owned subsidiary, Ilocos Wind Energy Holding Co., Inc. The acquisition is subject to the satisfaction of certain conditions precedent, definitive documentation and PCC approval.

ACEPH's Agreement with PINAI for ISLASOL and SACASOL shares
On December 3, 2019 the Parent Company signed a share purchase agreement with PINAI collectively made up of Macquarie Infrastructure Holdings (Philippines) Pte. Limited, Langoer Investments Holding B.V., and the Government Service Insurance System, for the acquisition of PINAI's ownership interest in ISLASOL and SACASOL. On February 13, 2020, the PCC ruled that the PINAI sale of SACASOL shares "will not likely result in substantial lessening of competition" and resolved "to take no further action with respect to the Transaction."

ACEPH's Agreement with Ingrid
On December 19, 2019, the Parent Company signed a subscription agreement with Ingrid for 50,000 common shares and 5,651,000 redeemable preferred shares in Ingrid, at the subscription price of ₱4.90 million for the common shares and ₱565.10 million for the redeemable preferred shares. Ingrid is developing a 300-MW diesel power plant in Pililia, Rizal. Issuance of the shares is subject to the necessary regulatory approvals for increase of Ingrid's authorized capital stock and creation of new shares.

36. Financial Risk Management Objectives and Policies

Objectives and Investment Policies

The funds of the entities are held directly by the Group and are managed by AC Energy's Risk, Corporate Finance, Investor Relations and Treasury Group (RCITG). All Cash investments of the Group are carried and governed by the following principles, stated in order of importance:

- Preservation of invested cash
- Liquidity of invested cash; and
- Yield on invested cash.

Under no circumstance is yield to trump the absolute requirement that the principal amount of investment be preserved and placed in liquid instruments.

RCITG manages the funds of the Group and invests them in highly liquid instruments such as short-term deposits, marketable instruments, corporate promissory notes and bonds, government bonds, and trust funds denominated in Philippine peso and U.S. dollar. It is responsible for the sound and prudent management of the Group's financial assets that finance the Group's operations and investments in enterprises.

RCITG focuses on the following major risks that may affect its transactions:

- Foreign exchange risk
- Credit or counterparty risk
- Liquidity risk
- Market risk
- Interest rate risk

Professional competence, prudence, clear and strong separation of office functions, due diligence and use of risk management tools are exercised at all times in the handling of the funds of the Group.

Risk Management Process

Foreign Exchange Risk

The Group defines Foreign Exchange Risk as the risk of realizing reduced operating cash flows and/or increasing the volatility of future earnings from movements in foreign exchange. The risk is measured based on potential downside impact of market volatility to operating cash flows and target earnings.

Foreign exchange risk is generally managed in accordance with the Natural Hedge principle and further evaluated through :

- Continual monitoring of global and domestic political and economic environments that have impact on foreign exchange;
- Regular discussions with banks to get multiple perspectives on currency trends/forecasts; and
- Constant updating of the foreign currency holdings gains and losses to ensure prompt decisions if the need arises.

In the event that a Natural Hedge is not apparent, the Group endeavors to actively manage its open foreign currency exposures through:

- Trading either by spot conversions; and
- Entering into derivative forward transactions on a deliverable or non-deliverable basis to protect values

The Group's significant foreign currency-denominated financial assets and financial liabilities as at December 31, 2019 and 2018 are as follows:

	2019			2018	
	U.S. Dollar (US$)	**Euro (€)**	**Sing. Dollar (S$)**	U.S. Dollar (US$)	Euro (€)
Financial Assets					
Cash and cash equivalents	**$14,192**	**€–**	**S$–**	$872	€–
Short-term investments	**2,776**	**–**	**–**	672	–
Other receivables	**441**	**–**	**31**	190	–
	$17,409	**€–**	**S$31**	$1,734	–
Financial Liabilities					
Accounts payable and other current liabilities	**(1,416)**	**(615)**	**(43)**	(256)	(44)
Due to related parties	**–**	**–**	**–**	(480)	–
	(1,416)	**(615)**	**(43)**	(736)	(44)
Net foreign currency-denominated assets (liabilities)	**$15,993**	**(€615)**	**(S$12)**	$998	(€44)
Peso equivalent	**₱811,485**	**(₱34,692)**	**(₱450)**	₱52,475	₱2,654

In translating foreign currency-denominated financial assets and financial liabilities into Philippine Peso amounts, the exchange rate used were ₱50.74 to US$1.00, ₱56.41 to €1.00 and ₱37.49 to S$1.00 as at December 31, 2019 and ₱52.58 to US$1.00 and ₱60.31 to €1.00 as at December 31, 2018.

The following tables demonstrate the sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, of the Group's profit before tax (due to the changes in the fair value of monetary assets and liabilities) in 2019 and 2018. The possible change are based on the survey conducted by management among its banks. There is no impact on the Group's equity other than those already affecting the profit or loss. The effect on profit before tax already includes the impact of derivatives.

Year	**Increase (Decrease) in Foreign Exchange Rate**	**US$**	**Euro (€)**	**Sing$**
2019	**(₱0.50)**	**(₱1,347)**	**₱308**	**₱6**
	(1.00)	**(2,694)**	**615**	**12**
	0.50	**1,347**	**(308)**	**(6)**
	1.00	**2,694**	**(615)**	**(12)**
2018	(₱0.50)	(₱499)	₱22	–
	(1.00)	(998)	44	–
	0.50	499	(22)	–
	1.00	998	(44)	–

Credit or Counterparty Risk

The Group defines Credit or Counterparty Risk as the risk of sustaining a loss resulting from a counterparty's default to a transaction entered with the Group.

Credit or counterparty risk is managed through the following:

- Investments are coursed through or transacted with duly accredited domestic and foreign banks subject to investment limits per counterparty as approved by the Board.
- Discussions are done on every major investment by RCIT before it is executed subject to the Chief Financial Officer (CFO) approval. Exposure limits are tracked for every transaction and a RCIT Finance Managers supervises major transaction executions.
- Market and portfolio reviews are done at least once a week and as often as necessary should market conditions require. Monthly reports are given to the CFO with updates in between these reports as needed.
- A custodian bank for Philippine peso instruments and foreign currency instruments has been appointed based on its track record on such service and the bank's financial competence.

With respect to credit risk arising from the receivables of the Group, the Group's exposures arise from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

	2019					
	Neither Past Due nor Impaired			**Past Due but not Impaired**	**Past Due Individually Impaired**	
	Class A	**Class B**	**Class C**			**Total**
Trade and other receivables						
Current:						
Trade receivables	**₱1,944,166**	**₱–**	**₱–**	**₱250,602**	**₱39,014**	**₱2,233,782**
Due from related parties	**9**	**–**	**–**	**–**	**–**	**9**
Others	**–**	**96,641**	**–**	**437,001**	**83,222**	**616,864**
Noncurrent						
Trade receivables	**–**	**–**	**–**	**1,123,511**	**13,751**	**1,137,262**
Receivables from third Parties	**–**	**423,705**	**–**	**–**	**–**	**423,705**
	₱1,944,175	**₱520,346**	**₱–**	**₱1,811,114**	**₱135,987**	**₱4,411,622**

	2018					
	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	
	Class A	Class B	Class C			Total
Trade and other receivables						
Current:						
Trade receivables	₱1,712,945	₱–	₱–	₱400,481	₱40,922	₱2,154,348
Due from related parties	–	320,642	–	2,674	10,260	333,576
Others	–	183,751	–	6,798	80,152	270,701
Noncurrent						
Trade receivables	–	–	–	1,123,511	13,751	1,137,262
Receivables from third parties	–	501,266	–	–	–	501,266
	₱1,712,945	₱1,005,659	₱–	₱1,533,464	₱145,085	₱4,397,153

The Group uses the following criteria to rate credit risk as to class:

Class	Description
Class A	Customers with excellent paying habits
Class B	Customers with good paying habits
Class C	Unsecured accounts

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, short-term investments, financial assets at FVOCI, financial assets at FVTPL, and derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group's assessments of the credit quality of its financial assets are as follows:

- Cash and cash equivalents, short-term investments, derivative assets and financial assets at FVTPL were assessed as high grade since these are deposited in or transacted with reputable banks, which have low probability of insolvency.
- Listed and unlisted financial assets at FVOCI were assessed as high grade since these are investments in instruments that have a recognized foreign or local third party rating or instruments which carry guaranty or collateral.

There are no significant concentrations of credit risk within the Group.

Maximum exposure to credit risk of financial assets not subject to impairment
The gross carrying amount of financial assets not subject to impairment also represents the Group's maximum exposure to credit risk, as follows:

	2019	2018
Financial Assets at FVTPL		
Current	**₱–**	₱743,739
Noncurrent	**–**	5,452
Financial Assets at FVOCI	**1,251**	257,995
	₱1,251	₱1,007,186

Maximum exposure to credit risk of financial assets subject to impairment
The gross carrying amount of financial assets subject to impairment are as follows:

	2019	2018
Financial Assets at Amortized Cost (Portfolio 1)		
Cash and cash equivalents (excluding cash on hand)	**₱8,581,351**	₱1,022,189
Short-term investments	**100,000**	35,326
Under "Receivables"		
Trade receivables	**2,233,782**	2,154,348
Due from related parties	**9**	333,576
Others	**616,864**	270,701
Under "Other Noncurrent Assets"		
Trade receivables	**–**	1,137,262
Receivables from third parties	**423,705**	501,266
Deposits and advances to suppliers	**341,014**	–
	₱12,296,725	₱5,454,668

The Group's maximum exposure to credit risk as at December 31 are as follows:

	2019				
		Lifetime ECL			
Grade	**12 month Stage 1**	**Stage 2**	**Stage 3**	**Simplified Approach**	**Total**
High	**₱8,219,484**	**₱–**	**₱–**	**₱3,094,449**	**₱11,313,933**
Standard	–	–	–	–	–
Substandard	–	–	–	–	–
Default	–	–	–	**120,262**	**120,262**
Gross carrying amount	**8,219,484**	–	–	**3,214,711**	**11,434,195**
Less loss allowance	–	–	–	**122,236**	**122,236**
Carrying amount	**₱8,219,484**	**₱–**	**₱–**	**₱3,092,475**	**₱11,311,959**

	2018				
		Lifetime ECL			
Grade	12 month Stage 1	Stage 2	Stage 3	Simplified Approach	Total
High	₱1,057,692	₱–	₱–	₱1,712,945	₱2,770,637
Standard	–	–	–	1,005,738	1,005,738
Substandard	–	–	–	1,533,464	1,533,464
Default	–	–	143,135	1,950	145,085
Gross carrying amount	1,057,692	–	143,135	4,254,097	5,454,924
Less loss allowance	–	–	143,135	1,950	145,085
Carrying amount	₱1,057,692	₱–	₱–	₱4,252,147	₱5,309,839

Liquidity Risk

Liquidity risk is defined as the risk that the Group may not be able to settle or meet its obligations on time or at a reasonable price.

Liquidity risk is managed through:

- Asset and Liability Management principle. Short-term assets are used to fund short-term liabilities while major investments, capital expenditures and long-term assets are funded by long-term liabilities.
- Detailed cash flow forecasting and continuous monitoring of the weekly and monthly cash flows as well as frequent updates of the annual plans of the Group.
- Investment maturities being spread on a weekly, monthly, and annual basis as indicated in the Group's plans. Average duration of investments do not exceed one (1) year.
- Setting up working capital lines to address unforeseen cash requirements that may cause pressure to liquidity.

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31 based on contractual undiscounted payments:

	2019					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**More than 1 Year to 5 Years**	**More than 5 Years**	**Total**
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	**₱–**	**₱961,726**	**₱1,957,480**	**₱**	**₱–**	**₱2,919,206**
Retention payable	–	**2,050**	–	–	–	**2,050**
Accrued expenses [a]	**23,942**	**35,912**		–	–	**59,854**
Accrued interest	–	**34,405**	**103,213**	–	–	**137,618**
Due to related parties	–	**142,546**	**47,516**	–	–	**190,062**
Derivative liability	–	**21,060**	–	–	–	**21,060**

(Forward)

	2019					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**More than 1 Year to 5 Years**	**More than 5 Years**	**Total**
Accrued directors' and annual incentives	**₱50**	**₱–**	**₱–**	**₱–**	**₱–**	**₱50**
Others [b]	**13,902**	**–**	**–**	**–**	**–**	**13,902**
Due to stockholders	**16,594**	**–**	**–**	**–**	**–**	**16,594**
Lease liabilities [c]	**–**	**8,386**	**25,157**	**105,206**	**420,822**	**559,571**
Long-term loans [d]	**–**	**296,922**	**296,925**	**8,076,832**	**12,115,249**	**20,785,928**
Other noncurrent liabilities	**–**	**–**	**–**	**2,048,335**	**1,128,511**	**3,176,846**
	₱54,488	**₱1,503,007**	**₱2,430,291**	**₱10,230,373**	**₱13,664,582**	**₱27,882,741**

[a] *Excluding current portion of vacation and sick leave accruals amounting to ₱6.94 million (see Note 30).*
[b] *Excluding payable to officers and employees amounting to ₱9.21 million (see Note 18)*
[c] *Gross contractual payments.*
[d] *Including contractual interest payments.*

	2018					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	₱–	₱569,534	₱134,106	₱7,940	₱–	₱711,580
Retention payable	–	1,096	–	–	–	1,096
Accrued expenses [a]	19,720	80,376	14,888	–	–	114,984
Accrued interest	–	19,581	59,716	–	–	79,297
Due to related parties	–	785,069	16,175	–	–	801,244
Others [b]	–	54	4,603	–	–	4,657
Due to stockholders	16,651	–	–	–	–	16,651
Short-term loans [d]	–	5,425	410,033	–	–	415,458
Finance lease obligation [c]	–	5,304	11,474	58,380	251,179	326,337
Long-term loans [d]	–	273,692	266,213	2,718,367	3,229,049	6,487,321
Other noncurrent liabilities [e]	1,123,511	–	–	187,267	–	1,310,778
	₱1,159,882	₱1,740,131	₱917,208	₱2,971,954	₱3,480,228	₱10,269,403

[a] *Excluding current portion of vacation and sick leave accruals amounting to ₱6.50 million (see Note 30).*
[b] *Excluding payable to officers and employees amounting to ₱3.53 million.*
[c] *Gross contractual payments.*
[d] *Including contractual interest payments.*
[e] *Excluding noncurrent portion of finance lease obligation amounting to ₱72.30 million (see Note 21).*

As at December 31, 2019 and 2018, the profile of financial assets used to manage the Group's liquidity risk is as follows:

	2019				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Over 12 Months**	**Total**
Loans and receivables:					
Current:					
Cash and cash equivalents	**₱8,581,663**	**₱–**	**₱–**	**₱–**	**₱8,581,663**
Short-term investments	**100,000**	**–**	**–**	**–**	**100,000**
Receivables:					
Trade	**1,944,166**	**289,616**	**–**	**–**	**2,233,782**
Due from related parties	**9**	**–**	**–**	**–**	**9**
Others	**96,641**	**520,223**	**–**	**–**	**616,864**
Deposit receivables*	**–**	**–**	**77,284**	**–**	**77,284**
Noncurrent:					
Trade receivables	**1,137,262**	**–**	**–**	**–**	**1,137,262**
Receivable from third parties	**–**	**–**	**–**	**423,705**	**423,705**
Deposit receivables	**–**	**–**	**–**	**109,419**	**109,419**

(Forward)

	2019				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Over 12 Months**	**Total**
Financial assets at FVTPL	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Derivative assets	**–**	**33**	**–**	**–**	**33**
Financial assets at FVOCI:					
Quoted	**–**	**–**	**–**	**21**	**21**
Unquoted	**–**	**–**	**–**	**1,230**	**1,230**
	₱11,859,741	**₱809,872**	**₱77,284**	**₱534,375**	**₱13,281,272**

	2018				
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	Total
Loans and receivables:					
Current:					
Cash and cash equivalents	₱1,022,366	₱–	₱–	₱–	₱1,022,366
Short-term investments	35,326	–	–	–	35,326
Receivables:					
Trade	441,403	1,712,945	–	–	2,154,348
Due from related parties	12,855	320,721	–	–	333,576
Others	86,952	183,749	–	–	270,701
Deposit receivables*	–	–	69,056	–	69,056
Noncurrent:					
Trade receivables	1,137,262	–	–	–	1,137,262
Receivable from third parties	–	–	–	501,266	501,266
Deposit receivables	–	–	–	102,346	102,346
Financial assets at FVTPL	749,191	–	–	–	749,191
Derivative assets	–	4	–	–	4
Financial assets at FVOCI:	–	–	–	–	–
Quoted	–	–	–	137,096	137,096
Unquoted	–	–	–	120,899	120,899
	₱3,485,355	₱2,217,419	₱69,056	₱861,607	₱6,633,437

**Excluding nonrefundable deposits amounting to nil and ₱13.52 million as at December 31, 2019 and 2018, respectively.*

Market Risk

Market risk is the risk that the value of an investment will decrease due to drastic adverse market movements that consist of interest rate fluctuations affecting bid values or fluctuations in stock market valuation due to gyrations in offshore equity markets or business and economic changes. Interest rate, foreign exchange rates and risk appetite are factors of a market risk as the summation of the three defines the value of an instrument or a financial asset.

As of December 31, 2019, the Group has already liquidated all outstanding investment in marketable securities and will discontinue investing in highly volatile financial instruments to keep a risk-averse position.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at December 31, 2019 and 2018, the Group has fixed rate financial instruments measured at fair value.

The Group's exposure to interest rate risk relates primarily to long-term debt obligations that bear floating interest rate. The Group generally mitigates risk of changes in market interest rates by constantly monitoring fluctuations of interest rates and maintaining a mix of fixed and floating interest-bearing loans. Specific interest rate risk policies are as follows:

ACEPH

In 2014, the Parent Company also availed of a total of peso-denominated ₱3.00 billion corporate notes and loan agreements from CBC, SBC and BDO to be used to fund its projects and working capital. SBC has a term of five (5) years with quarterly payments starting on the 5th quarter drawdown. Both BDO and CBC have a term of ten (10) years with quarterly payments starting on the 5th quarter drawdown having fixed interest rates to be repriced for the last three (3) years.

On June 28, 2019 and July 08, 2019, the Group prepaid its floating rate debt with SBC and BDO amounting to ₱0.93 million and ₱0.40 million, respectively. This is in line with the Group's objective to mitigate uncertainties in its earnings and cash flows.

PHINMA Renewable

PHINMA Renewable entered into a ₱4.30 billion peso-denominated Term Loan Facility that will be used to partially finance the 54MW San Lorenzo Wind Farm. The loan facility is divided into two tranches amounting to ₱2.15 billion each - DBP as the Tranche A lender and SBC as the Tranche B lender.

Both tranches have a term of fifteen (15) years with semi-annual interest payments starting on the date on which the loan is made. The interest of Tranche A bears a fixed rate for the first ten (10) years and is subject to an interest rate repricing on the last five (5) years.

On April 28, 2016, the Group prepaid a portion of its long-term debt in accordance with the terms of the Agreement as follows:

- the Group shall effect a mandatory prepayment of the loan, without premium or penalty, within three (3) business days from receipt by the Group of any transmission line proceeds;
- prepay the loan to the extent of seventy percent (70%) of the transmission line proceeds;
- the remaining thirty percent (30%) shall be transferred directly into the Group controlled distribution account for further distribution to the Project Sponsor.

The following table sets out the carrying amount, by maturity of the Group's financial assets that are exposed to interest rate risk:

				2019			
	Interest Rates	Within 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	Beyond 4 years	Total
Long-term loans							
PHINMA Renewable							
DBP	6.25 - 8.36%	₱64,595	₱69,268	₱73,953	₱82,413	₱476,161	₱766,390
SBC	6.57 - 6.74%	58,904	63,112	67,333	75,802	493,468	758,619
ACEPH							
BDO	5.81 - 6.55%	9,363	9,338	9,318	9,297	412,321	449,637
CBC	5.68 - 7.13%	29,949	28,550	27,958	27,906	1,243,933	1,358,296
DBP	6.00 - 6.09%	66,332	71,194	75,879	80,569	609,767	903,741
SBC	6.50 - 6.59%	66,385	71,122	75,875	80,634	609,740	903,756
BDO	4.98 - 5.05%	47,144	47,573	47,858	48,116	4,742,648	4,933,339

(Forward)

	2019						
	Interest Rates	**Within 1 year**	**More than 1 year to 2 years**	**More than 2 years to 3 years**	**More than 3 years to 4 years**	**Beyond 4 years**	**Total**
Long-term loans							
SLTEC							
BDO	**5.71 - 7.05%**	**₱83,313**	**₱83,313**	**₱166,625**	**₱166,625**	**₱2,749,313**	**₱3,249,188**
BDO	**6.98%**	**72,942**	**72,617**	**155,695**	**155,778**	**2,685,419**	**3,142,452**
RCBC	**5.71 - 7.05%**	**41,688**	**41,688**	**83,375**	**83,375**	**1,375,688**	**1,625,813**
RCBC	**6.98%**	**36,772**	**36,618**	**78,196**	**78,236**	**1,345,438**	**1,575,260**
SBC	**6.98%**	**23,521**	**23,477**	**48,447**	**48,462**	**815,999**	**959,906**
Special savings account (SSA) – Dollar	**1.425 – 1.75%**	**13,550**	**–**	**–**	**–**	**–**	**13,550**
Short-term investments	**–**	**30**	**–**	**–**	**–**	**–**	**30**

	2018						
	Interest Rates	Within 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	Beyond 4 years	Total
Long-term loans							
PHINMA Renewable							
DBP	6.25 - 8.36%	₱54,410	₱57,365	₱61,559	₱65,766	₱580,419	₱819,519
SBC	6.57 - 6.74%	55,348	58,904	63,112	67,333	568,572	813,269
ACEPH							
Short-term loan							
BDO	5.25%	400,000	–	–	–	–	400,000
Long-term loan							
BDO	5.81 - 6.55%	9,386	9,363	9,340	9,320	424,060	461,469
CBC	5.68 - 7.13%	29,966	29,949	28,553	27,949	1,272,278	1,388,695
SBC	8.69%	(4,541)	927,602	–	–	–	923,061
DBP	6.00 - 6.09%	61,435	66,383	71,136	75,893	690,623	965,470
SBC	6.50 - 6.59%	61,435	66,383	71,136	75,893	690,605	965,452
Special savings account (SSA) – Peso	1.60 - 6.90%	830,685	–	–	–	–	830,685
Special savings account (SSA) – Dollar	1.50 - 3.00%	44,411	–	–	–	–	44,411
Short-term investments	–	30,285	–	–	–	–	30,285

The other financial instruments of the Group that are not included in the preceding table are not subject to interest rate repricing and are therefore not subject to interest rate volatility.

The following tables demonstrate the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of the Group's profit before tax for the years ended December 31, 2019 and 2018. The possible change are based on the survey conducted by management among its banks. There is no impact on the Group's equity other than those already affecting the profit or loss.

	2019	
	Increase (Decrease) in Basis Points	**Effect on Profit Before Tax Increase (Decrease)**
Long-term loans	**25**	**(₱31,006)**
	(25)	**31,006**
Short-term investments	**25**	**2,669**
	(25)	**(2,669)**
SDA	**25**	**(12,823)**
	(25)	**12,823**
SSA	**25**	**34**
	(25)	**(34)**

	2018	
	Increase (Decrease) in Basis Points	Effect on Profit Before Tax Increase (Decrease)
Long-term loans	25	(₱15,615)
	(25)	15,615
SDA	25	(980)
	(25)	980
SSA	25	1,766
	(25)	(1,766)
Short-term loan	25	980
	(25)	(980)

Commodity Price Risk
The Group defines Commodity Price Risk as the risk of realizing reduced profit margins and/or increasing the volatility of future earnings that are affected by the pricing variability and uncertainty in coal supply and any associated foreign exchange risk. The risk is measured based on potential downside impact of market volatility to target earnings.

To manage Commodity Price Risk, the Group develops a Coal Hedging Strategy aimed to:

- Manage the risk associated with unexpected increase in coal prices which affect the target Profit & Loss of the Group
- Determine the Hedge Item and appropriate Hedging Instrument to use, including but not limited to price, amount and tenor of the hedge to reduce the risk to an acceptable level
- Reduce Mark-to-Market impact of hedges by qualifying the hedging transaction for hedge accounting

Only the Group's Chief Executive Officer and Chief Finance Officer are authorized to make coal hedging decisions for the Group. All executed hedges go through a stringent approval process to justify the tenor, price and volume of the hedge to be undertaken.

Monitoring and assessment of the hedge effectiveness and Coal Hedging Strategy is reviewed quarterly during the Group's Finance Committee (FINCOM). Continuation, addition, reduction and termination of existing hedges are decided by the FINCOM and any material change in permissible hedging instrument, counterparties and limits are elevated to the Board for approval.

As at December 31, 2019, the Group's outstanding coal hedge volumes and resulting derivative liability is as follows:

	2019		**Test of**
	In Metric Tons (MT)	**U.S. Dollar (US$)**	**Effectiveness**
Derivative Liabilities	**135,000**	**(414,411)**	**100%**
BAP closing rate		**50.82**	
Peso equivalent		**(₱21,060,367)**	

The portion of gain or loss on the hedging instrument amounting to ₱21.06 million that is determined to be effective hedge shall be recognized in other comprehensive income.

Equity Price Risk
Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Group's exposure to equity price risk relates primarily to its financial assets at FVOCI.

As at December 31, 2019, the Group has already liquidated all outstanding investment in marketable securities and will discontinue investing in highly volatile financial instruments to keep a risk-averse position.

Monitoring of Risk Management Process
Risk management is regarded as a core competency, thus review of processes and approval processes including periodic audit are practiced and observed as follows:

- Monthly Treasury meetings are scheduled where approved strategies, limits, mixes are challenged and rechallenged based on current and forecasted developments on the financial and political events.
- Weekly portfolio reports are submitted to the Management Committee that includes an updated summary of global and domestic events of the past month and the balance of the year.
- Annual teambuilding sessions are organized as a venue for the review of personal goals, corporate goals and professional development.
- One on one coaching sessions are scheduled to assist, train and advise personnel.
- Periodic review of Treasury risk profile and control procedures.
- Periodic specialized audit is performed to ensure active risk oversight.

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or acquire long-term debts. In 2017, the Group availed of ₱2.35 billion loan agreement with SBC and DBP (see Note 19). In 2018, the Group availed ₱0.93 billion loan agreement with SBC. In 2019, the Group availed P5.00 billion loan agreement with BDO. In relation to these agreements, the Group closely monitors its debt covenants and maintains a capital expenditure program and dividend declaration policy that keeps the compliance of these covenants into consideration.

The following debt covenants are being complied with by the Group as part of maintaining a strong credit rating with its creditors:

ACEPH
CBC and BDO
(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity
(b) Maximum Debt to Equity ratio of 1.5 times

SBC
(a) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity
(b) Maximum Debt to Equity ratio of 2.0 times
(c) Minimum Current ratio of 1.0 times

PHINMA Renewable
Under the Omnibus Loan Facility Agreement, PHINMA Renewable must maintain a Historical Debt Service Coverage Ratio of at least 1.20:1.00 and a Debt to Equity ratio of not exceeding 70:30. It also requires equity contributions from its shareholders amounting to ₱328.13 million for retention and contingencies.

Additional covenants prevent PHINMA Renewable from entering into any joint ventures, partnerships, or similar business combinations or arrangements. It also prohibits PHINMA Renewable from making payments of dividends or return of capital.

SLTEC
The New Omnibus Agreement provides for covenants which include, among others, maintaining DSCR of not less than 110% and net debt-capitalization ratio not exceeding 75:1.

37. Fair Values

The table below presents the carrying values and fair values of the Group's financial assets and financial liabilities, by category and by class, as at December 31, 2019 and 2018:

	2019			
		Fair Value		
	Carrying Value	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Input (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Financial assets at FVOCI	**₱1,251**	**₱21**	**₱1,230**	**₱–**
Derivative assets*	**33**	**–**	**33**	**–**
Refundable deposits**	**186,703**	**–**	**–**	**186,703**
Receivables from third parties**	**333,333**	**–**	**–**	**333,333**
	₱521,320	**₱21**	**₱1,263**	**₱520,036**
Liabilities				
Long-term debt	**₱20,785,928**	**₱–**	**₱20,785,928**	**₱–**
Deposit payables and other liabilities***	**6,085,290**	**–**	**–**	**6,085,290**
Derivative liability	**21,060**	**–**	**21,060**	**–**
	₱26,892,278	**₱–**	**₱20,806,988**	**₱6,085,290**

	2018			
		Fair Value		
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Financial assets at FVTPL				
Current	₱743,739	₱–	₱743,739	₱–
Noncurrent	5,452	–	5,452	–
Financial assets at FVOCI	257,995	137,096	11,500	109,399
Derivative assets*	4	–	4	–
Refundable deposits**	154,010	–	–	136,129
Receivables from third parties**	517,757	–	–	518,071
	₱1,678,957	₱137,096	₱760,695	₱763,599
Liabilities				
Short-term loan	₱400,000	₱–	₱–	₱400,000
Long-term debt	6,336,933	–	6,114,507	–
Deposit payables and other liabilities***	4,603	–	–	4,202
	₱6,741,536	₱–	₱6,114,507	₱404,202

** Included under "Other current assets" account.*
*** Included under "Other current assets" and "Other noncurrent assets" accounts.*
**** Included under "Accounts payable and other current liabilities" and "Other noncurrent liabilities" accounts.*

The following methods and assumptions are used to estimate the fair values of each class of financial instruments:

Cash and Cash Equivalents, Short-term Investments, Receivables, Accounts Payable and Other Current Liabilities and Due to Stockholders
The carrying amounts of cash and cash equivalents, short-term investment, receivables, accounts payable and other current liabilities and due to stockholders approximate their fair values due to the relatively short-term maturities of these financial instruments.

Financial Assets at FVTPL
Net asset value per unit has been used to determine the fair values of financial assets at FVTPL.

Financial Asset at FVOCI
Quoted market prices have been used to determine the fair values of quoted financial assets at FVOCI. In 2019 and 2018, the fair values of financial assets at FVOCI are determined based on the discounted free cash flows of the investee.

The fair value of derivative assets of freestanding forward currency transactions is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Refundable Deposits, Deposits Payable and Other Liabilities
Estimated fair value is based on present value of future cash flows discounted using the prevailing PHP BVAL reference rates that are specific to the tenor of the instruments' cash flows at the end of the reporting period.

Long-Term Loans
The estimated fair value is based on the discounted value of future cash flows using the prevailing credit adjusted risk-free rates that are adjusted for credit spread.

Derivative Assets
Embedded Derivatives
The Group has bifurcated embedded derivatives from its fuel purchase contracts. The purchases are denominated in U.S. dollar but the Group agreed to pay in Philippine peso using the average daily Philippine Dealing System weighted average rate of the month prior to the month of billing. These embedded derivatives are attributable to ACEPH.

The Group's outstanding embedded forwards have an aggregate notional amount of US$0.97 million and US$0.03 million as at December 31, 2019 and 2018, respectively. The weighted average fixing rate amounted to ₱50.84 to US$1.00 and ₱52.35 to US$1.00 as at December 31, 2019 and 2018, respectively. The net fair value of these embedded derivatives amounted to ₱3.88 million gains and ₱0.20 million gains at December 31, 2019 and 2018, respectively.

The net movements in fair value changes of the Group's derivative instruments (both freestanding and embedded derivatives) are as follows:

	2019	2018
Balance at beginning of year	**₱4**	₱9,652
Net changes in fair value during the year	**(6,851)**	(15,056)
Fair value of settled contracts	**6,880**	5,408
Balance at end of year	**₱33**	₱4

The net changes in fair value during the year are included in the "Other income - net" account in the consolidated statement of income (see Note 28).

The fair value of derivative assets is presented under "Other current assets" account in the consolidated statement of financial position (see Note 9).

38. Operating Segments

The Group is divided into two reportable operating segments based on the nature of the services provided - Power and Petroleum. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

	2019				
	Power	**Petroleum**	**Segment Total**	**Adjustments and Eliminations**	**Consolidated**
Revenue	**₱15,297,719**	**₱–**	**₱15,297,719**	**₱8,944**	**₱15,306,663**
Costs and expenses	**15,302,512**	**29,774**	**15,332,286**	**349,728**	**15,682,014**
Other income (expense) - net					
Interest and other finance charges	**(126,086)**	**–**	**(126,086)**	**(755,877)**	**(881,963)**
Interest and other financial income	**–**	**–**	**–**	**109,190**	**109,190**
Equity in net loss of associates and joint ventures	**(24,461)**	**–**	**(24,461)**	**–**	**(24,461)**
Gain on derivatives - net	**–**	**–**	**–**	**(6,850)**	**(6,850)**
Gain on sale of PPE	**158**	**–**	**158**	**293,942**	**294,100**
Asset held for sale	**14,289**		**14,289**		**14,289**
Gain on sale of investment	**1,375**	**–**	**1,375**	**–**	**1,375**
Inventory	**(461)**	**–**	**(461)**	**–**	**(461)**
Foreign exchange loss - net	**–**	**–**	**–**	**12,330**	**12,330**
Others	**110**	**–**	**110**	**291,970**	**292,080**
Segment loss	**(₱139,869)**	**(₱29,774)**	**(₱169,643)**	**(₱396,079)**	**(₱565,722)**
Operating assets	**₱27,910,722**	**₱57,801**	**₱27,968,523**	**₱11,752,282**	**₱39,720,805**
Operating liabilities	**₱18,554,725**	**₱30,716**	**₱18,585,441**	**₱10,030,546**	**₱28,615,987**
Capital expenditures	**₱386,879**	**₱–**	**₱386,879**	**₱3,547**	**₱390,426**
Capital disposals	**15,506**	**63**	**15,569**	**237,072**	**252,641**
Investments and advances	**4,147,257**	**–**	**4,147,257**	**(3,424,092)**	**723,165**
Depreciation and amortization	**(380,524)**	**(469)**	**(380,993)**	**(511,473)**	**(892,466)**
Provision for income tax	**–**	**–**	**–**	**(148,819)**	**(148,819)**

	2018				
	Power	Petroleum	Segment Total	Adjustments and Eliminations	Consolidated
Revenue	₱15,113,601	₱–	₱15,113,601	₱9,791	₱15,123,392
Costs and expenses	15,428,035	116,348	15,544,383	219,625	15,764,008
Other income (expense) - net					
Interest and other finance charges	(132,377)	–	(132,377)	(301,272)	(433,649)
Interest and other financial income	–	–	–	96,851	96,851
Equity in net earnings of associates and joint ventures	532,460	–	532,460	–	532,460
Gain on derivatives - net	–	–	–	(15,057)	(15,057)
Gain on sale of PPE	181	–	181	80	261
Gain on sale of investment	5,834	–	5,834	–	5,834
Foreign exchange loss – net	–	–	–	29,329	29,329
Provision for unrecoverable input tax	(43,712)	–	(43,712)	–	(43,712)
Others	431	–	431	46,315	46,746
Segment profit (loss)	₱48,383	(₱116,348)	(₱67,965)	(₱353,588)	(₱421,553)
Operating assets	₱16,116,835	₱38,550	₱16,155,385	₱2,769,310	₱18,924,695
Operating liabilities	₱5,161,610	₱16,150	₱5,177,760	₱5,375,487	₱10,553,247
Capital expenditures	₱96,938	₱4,343	₱101,281	₱2,923	₱104,204
Capital disposals	2,367	–	2,367	556	2,923
Investments and advances	4,322,053	–	4,322,053	631	4,322,684
Depreciation and amortization	(385,341)	(458)	(385,799)	(19,985)	(405,784)
Provision for income tax	–	–	–	(171,603)	(171,603)

	2017				
	Power	Petroleum	Segment Total	Adjustments and Eliminations	Consolidated
Revenue	₱17,011,044	₱–	₱17,011,044	₱9,189	₱17,020,233
Costs and expenses	17,238,567	23,437	17,262,004	331,785	17,593,789
Other income (expense) - net					
Interest and other finance charges	(184,075)	–	(184,075)	(329,491)	(513,566)
Interest and other financial income	–	–	–	87,185	87,185
Equity in net earnings of associates and joint ventures	1,024,995	–	1,024,995	–	1,024,995
Gain on derivatives - net	(449)	–	(449)	9,848	9,399
Loss on sale of AFS investments	–	–	–	(17)	(17)
Foreign exchange loss - net	–	–	–	(8,373)	(8,373)
Others	–	–	–	17,423	17,423
Segment profit (loss)	₱612,948	(₱23,437)	₱589,511	(₱546,021)	₱43,490
Operating assets	₱15,654,072	₱77,699	₱15,731,771	₱5,026,762	₱20,758,533
Operating liabilities	₱5,913,821	₱3,612	₱5,917,433	₱5,701,541	₱11,618,974
Capital expenditures	₱114,115	₱130	₱114,245	₱11,647	₱125,892
Capital disposals	2,018	830	2,848	417	3,265
Investments and advances	4,056,971	–	4,056,971	631	4,057,602
Depreciation and amortization	(379,519)	(689)	(380,208)	(19,195)	(399,403)
Benefit from income tax	–	–	–	303,678	303,678

Adjustments and eliminations

Interest and other financial income, including fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis. Likewise, certain operating expenses and finance-related charges are managed on a group basis and are not allocated to operating segments.

Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

Capital expenditures consist of additions to property, plant and equipment. Investments and advances consist of investments and cash advances to the Group's associates and joint ventures.

Reconciliation of profit

	2019	2018	2017
Segment total profit (loss) before adjustments and eliminations	**(₱173,049)**	(₱67,965)	₱589,511
Dividend income	**7,585**	9,117	8,483
Rent income	**1,359**	674	706
General and administrative expense	**(304,920)**	(219,626)	(331,785)
Interest and other financial income	**109,190**	96,851	87,185
Interest and other finance charges	**(755,877)**	(301,272)	(329,491)
Other income - net	**549,990**	60,677	18,881
Income (loss) before income tax	**(₱565,722)**	(₱421,544)	₱43,490

Other income - net include foreign exchange gain (loss), gain (loss) on sale of property, plant and equipment and financial assets at FVOCI, provision for probable losses, gain (loss) on derivatives and other miscellaneous income (expense) which are managed on a group basis and are not allocated to operating segments.

Reconciliation of assets

	2019	2018
Segment operating assets	**₱27,968,523**	₱16,155,385
Current assets		
Cash and cash equivalents	**6,921,542**	1,022,366
Receivables and other current assets	**690,545**	69,781
Financial assets at FVTPL	–	743,739
Short-term investments	**100,000**	35,326
Noncurrent assets		
Property, plant and equipment	**2,536**	47,361
Investments in an associate, financial assets at FVOCI and financial assets at FVTPL	**3,026,768**	264,078
Investment property	**13,085**	13,085
Deferred income tax asset - net	**608,526**	261,346
Other noncurrent assets	**389,280**	312,228
Total assets	**₱39,720,805**	₱18,924,695

Reconciliation of liabilities

	2019	2018
Segment operating liabilities	**₱18,585,441**	₱5,177,760
Current liabilities		
Accounts payable and other current liabilities	**1,178,205**	107,502
Income and withholding taxes payable	**21,876**	11,762
Due to stockholders	**16,594**	16,651
Short-term loan	**–**	400,000
Current portion of long-term loans	**219,173**	157,683

(Forward)

	2019	2018
Noncurrent liabilities		
Long-term loans - net of current portion	**₱8,357,377**	₱4,546,463
Pension and other employee benefits	**60,449**	40,246
Deferred income tax liabilities - net	**176,872**	95,180
Other noncurrent liabilities	**–**	–
Total liabilities	**₱28,615,987**	₱10,553,247

39. Supplemental Cash Flow Information

The following table shows the Group's non-cash investing and financing activities and corresponding transaction amounts for the years ended December 31, 2019 and 2018:

	2019	2018
Non-cash investing activities:		
Due to acquisition of subsidiaries:		
Property and equipment	**₱16,113,473**	₱–
Payable to Axia for purchase of interest in SLTEC as of December 31	**2,874,637**	–
Other noncurrent assets	**396,431**	–
Payable for additions to property, plant and equipment as of December 31	**121,431**	–
Reclassifications to (from):		
Right-of-use assets	**590,556**	–
Property and equipment	**377,800**	1,844
Other noncurrent assets	**(201,764)**	–
Financial assets at FVOCI	**(66,749)**	–
Goodwill and other intangible assets	**(24,959)**	–
Creditable withholding taxes	**–**	704,726
Other noncurrent assets	**–**	507,261
Asset held for sale	**–**	34,328

Movement in the Group's liabilities from financing activities are as follows:

	January 1, 2019	Availments	Payments	Others	December 31, 2019
Current portion of:					
Short-term loans	**₱400,000**	**₱–**	**(₱400,000)**	**₱–**	**₱–**
Long-term loans	**265,460**	**–**	**(265,460)**	**593,847**	**593,847**
Lease liability	**–**	**–**	**–**	**33,542**	**33,542**
Interest payable	**79,297**	**–**	**(791,630)**	**849,951**	**137,618**
Noncurrent portion of:					
Long-term loans	**6,071,473**	**5,000,000**	**(1,116,514)**	**10,237,122**	**20,192,081**
Lease liability	**–**	**–**	**(36,246)**	**562,275**	**526,029**
Total liabilities from financing activities	**₱6,816,230**	**₱5,000,000**	**(₱2,609,850)**	**₱12,276,737**	**₱21,483,117**

40. Events After the Reporting Period

Court of Tax Appeal (CTA)'s Decision on PHINMA Renewable Energy Corporation's Input VAT Refund Claim Against BIR

On January 9, 2020, PHINMA Renewable received a copy of the Decision of CTA on CTA Case no. 9516 wherein PREC filed a Petition for Review against the Commissioner of Internal Revenue on January 17, 2017, praying for the refund or issuance of a tax credit certificate in the total of ₱336.00 million, representing its alleged excess unutilized input value-added tax (VAT) for the 3rd and 4th quarters of taxable year 2014 and 1st and 2nd quarters of taxable year 2015.

In its Decision, the CTA partially granted PHINMA Renewable 's Petition for Review and ordered the BIR to refund or issue a tax credit certificate in favor of PHINMA Renewable in the reduced amount of ₱16.15 million since the CTA ruled that PHINMA Renewable was able to prove compliance with the essential elements for the grant of VAT zero-rating under Section 15(g), Renewable Energy Act of 2008 beginning June 1, 2015, which are as follows:

1. The seller (PHINMA Renewable) is a Renewable Energy Developer of renewable energy facilities;
2. It sells fuel or power generated from renewable sources of energy, such as wind;
3. The said seller is a "generation company," i.e., a person or entity authorized by the Energy Regulatory Commission (ERC) to operate facilities used in the generation of electricity; and
4. Such authority is embodied in a Certificate of Compliance (COC) issued by the ERC which must be secured before the actual commercial operations of the generation facility.

However, the CTA held that PHINMA Renewable was not able to prove compliance with the 3rd and 4th essential elements to qualify for VAT zero-rating prior to June 1, 2015 because the CTA considered the condition fulfilled only upon the issuance of the COC by the ERC in favor of PHINMA Renewable on June 1, 2015. Hence, PHINMA Renewable's generated sales from its power generation activities which were considered by the CTA to be subject to zero percent (0%) VAT were only those made during the period June 1, 2015 to June 30, 2015.

In view of the foregoing Decision, PHINMA Renewable has fifteen (15) days from receipt of the Decision, or until January 24, 2020, to file a Motion for Reconsideration (MR) of the Decision.

On January 24, 2020, PHINMA Renewable filed its motion for reconsideration where it presented that the sale of power through renewable sources of energy by VAT-registered persons shall be subject to 0% VAT per Tax Code and Renewable Energy Act of 2008 and that the COC issued by the ERC merely confirms the status of PHINMA Renewable as a Generation Company.

Subscription Agreements with:

1. *SolarAce1*

   On January 14, 2020, the Parent Company signed a subscription agreement with SolarAce1 for the subscription of 6,000,000 Class A common shares and 180,000,000 Class A redeemable preferred Shares. SolarAce1 is developing a 120 MW DC solar power farm project to be located in the Municipality of Alaminos, Laguna.

   SolarAce1 is a wholly-owned subsidiary of Gigasol2, Inc. Gigasol2, Inc. is a wholly-owned subsidiary of AC Energy Development, Inc., which is one of the companies acquired by the Parent Company on October 9, 2019 in a property for share swap, pending regulatory approvals.

2. *Giga Ace 1, Inc. ("GigaAce1")*
   On February 26, 2020, the Parent Company signed a subscription agreement with GigaAce1 for the subscription by the Parent Company of 75,000 common shares to be issued out of the unissued authorized capital stock ("ACS") and 43,069,625 common shares and 53,562,609 redeemable preferred shares of GigaAce1 to be issued out of the increase in ACS of GigaAce1. On the same date, subscription by ACEPH was paid in cash amounting to ₱0.075 million for the common shares; ₱430.80 million for the 43,069,625 common shares and ₱2,142.50 million for the 53,562,609 RPS A.

   On March 3, 2020, the Parent Company signed another subscription agreement with GigaAce1 for the subscription by the Parent Company of additional 1,170,000 common shares and 32,500 RPS A to be issued out of the increase in ACS of GigaAce1. The subscription will be used by Giga Ace 1 to fund administrative and operating costs.

Deed of Transfer with Guimaras Electric Cooperative (GUIMELCO)
On January 15, 2020, the Parent Company signed a deed of transfer with GUIMELCO.

The Parent Company has a contract of lease with GUIMELCO for a portion of a parcel of land as site for its 3.4MW Diesel Power Plant and Facilities. In 2005, the Parent Company constructed on the leased premises a one (1) storey building.

Effective July 31, 2018, the Parent Company stopped operating the Power Plant and subsequently sold its equipment and machineries. The Parent Company has outstanding lease payables as of December 31, 2019. In settlement of its lease payables, it offered to transfer by way of dation in payment the building on January 15, 2020.

Philippine Competition Commission's Approval of Share Purchase Agreements with:
1. *Macquarie Infrastructure Holdings (Philippines) Pte. Limited, Langoer Investments Holding B.V., and the Government Service Insurance System (the "PINAI Investors") for PhilWind shares*
   On January 28, 2020, the PCC ruled that the PINAI Investors' sale of PhilWind shares "will not likely result in substantial lessening of competition" and resolved to take no further action with respect to the share purchase agreement.

2. *PINAI Investors for SACASOL shares*
   On February 13, 2020, the PCC ruled that PINAI Investors' sale of SACASOL shares "will not likely result in substantial lessening of competition" and resolved "to take no further action with respect to the Transaction..."

3. *PINAI Investors for ISLASOL shares*
   On February 26, 2020, the PCC ruled that PINAI Investors' sale of ISLASOL shares "will not likely result in substantial lessening of competition" and resolved "to take no further action with respect to the Transaction..."

DOE Approval on Transfer of Participating Interests of Century Red in SC 55
On February 13, 2020, Palawan55 received DOE's approval on the transfer of the 37.50% participating interest of Century Red in SC 55. After careful review and evaluation of DOE, Palawan55 is found to be technically, financially and legally qualified to assume the participating interests of Century Red.

Palawan55's participating interest in SC 55 is adjusted from 37.50% to 75.00%.

Impact of the Coronavirus Disease 2019 (COVID-19) Outbreak
In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The events surrounding the outbreak do not impact the Group's financial position and performance as of and for the year ended December 31, 2019. Considering the evolving nature of this outbreak, the Group cannot determine at this time the impact to its financial position, performance and cash flows in 2020. The Group has taken measures to manage the risks and uncertainties brought about by the outbreak and will continue to monitor the situation.

Other matters
On March 18, 2020, the BOD approved, among others, the following matters:

i. Corporate changes
   a. Change of the corporate name of the Parent Company to "AC Energy Corporation";
   b. Increase of the Parent Company' authorized capital stock to ₱48.40 billion, divided into 48.40 billion common shares;
   c. Consolidation of ACEI's international business and assets into the Parent Company via a tax free exchange, whereby ACEI will transfer its shares of stock in Presage Corporation (ACEI's subsidiary holding company that owns ACEI's international business and investments) to the Parent Company in exchange for the issuance to ACEI of additional primary shares in the Parent Company (assets-for-shares swap);
   d. Share buy-back program to support share prices through the repurchase in the open market of up to ₱1.00 billion worth of common shares beginning March 24, 2020;

ii. Significant transactions and contracts
   a. Parent Company's hedging policy, additional hedging counterparties, and guarantee fee arrangement with AC Energy;
   b. Parent Company's oil and diesel hedging transactions with Macquarie Bank Limited;
   c. Parent Company's guarantee arrangement with AC Energy for the Parent Company's oil and fuel hedging transactions;
   d. Payment of employee and employer shares under the Parent Company's old defined contribution retirement plan to covered employees as part of their transition to the new Parent Company's retirement plan;

iii. Funding
   a. Renewal and additional credit lines with local banks of up to ₱25.00 billion and foreign banks of up to US$240 million, and co-use of these facilities with the Parent Company's subsidiaries;
   b. Execution of credit facilities with the Presage Group for up to US$400.00 million, or its peso equivalent to fund the Parent Company's various greenfield projects and acquisitions;

iv. New investments and projects
   a. In principle, the investment in the 160 MW Balaoi wind project, to be located in Barangays Balaoi and Caunayan, Pagudpud, Ilocos Norte;
   b. Funding of and investment into a Renewable Energy Laboratory project; and
   c. In principle, funding of up to US$100 million for new technology investments in the Philippines.

41. **Contingencies**

Tax assessments:

a. On September 5, 2017, CIPP received an FDDA from the BIR demanding the payment of a total amount of ₱341.73 million for various alleged deficiency taxes for taxable year 2013. On October 4, 2017, CIPP filed its request for reconsideration with the Office of the Commissioner. In the opinion of CIPP's management, in consultation with its outside counsel, these proceedings will not have material or adverse effect on the consolidated financial statements. The information usually required by PAS 37 is not disclosed on the ground that it can be expected to prejudice the outcome or CIPP's position with respect to these matters. As at March 25, 2020, the case is still pending.

b. On August 20, 2014, ACEPH distributed cash and property dividends in the form of shares in ACEX after securing SEC's approval of the registration and receipt of Certificate Authorizing Registration (CAR) from the BIR.

   On October 22, 2014, ACEPH received from the BIR a Formal Letter of Demand (FLD), assessing ACEPH for a total donor's tax due of ₱157.75 million inclusive of penalty and interest up to September 30, 2014.

   On November 21, 2014, ACEPH and its independent legal counsel filed an administrative protest in response to the FLD, on the following grounds:

   1) The dividend distribution is a distribution of profits by ACEPH to its stockholders and not a "disposition" as contemplated under Revenue Regulations Nos. 6-2008 and 6-2013 which would result in the realization of any capital gain of ACEPH;
   2) ACEPH did not realize any gain or increase its wealth as a result of the dividend distribution; and,
   3) There was no donative intent on the part of ACEPH.

   On May 27, 2015, ACEPH received from the BIR a Final Decision on Disputed Assessment (FDDA) dated May 26, 2015, denying the protest.

   On June 25, 2015, ACEPH filed with the CTA a Petition for Review seeking a review of the FDDA and requesting the cancellation of the assessment. In its decision dated September 28, 2018, the CTA cancelled and withdrew the FLD. On January 18, 2019, the CTA denied the BIR's motion for reconsideration. On February 22, 2019, BIR filed its petition for review seeking CTA's reversal of its decision on September 28, 2018 and its resolution on January 18, 2019. In response, ACEPH filed its Comment/ Opposition. The CTA referred the case for mediation. However, the parties had no agreement to mediate so CTA submitted the case for decision on July 10, 2019. As at March 25, 2020, the decision of CTA is still pending.

c. On January 4, 2018, PHINMA Power received a formal letter of demand issued by the BIR demanding payment amounting to ₱19.72 million for deficiency income tax, value-added tax, withholding tax and compromise penalties for the taxable year 2013. On January 5, 2018, PHINMA Power paid the amount of ₱19.72 million as full settlement of the assessment.

d. On June 28, 2019, PHINMA Power received a Letter of Authority (LOA) for the examination of accounting records for all internal revenue taxes for the period from January 1, 2018 to December 31, 2018 was received. The submission of required documents covered by the audit is ongoing.

Claim for tax refund

On August 15, 2016, PHINMA Renewable filed with the BIR a letter and application for tax credits or refund for the PHINMA Renewable's excess and unutilized input VAT for the period July 1, 2014 to June 30, 2015 amounting to ₱335.76 million attributable to PHINMA Renewable's zero-rated sales. On December 19, 2016, PHINMA Renewable received a letter from the BIR denying the administrative claim for refund of excess and unutilized input VAT for the period July 1, 2014 to December 31, 2014. On January 11, 2017, PHINMA Renewable filed with the CTA a Petition for Review. During 2018, PHINMA Renewable and the BIR presented their evidence and arguments. Refer to Note 40 for detailed discussion on the progress of the claim.

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

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
AC Energy Philippines, Inc.
4th Floor, 6750 Office Tower
Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of AC Energy Philippines, Inc and Subsidiaries (collectively, the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 included in this Form 17-A and have issued our report thereon dated March 25, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Benjamin N. Villacorte

Benjamin N. Villacorte
Partner
CPA Certificate No. 111562
SEC Accreditation No. 1539-AR-1 (Group A),
March 26, 2019, valid until March 25, 2022
Tax Identification No. 242-917-987
BIR Accreditation No. 08-001998-120-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 8125320, January 7, 2020, Makati City

March 25, 2020

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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
AC Energy Philippines, Inc.
4th Floor, 6750 Office Tower
Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of AC Energy Philippines, Inc and its Subsidiaries (collectively, the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated March 25, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

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January 28, 2019, valid until January 27, 2022
PTR No. 8125320, January 7, 2020, Makati City

March 25, 2020

AC ENERGY PHILIPPINES, INC. AND SUBSIDIARIES
Schedule A. Financial Assets
December 31, 2019

Name of Issuing Entity and Association of each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Income Received and Accrued
Investment in Treasury Bills		₱0.00	₱0.00	₱0.00
Investment in Unit Investment Trust Fund and Money		0.00	0.00	0.00
Financial assets at FVOCI				
Tagaytay Midlands Golf Club, Inc.	1	600,000	600,000	-
Evercrest Golf Club Resorts, Inc.	1	40,000	40,000	-
Puerto Azul Golf & Country Club, Inc.	1	150,000	150,000	-
Capitol Hills Golf & Country Club, Inc.	1	150,000	150,000	-
Philam Tower Club	1	100,000	100,000	-
Camp John Hay	1	190,000	190,000	-
A. Soriano	179	1,073	1,073	-
PLDT Inc.		19,500	19,500	-
		1,250,573	1,250,573	-
Loans and Receivables				
Cash and Cash Equivalents		8,581,662,823	8,581,662,823	61,825,887
Short-term investments		100,000,000	100,000,000	-
Trade and Other Receivables		2,721,664,932	2,721,664,932	6,273,605
Long-term Receivables		333,332,833	333,332,833	8,660,717
		11,736,660,588	11,736,660,588	76,760,209
Derivative Assets		32,817	32,817	-
		₱11,737,943,978	₱11,737,943,978	₱76,760,209

AC ENERGY PHILIPPINES, INC. AND SUBSIDIARIES
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2019

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Non Current	Balance at End of Period
			Amount Collected	Amount Written-Off			

Not Applicable: The Company has no amounts receivable from directors, officers, employees, related parties and principal stockholders as at December 31, 2019 equal to or above the established threshold of the Rule.

AC ENERGY PHILIPPINES, INC. AND SUBSIDIARIES
Schedule C. Accounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
December 31, 2019

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Non Current	Balance at End of Period
			Amount Collected	Amount Written-Off			
CIP II Power Corporation	₱ -	₱ -	₱ -	₱ -	₱ -	₱ -	₱ -
PHINMA Power Generation Corporation	1,112,325	111,792,030	(86,229,080)	-	26,675,275	-	26,675,275
PHINMA Renewable Energy Corporation	-	475,044,696	(475,044,696)	-	-	-	-
AC Enexor Inc.	-	153,736,454	(153,636,454)	-	100,000	-	100,000
Palawan55 Exploration and Production Corporation	-	7,477,272	-	-	7,477,272	-	7,477,272
One Subic Power Generation Corporation	-	550,000,000	-	-	550,000,000	-	550,000,000
South Luzon Thermal Energy Corporation		42,972,183	(19,074,394)		23,897,788		23,897,788
	₱1,112,325	₱1,341,022,635	(₱733,984,624)	₱ -	₱608,150,336	₱ -	₱608,150,336

AC ENERGY PHILIPPINES, INC. AND SUBSIDIARIES
Schedule D. Intangible Assets - Other Assets
December 31, 2019

Description	Beginning Balance	Additions At Cost	Deductions		Other Changes- Additions (Deductions)	Ending Balance
			Charged to Costs and Expenses	Charged to Other Accounts		
Oil exploration and development costs:						
Service Contract (SC) No. 6	₱27,460,307	₱409,560	₱ -	₱ -	₱ -	₱27,869,867
SC 51	32,665,864		-	-	-32,665,864	-
SC 55	6,815,985	16,246,978	-	-	-	23,062,963
SC 69	15,596,930	-	-	-	-15,596,930	-
SC 52	10,993,823	-	-	-	-	10,993,823
SC 50	11,719,086	-	-	-	-	11,719,086
Geothermal Service Contract (GSC) No. 8 Mabini	31,722,948	2,769,627	-	-	-	34,492,575
Hydropower Service Contracts:						
SC 467	-	-	-	-	-	-
SC 465	-	-	-	-	-	-
	136,974,943	19,426,164	-	-	-	108,138,314
Allowance for probable losses	(75,867,880)	-	(34,492,575)		48,262,794	(62,097,661)
Total deferred exploration cost	61,107,063 -	19,426,164	(34,492,575)	-	-	46,040,653
Leasehold rights	24,959,644	499,976,001.46	-	-	-524,935,645	-
Goodwill	234,152,394	-	-	-	-	234,152,394
	P320,219,101	₱19,426,164	-₱34,492,575	₱ -	₱ -	₱280,193,047

AC ENERGY PHILIPPINES, INC. AND SUBSIDIARIES
Schedule E. Long-Term Debt
December 31, 2019 62,436,610

	Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount shown under Caption "Current Portion of Long-Term Debt" in related Balance Sheet	Amount shown under Caption "Long-Term Debt" in related Balance Sheet	Interest Rate	Periodic Payments	Maturity Date
ACEPH	Development Bank of the Philippines	₱907,391,160	₱66,891,015	₱840,500,145	6.00%	25 semi-annual payments	July 10, 2029
	Security Bank Corporation	907,420,730	66,942,557	840,478,173	6.50%	25 semi-annual payments	July 11, 2029
	China Bank Corporation	1,365,000,000	30,000,000	1,335,000,000	5.68%	36 quarterly payments	April 30, 2024
	BDO Unibank Inc.	455,000,000	10,000,000	445,000,000	5.81%	36 quarterly payments	April 30, 2024
	BDO Unibank Inc.	5,000,000,000	52,631,579	4,947,368,421	5.05%	20 semi-annual payments	Nov 14, 2029
	Total	8,634,811,890	226,465,151	8,408,346,739			
	Derivative on long-term loans	2,428,675	1,875,808	552,867			
	Unamortized debt issue costs	(60,692,024)	(9,167,950)	(51,524,074)			
		₱8,576,548,541	₱219,173,009	₱8,357,375,532			
PREC	Development Bank of the Philippines	₱765,867,200	₱60,733,125	₱705,134,075	5.84%-6.25%	25 semi-annual payments	February 14, 2029
	Security Bank Corporation	765,867,200	60,733,125	705,134,075	6.24%-6.68%	25 semi-annual payments	February 14, 2029
	Total	1,531,734,400	121,466,250	1,410,268,150			
	Unamortized debt issue costs	(6,724,925)	(5,155,679)	2,115,402,225			
		₱1,525,009,475	₱116,310,571	₱3,525,670,375			
SLTEC	BDO Unibank Inc.	₱3,290,843,750	₱83,312,500	₱3,207,531,250	5.71%%-7.05%	24 semi-annual payments	May 7, 2031
	BDO Unibank Inc.	3,290,843,750	83,312,500	3,207,531,250	6.98%	24 semi-annual payments	May 7, 2031
	Rizal Commercial Banking Corporation	1,646,656,250	41,687,500	1,604,968,750	5.71%%-7.05%	24 semi-annual payments	May 7, 2031
	Rizal Commercial Banking Corporation	1,646,656,250	41,687,500	1,604,968,750	6.98%	24 semi-annual payments	May 7, 2031
	Security Bank Corporation	995,683,000	25,000,000	970,683,000	6.98%	24 semi-annual payments	May 7, 2031
	Total	₱10,870,683,000	₱275,000,000	₱10,595,683,000			
	Unamortized debt issue costs	(178,132,197)	(16,765,162)	(161,367,035)			
		₱10,692,550,803	₱258,234,838	₱10,434,315,965			

AC ENERGY PHILIPPINES, INC. AND SUBSIDIARIES
Schedule F. Indebtedbess to Related Parties (Long-Term Loans from Related Companies)
December 31, 2019

Name of Related Party	Balance at Beginning of Period	Balance at End of Period

Not Applicable: The Company has no indebtedness to related parties as at December 31, 2019.

AC ENERGY PHILIPPINES, INC. AND SUBSIDIARIES
Schedule G. Guarantees of Securities of Other Issuers
December 31, 2019

Name of Issuing Entity of Securities Guaranteed by the Company for which Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by the Company for which Statement is Filed	Nature of Guarantee

Not Applicable: The Company has no guarantees of securities of other issuers as at December 31, 2019.

AC ENERGY PHILIPPINES, INC. AND SUBSIDIARIES
Schedule H. Capital Stock
December 31, 2019

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
Common stock	8,400,000,000	7,521,774,922	60,301,331	5,015,081,911	389,115,676	2,117,577,335