

COVER SHEET

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S.E.C. Registration Number

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(Company's Full Name)

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(Business address: No. Street City / Town / Province)

ATTY. ALAN T. ASCALON

Contact Person

7730-6300

Company Telephone Number

1	2
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Month

3	1
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Day

Fiscal Year

1	7	-	A	
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FORM TYPE

0	4
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Month

2	0
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Day

Annual Meeting

Not Applicable

(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

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Amended Articles Number/Section

3,189

Total No. of Stockholders

-

Domestic

-

Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document ID

CASHIER

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CERTIFICATION

I, Mariejo P. Bautista, Controller of AC Energy Philippines, Inc., (the “Company”) with SEC registration number 069-039274 with principal office at 4th Floor, 6750 Ayala Avenue, Makati City, do hereby certify and state that:

- 1) In compliance with the guidelines issued by the Securities and Exchange Commission (SEC) for the filing of structured and current reports by publicly listed companies with the SEC in light of the imposition of an Enhanced Community Quarantine and Stringent Social Distancing Measures over the entire region of Luzon to prevent the spread of the 2019 Coronavirus Disease (COVID-2019), the Company is timely filing its SEC Form 17-A by uploading the same through the PSE EDGE in accordance with the relevant PSE rules and procedures.
- 2) The information contained in the attached SEC Form 17-A is true and correct to the best of my knowledge.
- 3) On behalf of the Company, I hereby undertake to a) submit hard or physical copies of the attached SEC Form 17-A with proper notarization and certification, b) pay the filing fees (where applicable) c) pay the penalties due (where applicable) d) other impositions (where applicable), within ten (10) calendar days from the date of the lifting of the Enhanced Community Quarantine period and resumption of SEC’s normal working hours.
- 4) I am fully aware that non-submission of hard/physical copies of reports as well as certification that they refer to one and the same document submitted online, within ten (10) calendar days from the lifting of the Enhanced Community Quarantine period and resumption of SEC’s normal working hours, shall invalidate the reports, applications, compliance, requests and other documents submitted via email. Hence, the corresponding penalties under existing rules and regulations of the Commission shall apply without prejudice to the imposition of penalties under Section 54 of the Securities Regulation Code and other applicable existing rules and regulations for failure to comply with the orders of the Commission.
- 5) I am executing this certification this 12 May 2020 to attest to the truthfulness of the foregoing facts and for whatever legal purpose it may serve.



Mariejo P. Bautista
Controller
Passport No. EC8230873
Issued 7 July 2016 at DFA Manila

SEC Number 39274
File Number

AC ENERGY PHILIPPINES, INC.
(formerly PHINMA Energy Corporation)
(Company's Full Name)

4th Floor, 6750 Office Tower, Ayala Avenue, Makati City
(Company's Address)

7730-6300
(Telephone Number)

2019 December 31
(Fiscal Year ending) (month & day)

17-A
(Form Type)

Amendment Designation (If Applicable)

December 2019
(Period Ended Date)

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

**ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND
SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2019**
2. SEC Identification Number **39274**
3. BIR Tax Identification No. **121-000-506-020**
4. Exact name of issuer as specified in its charter **AC Energy Philippines, Inc.**
5. Province, Country or other jurisdiction of incorporation or organization **Philippines**
6. Industry Classification Code (SEC Use Only)
7. Address of principal office **4th Floor, 6750 Office Tower, Ayala Avenue,
Makati City
Postal Code: 1226**
8. Issuer's telephone number, including area code **(632) 7730-6300**
9. Former name, former address, and former fiscal year, if changed since last report **PHINMA Energy Corporation**

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Number of Shares of Common Stock Outstanding	7,521,774,922 shares
Amount of Debt Outstanding (As of December 31, 2019)	₱21.0 billion

11. Are any or all of these securities listed on a Stock Exchange.

Yes ☒ No ☐

Stock Exchange	Philippine Stock Exchange
Classes of Securities Listed	Common shares

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes ☒ No ☐

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes ☒

No ☐

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form (As of December 31, 2019, Php4,722,197,457 equivalent to the total number of shares in the hands of the public based on the Company's Public Ownership Report, multiplied by the average price of the last trading day).

**APPLICABLE ONLY TO ISSUERS INVOLVED IN
INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS
DURING THE PRECEDING FIVE YEARS**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. **Not applicable**

Yes ☐

No ☐

DOCUMENTS INCORPORATED BY REFERENCE

15. Briefly describe documents incorporated by reference and identify the part of the SEC Form 17-A into which the document is incorporated:

2019 Opinion on and Individual Supplementary Schedules

2019 Consolidated Financial Statements of AC Energy Philippines, Inc. and Subsidiaries

2019 Financial Statements of AC Energy Philippines, Inc. (with BIR ITR Filing Reference)

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PART I **BUSINESS AND GENERAL INFORMATION**

Item 1. Business

AC Energy Philippines, Inc. (“ACEPH”, “AC Energy Philippines”, or the “Company”, formerly PHINMA Energy Corporation) is a corporation duly organized and existing under Philippine law with Securities and Exchange Commission (“SEC”) Registration No. 069-39274 and listed with the PSE with ticker symbol “ACEPH” (formerly “PHEN”).

As of 29 February 2020, AC Energy, Inc. (“AC Energy”) owns 66.34% of the outstanding capital stock of the Company. AC Energy is a Philippine corporation wholly owned by Ayala Corporation. AC Energy, its subsidiaries, and affiliates (the “AC Energy Group”) manages a diversified portfolio of renewable and conventional power generation projects and engages primarily in power project development operations and in other businesses located in the Philippines, Indonesia, Vietnam, and Australia.

ACEPH is engaged in the businesses of power and petroleum exploration.

- **For power business**, the Company manages a diversified portfolio of power plants with renewable and conventional sources. As of 31 December 2019, the Company had a total attributable capacity of 715 MW in operation and under construction across the region, which includes strategic investments in renewable and conventional power generation projects.
- **For petroleum exploration business**, the Company undertakes the exploration and production of crude and natural gas and related activities through its majority owned subsidiary, ACE Enexor, Inc. (“ACE Enexor”), formerly PHINMA Petroleum and Geothermal, Inc. ACE Enexor is listed in the PSE with the ticker “ACEX”.

History and Corporate Milestones

The Company was incorporated on 8 September 1969 and was originally known as “Trans-Asia Oil and Mineral Development Corporation,” reflecting its original purpose of engaging in petroleum and mineral exploration and production. In order to diversify its product and revenue portfolio, the Company invested in power generation and supply, which eventually became its main business and revenue source. On 11 April 1996, the Company’s name was changed to “Trans-Asia Oil and Energy Development Corporation.” On 22 August 2016, the Company changed its name to “PHINMA Energy Corporation,” and extended its corporate life by another fifty (50) years.

AC Energy was designated in 2011 as Ayala Corporation’s vehicle for investments in the power sector to pursue greenfield, as well as currently operating, power related projects for both renewable and conventional technologies in various parts of the Philippines. From 2011 to 2019, AC Energy has grown from a Philippine energy company to a regional player with investment, development, and operation capabilities in the Asia Pacific Region. As of 31 December 2019, AC Energy has over ~1,800 attributable capacity in operation and under construction in the Philippines, Indonesia, and Vietnam.

In February 2019, PHINMA, Inc. (“PHI”) disclosed the signing of an agreement on the sale of approximately 51.48% of outstanding shares in the Company held collectively by PHINMA Corporation (“PHN”) and PHI to AC Energy of the Ayala Group. AC Energy is a corporation engaged in the business of managing a diversified portfolio of renewable and conventional power generation projects and in power project development and operations. AC Energy is ACEPH’s partner in the South Luzon Thermal Energy Corporation (“SLTEC”) coal plant venture. AC Energy, which is fully committed to the energy sector, was in the best position to grow the Company and viewed ACEPH as a strategic fit into its own business.

On 24 June 2019, AC Energy acquired the 51.48% combined stake of PHI and PHN in the Company for a total purchase price of Php 3,669,125,213.19. In addition, AC Energy acquired an additional 156,476 Company shares under the mandatory tender offer which ended on 19 June 2019, and subscribed to 2.632 billion Company shares thereafter.

At the annual stockholders’ meeting held on 17 September 2019, as the Company marked its 50th year in the business and following AC Energy’s acquisition of a controlling stake in the Company, the Company’s management was formally transferred from the PHINMA Group to the Ayala Group, in particular to AC Energy. At the same meeting, the stockholders of the Company voted to rename the Company to “AC Energy Philippines,

Inc.” to recognize its affiliation with its largest stockholder, AC Energy. The SEC approved the change of name of the Company on 11 October 2019.

As the parent company of ACEPH, AC Energy has general management authority with corresponding responsibility over all operations and personnel of ACEPH. The management of the Company includes planning, directing, and supervising all the operations, sales, marketing, distribution, finance, and other business activities of the Company as provided in the management contract effective until 1 September 2023.

AC Energy and ACEPH executed an Amended and Restated Deed of Assignment effective as of 9 October 2019 under which, in exchange for the issuance of 6,185,182,288 shares of ACEPH, AC Energy will transfer certain of its onshore operating and development companies to ACEPH (the “AC Energy-ACEPH Exchange”). The AC Energy-ACEPH Exchange is subject to the approval of (a) the Philippine SEC in respect of AC Energy’s subscription to the increase in the authorized capital stock of ACEPH, (b) the PSE, as to the listing of the shares issued by ACEPH in exchange for the selected onshore operating and development companies of AC Energy, and (c) the Bureau of Internal Revenue (“BIR”) as to the nature of the transaction qualifying as a tax-free exchange under the Philippine Tax Code.

As of 29 February 2020, AC Energy owns 66.34% of the outstanding voting shares of the Company. Upon completion of conditions and other requirements of the AC Energy-ACEPH Exchange, the Company’s ownership of ACEPH will increase to ~81.5%.

The following table sets forth the Company’s corporate milestones post AC Energy’s acquisition of a controlling stake therein:

Year	Milestones
2019	<ul style="list-style-type: none"> • ACEPH enters into two power supply agreements (“PSAs”) with Meralco for (1) a baseload supply of 200MW from 26 December 2019 until 25 December 2029, and (2) a mid-merit supply of 110MW from 26 December 2019 until 25 December 2024, after being declared a winning bidder in separate competitive selection process bidding by Meralco. The PSAs are subject to the approval of the ERC. • AC Energy assigns its right to purchase the 20% ownership stake of Axia Power Holdings Philippines Corporation (“Axia Power”), a subsidiary of Marubeni Corporation, in SLTEC in favor of ACEPH, subject to satisfaction of conditions precedent • AC Energy, through ACEPH, enters into a share purchase agreement with Macquarie Infrastructure Holdings (Philippines) Pte. Limited, Langoer Investments Holding B.V., and the Government Service Insurance System (collectively, the Philippine Investment Alliance for Infrastructure or “PINAI”) for the acquisition of PINAI’s 31% effective preferred equity ownership and 15% effective common equity ownership in North Luzon Renewables Energy Corporation (“NLR”), subject to the satisfaction of conditions precedent.

2020

- ACEPH completes its acquisition of PINAI's ownership in NLR.
- ACEPH completes its acquisition of PINAI's entire ownership in San Carlos Solar Energy, Inc. and Negros Island Solar Power, Inc., respectively

DESCRIPTION OF PRINCIPAL BUSINESSES

POWER BUSINESS

The principal product of power generation and supply is the electricity produced and delivered to the end-consumers. It involves the conversion of fuel or other forms of energy to electricity, or the purchase of electricity from power generation companies and the Philippine Wholesale Electricity Spot Market ("WESM").

AC Energy Philippines conducts its power generation and supply activities directly or through its subsidiaries, associates, and joint ventures. In 2019, the total energy sales reached 2,344 gigawatt hours (GWh) from 2,474 GWh in 2018. The Company does not have any foreign sales.

The following tables set forth selected data on the Company's power generation portfolio in operation as of 31 December 2019 and prior to the implementation of the AC Energy-ACEPH Exchange.

Plant/ Project Name	Location	Project type	Net capacity (MW)	Effective Economic Interest (%)⁽¹⁾	Attributable capacity (%)⁽²⁾	COD
<i>Thermal Energy</i>						
One Subic ⁽⁵⁾	Subic Bay Freeport	Diesel	108	100	108	Feb 1994 (NPC-SPC)
PPGC	Norzagaray, Bulacan	Diesel	48	100	48	Feb 1998
Power Barge 101 ⁽³⁾	Iloilo City	Diesel (power barge)	24	100	24	April 1981 (NPC)
Power Barge 102 ⁽³⁾	Iloilo City	Diesel (power barge)	24	100	24	April 1981 (NPC)
CIP ⁽⁴⁾	Bacnotan, La Union	Diesel	20	100	20	January 2013 ⁽³⁾
SLTEC	Batangas, Philippines	Coal	244	65	159	Unit 1 COD: April 2015; Unit 2 COD: February 2016
<i>Renewable Energy</i>						
San Lorenzo Wind Power Project	Guimaras	Wind	54	100	54	November 2014
Maibarara Geothermal Plant	Batangas	Geothermal	32	25	8	Unit 1 (20MW): 8 February 2014 Unit 2 (12MW): 30 April 2018

Notes:

- (1) Effective economic interest refers to the Company's economic interest directly and/or indirectly held in the project based on management estimates.
- (2) Attributable capacity refers to the product of the Company's effective economic interest in the relevant power project multiplied by net capacity of the relevant power project.
- (3) Respective net capacities of PB101 and PB102 are based on the long-term net output expectation of the diesel plants. PB 103 is currently out of operation.

- (4) CIP transferred from Carmelray Industrial Park II, Calamba, Laguna, Philippines to Brgy. Quirino, Bacnotan, La Union, Philippines in December 2012 and resumed operations in January 2013.
- (5) One Subic has been de-rated by 2MW, down from 110MW.

Renewable Energy Portfolio

As of 31 December 2019, the Company's portfolio of projects under its renewable energy platform had a total net attributable capacity of approximately 182MW renewable energy in operation and under construction, divided into 120MW of solar energy, 54MW of wind power, and 8MW of geothermal power. In addition to the Company's direct interests in power projects, the Company has established renewable energy development platforms as part of its renewable energy strategy.

Renewable Energy Projects in Operation

San Lorenzo Wind Project

PHINMA Renewable Energy Corporation ("PHINMA RE") was incorporated and registered with the SEC on 2 September 1994 to engage in the development and utilization of renewable energy, and the pursuit of clean and energy-efficient projects. PHINMA RE was awarded by the Philippine Department of Energy ("DOE") Wind Energy Service Contract ("WESC") No. 2009-10-009, pursuant to which it developed the 54-MW San Lorenzo Wind Power Project in Guimaras, Iloilo.

PHINMA RE started delivering power to the grid on 7 October 2014 during the commissioning operations of the first three (3) units of wind turbine generators. The 54-MW wind energy plant started commercial operations on 27 December 2014.

Maibarara Geothermal Plant

On 19 May 2010, ACEPH, PetroGreen Energy Corporation ("PetroGreen"), a wholly-owned subsidiary of publicly-listed PetroEnergy Resources Corporation ("PetroEnergy"), and PNOC Renewables Corporation ("PNOC RC") signed a joint venture agreement to form Maibarara Geothermal, Inc. ("MGI"), with the following shareholding interests: PetroGreen—65%; ACEPH—25%; and PNOC RC—10%. MGI developed and operates the Maibarara Geothermal Plant pursuant to the geothermal renewable energy service contract awarded by the DOE to PetroEnergy, PetroGreen's parent company, and subsequently assigned by PetroEnergy to MGI. On 27 August 2019, ACEPH and MGI executed an Amendment to the Unit 1 electricity supply agreement ("ESA") and Unit 2 ESA wherein the electricity fee rate structure was amended and the electricity supply period was amended to be until 25 June 2039.

Renewable Projects under Construction and under Development

Incorporated on 20 March 2017, SolarAce1 Energy Corp. is a project company under ACE Endeavor, Inc. which is developing and constructing a 120MW solar power plant in Alaminos, Laguna (the "Alaminos Solar Farm").

Thermal Energy Portfolio

As of 31 December 2019, the Company had a total net attributable capacity of 383 MW thermal energy in operation and 150 MW under construction. The net attributable capacity of these projects is composed of 159MW of coal and 374MW of diesel plants.

Thermal Energy Projects in Operation

SLTEC Project

In June 2011, AC Energy signed a joint venture agreement with then PHINMA Energy Corporation ("PHINMA Energy") to form the 50:50 joint venture company, SLTEC. The joint venture was for the construction and operation of a 2 x 122MW CFB thermal power plant in Calaca, Batangas. Units 1 and 2 use Harbin steam turbine generators. The SLTEC Project achieved commercial operations for Unit 1 in 2015 and Unit 2 in 2016. The SLTEC Project is under an administration and management agreement between SLTEC and ACEPH, allowing ACEPH exclusive right to administer, control, and manage the net dependable capacity and net available output of the project.

In 2016, AC Energy and PHINMA Energy sold a portion of their ownership stake in SLTEC to Marubeni Corporation's subsidiary, Axia Power. The sale brought PHINMA Energy's ownership in SLTEC to 45% and AC Energy's ownership to 35%.

On 5 November 2019, AC Energy and ACEPH signed a deed of assignment, whereby AC Energy transferred its right to purchase the 20% ownership stake of Axia Power in SLTEC in favor of ACEPH. Completion of the acquisition is still subject to satisfaction of conditions precedent. Following the completion of the acquisition of ACEPH last July 2019 and the completion of the foregoing assignment, the aggregate ownership of AC Energy of the SLTEC Project would increase to 78%. Following, further, the completion of conditions and other requirements of the AC Energy-ACEPH Exchange, the aggregate ownership of ACEPH in the SLTEC Project would increase to 100%.

CIP Plant

CIP II Power Corporation ("CIPP") was incorporated and registered with the SEC on 2 June 1998 primarily to construct, erect, assemble, commission, operate, maintain, and rehabilitate gas turbine and other power generating plants for the conversion of coal and other fuel into electricity, and transmit and distribute thereof to Carmelray Industrial Park II in Calamba, Laguna. The 21 MW diesel bunker C-fired CIP Plant used to supply power to locators in the industrial park but in April 2009, CIPP sold its distribution assets resulting in the cessation of its operations and the separation of substantially all of its employees effective 31 January 2010. On 22 February 2010, the then PHINMA Energy Board approved the acquisition of CIPP, and on December 2010, the transfer of the CIP Plant from Carmelray Industrial Park II to Brgy. Quirino, Bacnotan, La Union. The transfer was completed sometime in December 2012 and the CIP Plant resumed operations in January 2013.

On 26 June 2013, CIPP entered into a power administration and management agreement ("PAMA") with PHINMA Energy valid for ten (10) years for PHINMA Energy to administer and manage the entire capacity and net output of One Subic Power Generation Corporation ("One Subic") in consideration of energy fees to be paid by PHINMA Energy to CIPP. Fixed capacity fees paid to CIPP are recorded as revenue from sale of electricity on the basis of the applicable terms of the PAMA. CIPP has an existing approved non-firm ancillary services procurement agreement ("ASPA") with the National Grid Corporation of the Philippines ("NGCP") and revenues from sale of electricity through said ancillary services is recognized monthly based on the capacity scheduled and/or dispatched.

One Subic Plant

One Subic was incorporated and registered with the SEC on 4 August 2010 to engage in the business of owning, constructing, operating, developing, and maintaining all types of power generation plants. On 18 November 2010, PHINMA Energy and One Subic entered into a PAMA wherein PHINMA Energy administers and manages the entire generation output of the 116 MW diesel One Subic Plant in Subic, Olongapo City. The PAMA became effective on 17 February 2011 and is valid throughout the term of the lease agreement with the Subic Bay Metropolitan Authority ("SBMA"). On 12 May 2014, PHINMA Power Generation Corporation ("PPGC") purchased from Udenna Energy Corporation the entire outstanding shares of stock of One Subic. On 19 June 2017, the SEC approved the amendment of One Subic's Articles of Incorporation for the change in the primary purpose to include exploration, discovery, development, processing, and disposal of any and all kind of petroleum products.

The One Subic Plant has an Energy Regulatory Commission ("ERC")-approved non-firm ASPA with the NGCP. The One Subic Plant provides dispatchable reserve services to NGCP, as they are fast start generators that are readily available for dispatch when called by the NGCP to replenish the contingency reserve services whenever a generating unit trips or a single transmission interconnection loss occurs.

PPGC Plant

PPGC was incorporated and registered with the SEC on 18 March 1996 and is primarily engaged in power generation. In October 2006, the Philippine Electricity Market Corporation ("PEMC") approved PPGC's application for registration as trading participant for both generation and customer categories in the WESM. Both ACEPH and PPGC obtained membership in the WESM allowing both to participate in electricity trading managed by PEMC, including selling of excess generation to the WESM. On 26 December 2013, PPGC entered into a

PAMA with PHINMA Energy valid for ten (10) years for the administration and management by PHINMA Energy of the entire capacity and net output of the 52MW diesel PPGC Plant located in Bulacan.

On 10 December 2012, the NGCP and PPGC executed an ASPA for the latter to provide dispatchable reserves ensuring 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. By the ERC's Order dated 25 February 2013, the ERC provisionally approved the application filed by NGCP and PPGC allowing PPGC to provide ancillary services to NGCP in January 2015.

Under the PAMA with PHINMA Energy dated 26 December 2013, PHINMA Energy has the sole and exclusive right to dispatch all of the capacity and the output of the PPGC's Power Plant, where any fees paid in connection with the capacity of PPGC's Power Plant, including ancillary services to NGCP, belong to PHINMA Energy as the sole administrator and manager. However, effective 26 March 2018, the amended PAMA allows PPGC to retain the ancillary fees; thus, these are no longer paid to ACEPH.

Power Barges

Power Barges 101 and 102 were commissioned in 1981 while Power Barge 103 was commissioned in 1985. Each power barge is a barge-mounted bunker-fired diesel generating power station with Hitachi diesel generator units and a gross capacity of 32MW.

Power Barges 101 and 102 started providing dispatchable reserve services to the Visayas grid in 2018. As of 31 October 2019, Power Barges 101, 102, and 103 have net capacities of 24MW, 24MW, and 18MW, respectively. As these power barges are more than thirty-four (34) years old, ACEPH intends to improve the power barges' availability, capacity, and reliability by undergoing continuous maintenance and rehabilitation thereof.

Power Barges 101 and 102 have existing approved non-firm ASPAs with the NGCP. Both power plants provide dispatchable reserve services to the NGCP, as these are fast start generators readily available for dispatch when called by the NGCP to replenish the contingency reserve services whenever a generating unit trips or a single transmission interconnection loss occurs.

Thermal Projects under Construction

Ingrid Peaking Plant

The Company signed a subscription agreement with Ingrid Power Holdings Inc. ("Ingrid Power") for the subscription of common and preferred shares at the subscription price of P4,900,000.00 for the common shares and P565,100,000 for the redeemable preferred shares.

Ingrid Power is developing a 300-MW diesel power plant in Pililia, Rizal, of which the first 150MW is currently under construction.

Retail Electricity Supply Business

The retail electricity supply business continues its active participation in the WESM through buying the electricity requirements of customers and selling the excess output of the Company's generation supply portfolio.

On 8 September 2016, AC Energy obtained a Retail Electricity Supplier ("RES") license allowing it to sell electricity to the end-users in the contestable market.

As a result of the PHINMA Energy acquisition, a portfolio of additional renewable and conventional power businesses was added to AC Energy's portfolio, including retail electricity supply and trading in the WESM, in which PHINMA Energy is a pioneer. PHINMA Energy secured its RES license on 19 November 2012. On 8 September 2017, PHINMA Energy timely filed its application for renewal of its RES license, and upon directives of the ERC, made supplemental submissions on 9 October 2019. On 21 November 2019, the Company received notice from the ERC of the approval of the application for renewal of the Company's RES license. The RES license of the Company shall subsequently be issued by the ERC.

As of 31 December 2019, the AC Energy group's RES business has contracted capacity of over 300MW from several contestable customers across a mix of industries including manufacturing, office, and mall operators.

PETROLEUM EXPLORATION BUSINESS

ACE Enexor, formerly PHINMA Petroleum and Geothermal, Inc., a Philippine corporation organized on September 28, 1994 is majority owned by AC Energy Philippines. ACE Enexor's primary business is the exploration and production of crude oil and natural gas through interests in petroleum contracts and through holdings in resource development companies with interests in petroleum contracts. The Company began its foray into the exploration and development of geothermal resources in 2017.

Petroleum exploration involves the search for commercially exploitable subsurface deposits of oil and gas through geological, geophysical, and drilling techniques. A petroleum discovery is made when significant amounts of oil and/or gas are encountered in a well and are flowed to the surface. Following a discovery, additional wells (appraisal or delineation wells) are drilled to determine whether the petroleum accumulation could be economically extracted or not. If the results are positive, the oil or gas field is developed by drilling production wells, and installing the necessary production facilities such as wellheads, platforms, separators, storage tanks, pipelines, and others.

The Company applies for or acquires interest in selected petroleum service contracts covering areas usually in the exploration phase. Due to the high risk and capital-intensive nature of the business, the Company normally participates in several consortia and takes significant but minority interest. Subject to results of technical and risk-economic studies prior to exploratory drilling, the Company may farm out or dilute its interest in exchange for financial consideration and/or non-payment of its pro-rata share of exploration drilling costs. If a petroleum discovery is made, the Company will fund its share of appraisal drilling and economic studies. Upon delineation of a commercial discovery, financing for up to seventy percent (70%) of field development costs is available in the international market.

As projects are mostly in the exploratory stage, the Company derives insignificant or no revenues from petroleum production. At this time, the Company believes it has sufficient petroleum projects on hand given its resources and risk tolerance.

SOURCES AND AVAILABILITY OF RAW MATERIALS

For its power business, the 25% of the Company's attributable capacity is fueled by renewable energy sources while 75% are sourced from thermal energy which is fueled by coal and bunker fuel as of 31 December 2019.

For thermal energy power plants, composed of SLTEC and other diesel power plants, the Company has different term contracts for its annual fuel requirements.

TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of business, the Company transacts with its related parties, such as its subsidiaries, and certain of its associates, joint ventures, and affiliates enter into transactions with each other. These transactions principally consist of advances, loans, reimbursement of expenses, and management, marketing and administrative service agreements. See Note 31 to the Company's audited consolidated financial statements as of and for the year ended 31 December 2019.

FUTURE PROJECTS

AC Energy Philippines is scaling up its renewable energy platforms and existing partnerships with a strong pipeline of projects in the region and targets to reach financial close for various power projects from renewable and other energy sources with an expected target gross capacity of over 2,000MW by 2025.

ACE Endeavor, Inc. ("Endeavor")

Endeavor was incorporated and registered with the SEC on 10 November 2014 to engage in all aspects of exploration, assessment, development and utilization of renewable and other energy resources and storage of electricity. AC Energy acquired 100% of the ownership interests in Endeavor (formerly AC Energy Development,

Inc., formerly ACE Devco, Inc., and formerly San Carlos Clean Energy, Inc.) in March 2017 with the intent to make Endeavor its project development, management, and operations platform.

DISTRIBUTION OF PRODUCT

For the power business, electricity sales have been sold at the ERC-approved rates for electric cooperatives and distribution utilities (“DUs”) and at negotiated, market-determined prices for bilateral contracts. The WESM is another default market where electricity purchases are settled based on market or spot rates. Delivery of the product is coursed through transmission lines currently owned by NGCP and to a certain extent, the electric cooperatives and DUs in exchange for payment of distribution wheeling charges. However, any “delivery” to a customer is, in reality, electricity generated and delivered to the grid by the Company which is indistinguishable from the electricity generated by other generators.

Existing off-take agreements assure a certain level of demand from the Company's customers. In 2019, the Company was declared one of the best bids for MERALCO's 1,200MW baseload demand and 500MW mid-merit supply. The Company was awarded supply agreements for 200MW baseload and 110MW mid-merit of MERALCO's demand for ten (10) and five (5) years, respectively. On top of the awarded contracts from MERALCO, AC Energy Philippines also has other corporate customers allowing it to not be dependent on any single customer for the viability of the power business.

For the petroleum exploration business, principal products of petroleum production are crude oil and natural gas. Crude oil is usually sold at market price in its natural state at the wellhead after removal of water and sediments, if any. Depending on the location of the oil field, the oil produced may be transported via offshore tankers and/or pipeline to the refinery. Natural gas may be flared, reinjected to the reservoir for pressure maintenance, or sold, depending on the volume of reserves and other considerations. Natural gas is commonly transported by pipeline. However, if the deposit is very large and the market is overseas, the gas may be liquefied into liquefied natural gas (LNG) and transported using specialized tankers.

COMPETITION

For its power business, AC Energy Philippines competes with other power generating companies in generating and supplying power to the Company's wholesale and retail customers. With the full implementation of the Electric Power Industry Reform Act (EPIRA) and its purpose of establishing a transparent and efficient electricity market via more competition, a substantial number of the Company's customers may choose to buy power from third party suppliers. In addition, the implementation of open access could have a material adverse impact on the Company's results of operations and financial condition.

The move towards a more competitive environment, as set forth by EPIRA, could result in the emergence of new and numerous competitors. There will be some competitors that may have a competitive advantage over the Company due to greater financial resources, more extensive operational experience, and thus be more successful than the Company in acquiring existing power generation facilities or in obtaining financing for and the construction of new power generation facilities.

For the petroleum exploration business, the Company believes that competition for market of petroleum does not have a materially adverse effect on its operations. The Company sees itself and its competitors compete on two fronts, namely: 1) petroleum acreage, and 2) investment capital.

DOE awards petroleum service contracts to technically and financially capable companies on a competitive bidding basis. Thus, the Company competes with foreign firms and local exploration companies such as PNOC Exploration Corporation, The Philodrill Corporation, Oriental Petroleum and Minerals Corporation, and PetroEnergy for acquisition of prospective blocks. While there is competition in the acquisition of exploration rights, the huge financial commitments associated therewith also provide opportunities for partnership, especially between local and foreign companies. Under a service contract, a substantial financial incentive is given to consortia with at least fifteen percent (15%) aggregate Filipino equity. Thus, many foreign firms invite local exploration companies to join their venture to take advantage of said benefit and vice versa.

AC Energy Philippines and other listed companies also compete for risk capital in the securities market. This may be in the form of initial public offerings, rights offerings, upward change in capitalization and other vehicles. These domestic companies may also seek full or partial funding of projects from foreign companies through farm-out of interest (dilution of equity in exchange for payment of certain financial obligations).

The Company, through its subsidiary ACE Enexor, is a recognized player in the local petroleum industry and is comparatively financially robust and has low level of debt. The technical expertise of its staff is recognized by its foreign partners and the DOE. In view of these strengths, the Company remains a significant competitor in the local exploration and production industry.

RESEARCH AND DEVELOPMENT

The Company incurs minimal amounts for research and development activities which do not represent a significant percentage of revenues.

REGULATORY FRAMEWORK

The Company's power and petroleum exploration businesses are subject to the following laws, rules, and regulations:

P.D. 87, as amended, or The Oil Exploration and Development Act of 1972

P.D. 87, as amended, declares that the policy of the State is to hasten the discovery and production of indigenous petroleum through utilization of government and/or private resources, local and foreign, under arrangements calculated to yield maximum benefit to the Filipino people and revenues to the Philippine government and to assure just returns to participating private enterprises, particularly those that will provide services, financing, and technology and fully assume all exploration risks. The government may undertake petroleum exploration and production or may indirectly undertake the same through service contracts. Under a service contract, service and technology are furnished by a contractor for which it would be entitled to a service fee of up to forty percent (40%) of net production proceeds. Where the government is unable to finance petroleum exploration or in order to induce the contractor to exert maximum efforts to discover and produce petroleum, the service contract would stipulate that, if the contractor furnishes service, technology, and financing, the proceeds of the sale of the petroleum produced under the service contract would be the source of payment of the service fee and the operating expenses due the contractor. Operating expenses are deductible up to seventy percent (70%) of gross production proceeds. If, in any year, the operating expenses exceed seventy percent (70%) of gross proceeds from production, the unrecovered expenses may be recovered from the operations of succeeding years. Intangible exploration costs may be reimbursed in full, while tangible exploration costs (such as capital expenditures and other recoverable capital assets) are to be depreciated for a period of five (5) or ten (10) years. Any interest or other consideration paid for any financing approved by the government for petroleum development and production would be reimbursed to the extent of 2/3 of the amount, except interest on loans or indebtedness incurred to finance petroleum exploration.

Aside from reimbursing its operating expenses, a contractor with at least fifteen percent (15%) Filipino participation is allowed to recover a Filipino participation incentive allowance equivalent to a maximum of 7.5% of the gross proceeds from the crude oil produced in the contract area. Incentives to service contractors include (i) exemption from all taxes except income tax which is paid out of government's share, (ii) exemption from all taxes and duties on importation of machinery, equipment, spare parts and materials for petroleum operations, (iii) repatriation of investments and profits, and (iv) free market determination of crude oil prices. Finally, a subcontractor is subject to special income tax rate of eight percent (8%) of gross Philippine income while foreign employees of the service contractor and the subcontractor are subject to a special tax rate of fifteen percent (15%) on their Philippine income.

A service contract has a maximum exploration period of ten (10) years and a maximum development and production period of forty (40) years. Signature bonus, discovery bonus, production bonus, development allowance, and training allowance are payable to the government. Other pertinent laws and issuances include P.D. 1857, a law amending certain sections of P.D. 87, as amended, offering improved fiscal and contractual terms to service contractors with special reference to deepwater oil exploration; DOE Circular No. 2009-04-0004, a circular that establishes the procedures for the Philippine Contracting Rounds; DOE Circular No. 2003-05-006, a circular that provides the guidelines to the financial and technical capabilities of a viable petroleum exploration and production company; Executive Order No. 66 issued in 2002 which designated the DOE as the lead government agency in developing the natural gas industry; and DOE Circular 2002-08-005, a circular setting the interim rules and regulations governing the transmission, distribution and supply of natural gas.

Under P.D. 87, as amended, every service contractor that produces petroleum is authorized to dispose of same either domestically or internationally, subject to supplying the domestic requirements of the country on a pro-rata basis. There is a ready market for oil produced locally inasmuch as imported oil which comprised about thirty-four percent (34%) of the Philippines' primary energy mix in year 2010. Heavy dependence on foreign oil supply is not expected to change significantly over the next ten (10) years. On a case to case basis, the government has allowed the export of locally produced crude oil in the past. The domestic natural gas industry is at the nascent stage, with supply coming from a single offshore field. Domestic gas production accounted for about seven percent (7%) of the country's primary energy mix in year 2010. The government is actively promoting the use of natural gas for power, industry, commercial, and transport applications, owing to environmental considerations and the need to diversify energy supply.

R.A. 8371 or The Indigenous Peoples' Rights Act of 1997

Republic Act ("R.A.") 8371 or "The Indigenous Peoples' Rights Act (IPRA) of 1997" requires the free and prior informed consent of indigenous peoples ("IPs") who will be affected by any resource exploration. Under the IPRA, IPs are granted certain preferential rights to their ancestral domains and all resources found therein. Ancestral domains are defined as areas generally belonging to IPs, subject to property rights within ancestral domains already existing or vested upon the effectivity of the IPRA, comprising lands, inland waters, coastal areas, and natural resources, held under a claim of ownership, occupied or possessed by IPs by themselves or through their ancestors, communally or individually, since time immemorial, continuously to the present, except when interrupted by war, force majeure or displacement by force, deceit, stealth, or as a consequence of government projects or any voluntary dealings entered into by the Government and private persons, and which are necessary to ensure their economic, social, and cultural welfare.

Under the IPRA, no concession, license, lease or agreement shall be issued by any government agency without the certification precondition ("CP") from the National Commission on Indigenous People ("NCIP"). The CP states that the free, prior and informed consent ("FPIC") has been obtained from the concerned IPs. For areas not occupied by IPs, a certificate of non-overlap is issued instead by the NCIP. For areas occupied by IPs, the applicant and representatives from the NCIP will conduct consultations and consensus-building to obtain the consent of IPs. The FPIC is manifested through a memorandum of agreement with IPs, traditionally represented by their elders. The CP is then issued by the NCIP stating that the FPIC has been obtained from the IPs concerned.

The Company may operate in certain areas which are covered by ancestral domains of IPs. No resource extraction is allowed in such areas without first negotiating an agreement with IPs who will be affected by operations.

R. A. 8749 or The Philippine Clean Air Act of 1999

R.A. 8749 or the Philippine Clean Air Act of 1999 is a comprehensive air quality management program which aims to achieve and maintain healthy air for all Filipinos. Under this, the Department of Environment and Natural Resources ("DENR") is mandated to formulate a national program on how to prevent, manage, control and reverse air pollution using regulatory and market-based instruments, and set-up a mechanism for the proper identification and indemnification of victims of any damage or injury resulting from the adverse environmental impact of any project, activity or undertaking. To implement this law, the government is promoting energy security thru a policy of energy independence, sustainability and efficiency. These involve:

- (1) increasing oil and gas exploration;
- (2) strengthening of the Philippine National Oil Company ("PNOC") to spearhead the development of indigenous energy resources and building global partnerships and collaborative undertakings;
- (3) pursuing the development of renewable energy such as geothermal, wind, solar, hydropower, and biomass, and the vigorous utilization of the cleaner development mechanism and the emerging carbon market;
- (4) expansion in the use of natural gas; and
- (5) adoption of energy efficiency promotion strategies.

In support of this legislation, ACEPH is participating in the oil and gas exploration and development of renewable energy sources. This is evident in the oil and gas exploration, and wind power projects of ACEPH and its subsidiaries.

The Philippine Environmental Impact Statement (“EIS”) System

Projects relating to petroleum and mineral exploration and production are required to comply with the Philippine EIS System. The EIS System was established by virtue of P.D. 1586 issued by former President Ferdinand E. Marcos in 1978. The EIS System requires all government agencies, government-owned or controlled corporations, and private companies to prepare an Environmental Impact Assessment (EIA) for any project or activity that affects the quality of the environment. An EIA is a process that involves evaluating and predicting the likely impacts of a project (including cumulative impacts) on the environment and includes designing appropriate preventive, mitigating, and enhancement measures to protect the environment and the community’s welfare. An entity that complies with the EIS System is issued an Environmental Compliance Certificate (“ECC”), which is a document certifying that, based on the representations of the project proponent, the proposed project or undertaking will not cause significant negative environmental impacts and that the project proponent has complied with all the requirements of the EIS System.

To strengthen the implementation of the EIS System, Administrative Order No. (“AO”) 42 was issued by the Office of the President of the Philippines in 2002. It provided for the streamlining of the ECC application processing and approval procedures. Pursuant to AO 42, the DENR promulgated DENR AO 2003-30, also known as the Implementing Rules and Regulations for the Philippine EIS System (“IRR”), in 2003.

Under the IRR, in general, only projects that pose potential significant impact to the environment would be required to secure ECCs. In determining the scope of the EIS System, two (2) factors are considered, namely: (i) the nature of the project and its potential to cause significant negative environmental impacts, and (ii) the sensitivity or vulnerability of environmental resources in the project area.

Specifically, the criteria used for determining projects to be covered by the EIS System are as follows:

- a. Characteristics of the project or undertaking
 - i. size of the project;
 - ii. cumulative nature of impacts compared to other projects;
 - iii. use of natural resources;
 - iv. generation of wastes and environment-related nuisance; and
 - v. environment-related hazards and risk of accidents.
- b. Location of the project
 - i. vulnerability of the project area to disturbances due to its ecological importance, endangered or protected status;
 - ii. conformity of the proposed project to existing land use, based on approved zoning or on national laws and regulations; and
 - iii. relative abundance, quality and regenerative capacity of natural resources in the area, including the impact absorptive capacity of the environment.
- c. Nature of the potential impact -
 - i. geographic extent of the impact and size of affected population;
 - ii. magnitude and complexity of the impact; and
 - iii. likelihood, duration, frequency, and reversibility of the impact.

The ECC of a project not implemented within five (5) years from its date of issuance is deemed expired. The proponent must apply for a new ECC if it intends to pursue the project. The reckoning date of project implementation is the date of ground-breaking, based on the proponent's work plan as submitted to the Environmental Management Bureau ("EMB").

Petroleum service contractors are mandated to comply with all environmental laws and rules and regulations in all phases of exploration and production operations. ECCs or certificates of non-coverage, if applicable, are obtained from the EMB of the DENR in coordination with the DOE.

The exploration, production, and sale of oil and mineral deposits and power generation are subject to extensive national and local laws and regulations. The Company and its subsidiaries may incur substantial expenditures to comply with these laws and regulations, which may include permitting costs, adoption and implementation of anti-pollution equipment, methods and procedures, and payment of taxes and royalties.

Under these laws, the Company could be subject to claims for personal injury or property damages, including damages to natural resources, which may result from the impact of the Company's operations. Failure to comply with these laws may also result in the suspension or termination of the Company's operations and subject it to administrative, civil, and criminal penalties. Moreover, these laws could be modified or reinterpreted in ways that substantially increase the Company's costs of compliance. Any such liabilities, penalties, suspensions, terminations or regulatory changes could have a material adverse effect on the Company's financial condition and results of operations.

ACEPH's power supply and generation business is subject to the following laws, rules and regulations:

R.A. 9136 or The Electric Power Industry Reform Act of 2001 (EPIRA)

The power generation business of ACEPH is governed by R.A. 9136 or the Electric Power Industry Reform Act of 2001. The enactment of the EPIRA has been a significant event in the Philippine energy industry. The EPIRA has three (3) main objectives, namely: (i) to promote the utilization of indigenous, new, and renewable energy resources in power generation, (ii) to cut the high cost of electric power in the Philippines, bring down electricity rates, and improve delivery of power supply, and (iii) to encourage private and foreign investment in the energy industry. The EPIRA triggered the implementation of a series of reforms in the Philippine power industry. The two major (2) reforms are the restructuring of the electricity supply industry and the privatization of the National Power Corporation ("NPC"). The restructuring of the electricity industry calls for the separation of the different components of the power sector namely, generation, transmission, distribution, and supply. On the other hand, the privatization of the NPC involves the sale of the state-owned power firm's generation and transmission assets (e.g., power plants and transmission facilities) to private investors. These two (2) reforms are aimed at encouraging greater competition and at attracting more private-sector investments in the power industry. A more competitive power industry will, in turn, result in lower power rates and a more efficient delivery of electricity supply to end-users.

Power generation is not considered a public utility operation under the EPIRA. Thus, a franchise is not needed to engage in the business of power generation. Nonetheless, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a Certificate of Compliance ("COC") from the ERC to operate the generation facilities. A COC is valid for a period of five (5) years from the date of issuance. In addition to the COC requirement, a generation company must comply with technical, financial, and environmental standards. A generation company must ensure that all of its facilities connected to the grid meet the technical design and operational criteria of the Philippine Grid Code and the Philippine Distribution Code promulgated by the ERC. The ERC has also issued the "Guidelines for the Financial Standards of Generation Companies," which set the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. For COC applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements, a schedule of liabilities, and a five (5)-year financial plan. For the duration of the COC, the guidelines also require a generation company to submit to the ERC audited financial statements and forecast financial statements for the next two (2) fiscal years, among other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties. The power plants of ACEPH and its subsidiaries are required under the EPIRA to obtain a COC from the ERC for their generation facilities. They are also required to comply

with technical, financial, and environmental standards provided in existing laws and regulations in their operations.

Restructuring of the Electricity Industry

One of the major reforms under the EPIRA involves the restructuring of the electricity supply industry, which calls for the separation of the different components of the electric power industry namely, generation, transmission, distribution, and supply.

Under the EPIRA, power generation and supply (which are not considered public utility operations) are deregulated but power distribution and transmission continue to be regulated (as common electricity carrier business) by the ERC which replaced the Energy Regulatory Board (“ERB”).

To promote true competition and prevent monopolistic practices, the EPIRA provides for explicit caps or limits on the volume of electricity that a distribution utility can buy from an affiliated company that is engaged in power generation. Likewise, the law also provides that "no company or related group can own, operate or control more than 30% of the installed capacity of a grid and/or twenty-five percent (25%) of the national installed generating capacity."

Energy Regulatory Commission (ERC)

The ERC is an independent, quasi-judicial regulatory body tasked to promote competition in the power industry, encourage market development, and ensure customer choice. Compared to its predecessor, the ERC has broader powers to prevent and penalize anti-competitive practices.

The ERC is the government agency in-charge of the regulation of the electric power industry in the Philippines. The ERC was created by virtue of Section 38 of the EPIRA to replace the ERB. Its mission is to promote and protect long-term consumer interests in terms of quality, reliability, and reasonable pricing of a sustainable supply of electricity.

The relevant powers and functions of the ERC are as follows:

1. Promote competition, encourage market development, ensure customer choice and penalize abuse of market power in the electricity industry. To carry out this undertaking, ERC shall, promulgate necessary rules and regulations, including Competition Rules, and impose fines or penalties for any non-compliance with or breach of the EPIRA, the Implementing Rules and Regulations of the EPIRA, and other rules and regulation which it promulgates or administers as well as other laws it is tasked to implement/enforce.
2. Determine, fix and approve, after due notice and hearing, Transmission and Distribution Wheeling Charges, and Retail Rates through an ERC established and enforced rate setting methodology that will promote efficiency and non-discrimination.
3. Approve applications for, issue, grant, revoke, review and modify Certificate of Public Convenience and Necessity (CPCN), Certificate of Compliance (COC), as well as licenses and/or permits of electric industry participants.
4. Promulgate and enforce a national Grid Code and a Distribution Code that shall include performance standards and the minimum financial capability standards and other terms and conditions for access to and use of the transmission and distribution facilities.
5. Enforce the rules and regulations governing the operations of the Wholesale Electricity Spot Market (WESM) and the activities of the WESM operator and other WESM participants, for the purpose of ensuring greater supply and rational pricing of electricity.
6. Ensure that NPC and distribution utilities functionally and structurally unbundle their respective business activities and rates; determine the level of cross subsidies in the existing retail rates until the same is removed and thereafter, ensure that the charges of TransCo or any distribution utility bear no cross subsidies between grids, within grids, or between classes of customers, except as provided by law.
7. Set a Lifeline Rate for the Marginalized End-Users.
8. Promulgate rules and regulations prescribing the qualifications of Suppliers which shall include, among other things, their technical and financial capability and credit worthiness.
9. Determine the electricity End-users comprising the Contestable and Captive Markets.

10. Verify the reasonable amounts and determine the manner and duration for the full recovery of stranded debts and stranded contract costs of NPC and the distribution utilities.
11. Handle consumer complaints and ensure promotion of consumer interests.
12. Act on applications for cost recovery and return on Demand-Side Management (DSM) projects.
13. Fix user fees to be charged by TransCo for ancillary services to all electric power industry participants or self-generating entities connected to the Grid.
14. Review power purchase contracts between Independent Power Producers (IPP) and NPC, including the distribution utilities.
15. Monitor and take measures to discourage/penalize abuse of market power, cartelization and any anti-competitive or discriminatory behavior by any electric power industry participant.
16. Review and approve the terms and conditions of service of the TransCo or any distribution utility and any changes therein.
17. Determine, fix and approve a universal charge to be imposed on all electricity end-users.
18. Test, calibrate and seal electric watt-hour meters.
19. Implement pertinent provisions of R.A. No. 7832 or the Anti-Pilferage of Electricity Law.
20. Fix and regulate the rate schedule or prices of piped gas to be charged by duly the ERC is headed by a Chairperson together with four Commissioners.

Privatization of NPC and creation of Power Sector Assets and Liabilities Management Corporation (PSALM)

Another major reform under the EPIRA is the privatization of the NPC which involves the sale of the state-owned power firm's generation and transmission assets (*e.g.*, power plants and transmission facilities) to private investors. Government-owned NPC had been solely responsible for the total electrification of the country since 1936.

Under the EPIRA, the NPC generation and transmission facilities, real estate properties and other disposable assets, as well as its power supply contracts with IPPs were privatized. Two weeks after the EPIRA was signed into law, the PSALM, a government-owned and controlled corporation, was formed to help NPC sell its assets to private companies. The exact manner and mode by which these assets would be sold would be determined by the PSALM. The PSALM was tasked to manage the orderly sale, disposition, and privatization of the NPC, with the objective of liquidating all of the NPC's financial obligations and stranded contract costs in an optimal manner.

Birth of the National Grid Corporation of the Philippines (NGCP)

Another entity created by the EPIRA was the National Transmission Corporation ("TransCo"), which would assume all of the electricity transmission functions of the NPC. In December 2007, TransCo was privatized through a management concession agreement. The management and operation of TransCo's nationwide power transmission system was turned over to a consortium called NGCP composed of Monte Oro Grid Resources Corporation, Calaca High Power Corporation, and the State Grid Corporation of Hong Kong Ltd. The approved franchise of NGCP was for fifty (50) years.

Thus, with the creation of the PSALM and NGCP to which the assets and debts of the NPC were transferred, the NPC was left with only the operation of Small Power Utilities Group or SPUG – a functional unit of the NPC created to pursue missionary electrification function.

Retail Competition and Open Access (RCOA)

The EPIRA mandates the implementation of open access to distribution network so that the benefits of competition in the generation/supply sector could reach qualified consumers. The implementation of the retail competition and open access paved the way to the creation of the new segment in the power industry which is the retail electricity supply.

Retail competition and open access allows contestable customers (*i.e.*, industries, commercial establishments, and residential users) to choose their respective RES which could offer the most reasonable cost and provide the most efficient service.

With the purpose of ensuring quality, reliable, and affordable electricity under a regime of free and fair competition, the DOE and the ERC issued the following circular and resolutions to promote customer choice and foster competition in the electricity supply sector:

- a) **DOE Circular No. DC2015-06-0010, series of 2010** - *Providing Policies to Facilitate the Full Implementation of Retail Competition and Open Access (RCOA) in the Philippine Electric Power Industry;*
- b) **ERC Resolution No. 05, Series of 2016** - *A Resolution Adopting the 2016 Rules Governing the Issuance of Licenses to Retail Electricity Suppliers (RES) and Prescribing the Requirements and Conditions Therefor;*
- c) **ERC Resolution No. 10, Series of 2016** - *A Resolution Adopting the Revised Rules for Contestability;*
- d) **ERC Resolution No. 11, Series of 2016** - *A Resolution Imposing Restrictions on the Operations of Distribution Utilities and Retail Electricity Suppliers in the Competitive Retail Electricity Market; and*
- e) **ERC Resolution No. 28, Series of 2016** - *Revised Timeframe for Mandatory Contestability, Amending Resolution No. 10, Series of 2016 entitled Revised Rules for Contestability.*

The above resolutions and circular required electricity end-users with an average monthly peak demand of at least one megawatt (1 MW) to secure retail supply contracts with licensed retail electricity suppliers on or before 26 February 2017 while electricity end-users with an average monthly peak demand of at least 750 kilowatts (kW) were required to secure retail supply contracts by 26 June 2017.

The above circular and resolutions were subject of court cases, where several parties sought the courts' intervention to enjoin the implementation of the circulars and resolutions. The implementation of the above circulars and resolutions are presently subject of a Temporary Restraining Order ("TRO") issued by the Supreme Court in the case docketed as G.R. No. 228588, entitled *Philippine Chamber of Commerce and Industry, San Beda College Alabang, Ateneo De Manila University and Riverbanks Development Corporation vs. Department of Energy, Hon. Alfonso G. Cusi in his official capacity as Secretary of the Department of Energy, The Energy Regulatory Commission and Jose Vicente B. Salazar in his official capacity as Chairman of the Energy Regulatory Commission and Hon. Alfredo J. Non, Hon. Gloria Victoria C. Yap-Taruc, Hon. Josefina Patricia M. Asirit and Hon. Geronimo D. Sta. Ana, in their official capacity as incumbent Commissioners of the Energy Regulatory Commission.*

Notwithstanding the TRO issued by the Supreme Court, electricity end-users with average peak demands of 1 MW and 750 kW may still choose their retail electricity supplier on a voluntary basis.

Wholesale Electricity Spot Market (WESM)

The EPIRA provided for the creation of the WESM, a trading platform where electricity generated by power producers are centrally coordinated and traded like any other commodity in a market of goods. The objective is to provide a venue for free and fair trade of, and investment in, the electricity market for and by generators, distributors, and suppliers. The WESM is implemented by a market operator, an autonomous group constituted by the DOE with equitable representation from electric power industry participants.

The DOE formulated the WESM rules, which provide for the procedures for (i) establishing the merit order dispatch instruction for each time period, (ii) determining the market-clearing price for each time period, (iii) administering the market, and (iv) prescribing guidelines for market operation in system emergencies.

The WESM provides a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two.

On 18 November 2003, the DOE established the PEMC as a non-stock, non-profit corporation. PEMC's membership is comprised of an equitable representation of electricity industry participants and chaired by the DOE Secretary. Its purpose is to act as the autonomous market group operator and the governing arm of the WESM. It also undertook the preparatory work for the establishment of the WESM.

On 26 September 2018, the Independent Electricity Market Operator of the Philippines (“IEMOP”) formally took over the WESM from the PEMC. The takeover was in compliance with the EPIRA for the WESM to be run by an independent operator. IEMOP is a nonstock, nonprofit corporation governed by a professional board of directors composed of individuals not affiliated with any of the electric companies that transact in the WESM. The following are the functions of IEMOP, among others:

- (a) Facilitate the registration and participation of generating companies, DUs, directly connected customers or bulk users, suppliers, and contestable customers in the WESM;
- (b) Determine the hourly schedules of generating units that will supply electricity to the grid, as well as the corresponding spot-market prices of electricity via its Market Management System; and
- (c) Manage the metering, billing, settlement, and collection of spot trading amounts.

Under the policy and regulatory oversight of the DOE and the ERC, PEMC remains to be the governing body for the WESM to monitor compliance by the market participants with the WESM Rules.

Considering the challenges posed by climate change to the global economy, the development of renewable energy has gained prominence in recent years. A National Renewable Energy Program (“NREP”) was released in 2010 following the passage of the Renewable Energy Act in 2008. The NREP aimed to triple the installed capacity of renewable energy from 5,439 MW in 2010 to 15,304 MW by 2030[1]. It targeted to add over 7,000 MW of new capacity by 2020. As of end 2019 however, only a total of 7,564.16 MW of RE Capacity has been installed.

Measurable Targets (in MW) for the Renewable Energy Sector, Philippine Energy Plan, 2017-2040

TECHNOLOGY	Installed Capacity (as of 2010)	Target Capacity Addition (2011-2020)	Installed Capacity as of 31 December 2018
Geothermal	1,966.00	1,320.00	1,944.00
Hydro	3,400.00	3,502.30	3,701.00
Biomass	39	276.70	258.00
Wind	33	1,903.00	427.00
Solar	1	274.00	896.00
Ocean	-	35.50	-
TOTAL	5,439.00	7,311.50	7,227.00

[1] Philippine Energy Plan 2017-2040, Volume 2, page 9. <<https://www.doe.gov.ph/pep>>

[2] Summary of Installed Capacity, Dependable Capacity, Power Generation and Consumption

The Renewable Energy Act of 2008

On 16 December 2008, then President Gloria Macapagal-Arroyo signed into law Republic Act No. 9513, also known as the Renewable Energy Act of 2008 (the “RE Law”). The RE Law then took effect on 31 January 2009. It aims to accelerate the development and exploration of renewable energy resources in the country such as wind, hydro, and geothermal energy sources to achieve energy self-reliance and independence. It also aims to increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives.

With this Act, it is envisioned that the country will aggressively develop resources such as solar, biomass, geothermal, hydropower, wind, and ocean energy technologies. The said law is also expected to mitigate the global problem of climate change.

Specifically, the law provides prospective proponents in renewable energy with the following benefits and advantages:

1. Market

- a. Renewable portfolio market – all registered suppliers of electricity will have to source a certain percentage of their supply from eligible renewable energy sources
- b. Renewable energy market – refers to the market (to be incorporated in the WESM) where the trading of renewable energy certificates to an amount generated from renewable energy resources is made;
- c. Green option – provides end-users with the option to choose renewable energy resources as their sources of energy; also allows end-users to directly contract from renewable energy facilities their energy requirements distributed through their utilities; and
- d. Net metering for renewable energy – allows a user of renewable energy technology (e.g., solar) to sell back to a utility at the latter's retail price any excess in generation from the house electricity consumption.

2. Pricing mechanism through a Feed-in Tariff (FIT) system

- a. Allows a fixed price of electricity from renewable energy sources for twelve (12) years, to be determined by the ERC in consultation with the National Renewable Energy Board ("NREB") within one (1) year upon the effectivity of the law and priority purchase, transmission, and payment from the national grid; and
- b. Mandated for electricity produced from wind, solar, ocean, run-of-river hydropower, and biomass.

3. Access to the grid through transmission and distribution system development

- a) Requires the Transmission Corporation and DUs to include required connection facilities for renewable energy-based projects in the Transmission and Distribution Plans subject to the approval of the DOE; and
- b) Connection facilities of renewable energy plants, including the extension of transmission and distribution lines, shall be subject only to ancillary services covering such connections.

The DOE is the lead government agency tasked to implement the provisions of the RE Law. The Implementing Rules and Regulations of the RE Law were released in May 2009 and presented the guidelines on the implementation of the various fiscal and non-fiscal incentives provided by the law, which include the following:

a. Renewable Portfolio Standards (RPS)

On 22 December 2017, the DOE signed the landmark Department Circular No. 2017-12-0015 promulgating the "Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards RPS for On-Grid Areas" or the "RPS On-Grid Rules."

The RPS On-Grid Rules mandates all electric power industry participants, including DUs for their captive customers, suppliers of electricity for contestable market, and generating companies to the extent of their actual supply to their directly connected customers, to source or produce a specified portion of their electricity requirements from eligible renewable energy resources including biomass, geothermal, solar, hydro, ocean, and wind. The RPS On-Grid Rules establishes a minimum annual RPS requirement and minimum annual incremental percentage of electricity sold by each mandated participant which shall, in no case, be less than one percent (1%) of such mandated participant's annual energy demand over the next ten (10) years.

b. Feed-in Tariff (FIT) System

On 27 July 2012, the ERC approved the initial FIT rates that shall apply to generation from Run-of-River Hydro, Biomass, Wind, and Solar. The said FIT rates are as follows: ₱5.90/kwh for Run-of-River Hydro, ₱6.63/kwh for Biomass, ₱8.53/kwh for Wind, and ₱9.68/kwh for Solar. The ERC, however, deferred fixing the FIT for Ocean Thermal Energy Conversion Resource for further study and data gathering. The decision came after a series of public hearings ending in March 2012, on the petition of the NREB for the setting of the FIT rates.

Under the RE Law, all qualified and registered generating plants with intermittent renewable energy resources shall enjoy the benefit of priority dispatch. Priority purchase, transmission, and payment for such electricity is also provided for by the RE Law. Furthermore, all renewable energy generators are ensured of payment for electricity generated via the FIT scheme for a period of twenty (20) years.

On 17 May 2013, PHINMA RE, formerly Trans-Asia Renewable Energy Corp., received DOE's Declaration of Commerciality ("DOC") for the San Lorenzo Project (the "Project"). The DOC means that the Project will be eligible to avail of the FIT, but only upon successful completion and commissioning of the Project.

On 23 November 2015, the ERC issued a Decision in ERC Case No. 2015-002RM entitled "In the Matter of the Adoption of the Amendments to Resolution No. 10, Series of 2012, entitled "A Resolution Approving the Feed-in-Tariff (FIT) Rates" (FIT Rules), Particularly for WIND FIT Rates, as necessitated by the review and re-adjustment of the WIND FIT since the Installation Target for Wind Technology has already been achieved."

In the said Decision, the ERC approved a FIT2 in the amount of PhP 7.40/kWh for PHINMA RE, Petrowind Energy Inc., and Alternergy Wind One Corporation.

c. The NGCP and all DUs are mandated to include the required connection facilities for renewable energy-based electricity in their transmission and distribution development plans. They are also required to effect the connection of renewable energy-based power facilities with the grid, upon the approval of the DOE, at the start of their commercial operations. The ERC shall provide the mechanism for the recovery of the cost of these connection facilities.

d. The RE Law provides for the following fiscal incentives:

1. Income tax holiday (ITH) for a period of seven (7) years from the start of commercial operation;
2. Exemption from duties on renewable energy machinery, equipment, and materials;
3. Special realty tax rates on equipment and machinery;
4. Net operating loss carry over ("NOLCO") of the renewable energy developer during the first three (3) years from start of commercial operation shall be carried over for the next seven (7) consecutive taxable years immediately following the year of such loss;
5. Corporate tax rate of ten percent (10%);
6. Accelerated depreciation;
7. Zero percent (0%) value-added tax on energy sale;
8. Tax exemption of carbon credits; and
9. Tax credit on domestic capital equipment and services related to the installation of equipment and machinery.

National Renewable Energy Board (NREB) and the Renewable Energy Management Bureau (REMB)

For purposes of promoting the development of renewable energy resources, two new government bodies were created under the R.A 9513 or the RE Law – the NREB and the Renewable Energy Management Bureau ("REMB").

NREB will serve as the recommending body on renewable energy policies and action plans for implementation by the DOE. As provided under Section 27 of the RE Law, the powers and functions of the NREB are as follows:

1. Evaluate and recommend to the DOE the mandated RPS and minimum RE generation capacities in off-grid areas, as it deems appropriate;
2. Recommend specific actions to facilitate the implementation of the National Renewable Energy Program (NREP) to be executed by the DOE and other appropriate agencies of government and to ensure that there will be no overlapping and redundant functions within the national government department and agencies concerned;
3. Monitor and review the implementation of the NREP, including compliance with the RPS and minimum RE generation capacities in off-grid areas;
4. Oversee and monitor the utilization of the Renewable Energy Trust Fund created pursuant to Section 28 of the Renewable Energy Law and administered by the DOE; and
5. Perform such other functions, as may be necessary, to attain the objectives of the RE Law.

The NREB shall be composed of a Chairman and one (1) representative each from the DOE, Department of Trade and Industry (DTI), DENR, National Power Corporation, (NPC), and NGCP, PNOC and Philippine Electricity Market Corporation (PEMC) shall be designated by their respective secretaries to the NREB on a permanent basis. The Board shall also have one (1) representative each from the following sectors: (1) renewable energy developers, (2) government financial institutions, (3) private DUs, (4) electric cooperatives, (5) electricity suppliers, and (6)

non-government organizations (NGOs), duly endorsed by their respective industry associations and all to be appointed by the President of the Republic of the Philippines.

On the other hand, REMB was created for the purpose of implementing the provisions of the RE Law. The REMB shall replace the Energy Utilization Management Bureau under the DOE.

The powers and functions of the REMB are as follows:

1. Implement policies, plans, and programs related to the accelerated development, transformation, utilization and commercialization of renewable energy resources and technologies;
2. Develop and maintain a centralized, comprehensive, and unified data and information based on renewable energy resources to ensure the efficient evaluation, analysis, and dissemination of data and information on renewable energy resources, development, utilization, demand, and technology application;
3. Promote the commercialization / application of renewable energy resources including new and emerging technologies for efficient and economical transformation, conversion, processing, marketing, and distribution to end users;
4. Conduct technical research, socio-economic, and environment impact studies of renewable energy projects for the development of sustainable renewable energy systems;
5. Supervise and monitor activities of government and private companies and entities on renewable energy resources development and utilization to ensure compliance with existing rules, regulations, guidelines, and standards;
6. Provide information, consultation, and technical training and advisory services to developers, practitioners, and entities involved in renewable energy technology and develop renewable energy technology development strategies; and
7. Perform other functions that may be necessary for the effective implementation of the RE Law and the accelerated development and utilization of renewable energy resources in the country.

Environmental Laws

The Company's power generation operations are subject to extensive, evolving, and increasingly stringent safety, health, and environmental laws and regulations. These laws and regulations, such as R.A. 8749 or the Clean Air Act and R.A. 9275 or the Philippine Clean Water Act, address, among other things, air emissions, wastewater discharges, the generation, handling, storage, transportation, treatment, and disposal of toxic or hazardous chemicals, materials and waste, workplace conditions, and employee exposure to hazardous substances. ACEPH and its subsidiaries have incurred, and expect to continue to incur, operating costs to comply with such laws and regulations. The Company and its subsidiaries spend PhP 3 Million annually for emissions testing. In addition, ACEPH and its subsidiaries have made and expect to make capital expenditures in the amount of PhP 20 Million to upgrade emissions monitoring systems to comply with safety, health, and environmental laws and regulations.

Human Capital

As of 25 March 2020, ACEPH has ninety-two (92) employees. Of the total employees, twenty-eight (28) are managers and officers, fifty-six (56) are supervisors, and eight (8) are nonsupervisory employees. The Company has the intention of hiring eight (8) additional employees for the ensuing months.

The Company has no Collective Bargaining Agreement with its employees. No employees were on strike for the past three (3) years nor are they planning to go on strike.

The relationship between management and employees has always been of coordination and collaboration. The Company believes that professionalism, open communication, and upright engagement between management and employees are the effective ways to resolve workplace concerns.

Aside from compensation, the Company's employees are given medical, hospitalization, vacation and sick leave, and personal accident insurance benefits. There are also medical benefits from the Company that extends to employee's dependents. Also, the Company has a retirement fund based on statutory benefits. The defined benefit pension plan is a funded, noncontributory plan, covering all full-time employees of ACEPH. The benefits are based on tenure and remuneration at the time of retirement.

SUSTAINABILITY

ACEPH's commitment to sustainability and social responsibility goes beyond environmental management and development of social projects. The Company, together with its parent, AC Energy and Ayala Corporation, integrates core sustainability principles into all aspects of its businesses, and provides guidance for day-to-day operations and its sustainable business strategy.

ACEPH promotes inclusive growth in its partner communities by engaging in relevant programs and initiatives geared towards the needs of stakeholders. As the Company builds a balanced portfolio of renewable and conventional power generation assets, it recognizes the importance of working with communities to create development programs that benefit its stakeholders.

Environmental and Social

The Ayala Group has always been geared towards improving lives by ensuring value creation in the environment and communities where it operates. At the forefront is the Company with sustainability initiatives that fully support the development and prosperity of their host communities, with the ultimate goal towards self-actualization and national progress.

With sustainability being central to ACEPH's operations, the Company outlines its commitment to protect the communities and environment in tandem with its focus on developing renewables to support the government's energy roadmap.

In Guimaras and Batangas, ACEPH worked closely with the DENR to promote a healthier ecosystem through the rehabilitation and re-greening of the environment, planting more than 5000 seedlings with 50 indigenous species through a series of planting initiatives. ACEPH partnered with the local communities to ensure the maintenance and protection of the established areas for planting.

Empowerment through livelihood

ACEPH regularly engages with the local governments and communities to develop programs based on the identified needs of the stakeholders. Several of these programs include promotion of eco-tourism programs, rehabilitation of local health centers, and community resilience programs.

ACEPH assists communities in resource mapping and exploring opportunities for sustainable livelihood. Participative planning and implementation play a key role in the sustainability of the projects, and ACEPH makes sure that partner communities have a firm grasp of the ownership of the project, while the Company works in support to contribute resources, facilitate marketing and provide service providers for the community.

Helping communities succeed through education

ACEPH remains steadfast in its commitment to support the education programs of local communities through school rehabilitation efforts, training workshops, and work immersion programs. In partnership with local government units (LGUs) and schools, the Company was also able to facilitate training programs for one hundred nineteen (119) science teachers and work immersion programs for sixty (60) high school students. Employee-volunteers distributed school supplies and joined the parents and teachers in cleaning and repainting classrooms.

To support education programs in Guimaras, ACEPH continuously assesses the needs of the communities – from providing materials for the renovation of school facilities, mobilizing employee-volunteers to assist in the *bayanihan* effort and providing trainings to empower educators on various fields.

RISK FACTORS RELATED TO THE BUSINESS

Risks Relating to the Company and its Businesses

Increased competition in the power industry, including competition resulting from legislative, regulatory and industry restructuring efforts could have a material adverse effect on the Company's operations and financial performance.

The Company's success depends on its ability to identify, invest in and develop new power projects, and the Company faces competition to acquire future rights to develop power projects and to generate and sell power. No assurance can be given that the Company will be able to acquire or invest in new power projects successfully.

In recent years, the Philippine government has sought to implement measures designed to establish a competitive power market. These measures include the planned privatization of at least seventy percent (70%) of the NPC-owned-and-controlled power generation facilities and the grant of a concession to operate transmission facilities. The move towards a more competitive environment could result in the emergence of new and numerous competitors. These competitors may have greater financial resources, and have more extensive experience than the Company, giving them the ability to respond to operational, technological, financial and other challenges more quickly than the Company. These competitors may therefore be more successful than the Company in acquiring existing power generation facilities or in obtaining financing for and the construction of new power generation facilities. The type of fuel that competitors use for their generation facilities may also allow them to produce electricity at a lower cost and to sell electricity at a lower price. The Company may therefore be unable to meet the competitive challenges it will face.

The impact of the ongoing restructuring of the Philippine power industry will change the competitive landscape of the industry and such changes are expected to affect the Company's financial position, results of operations, and cash flows in various ways.

To be able to adapt with the potential changes, the Company continues to develop a pipeline of projects particularly in securing potential sites, continuously looking into technology that will allow the projects to be economically viable while being competitive in terms of offer, and negotiating with adequate coverage in terms of unexpected changes on the regulations. The Company monitors developments in the industry, competition, and regulatory environment to ensure that it can adapt as necessary to any change.

The Company may not successfully implement its growth strategy and the impact of acquisitions and investments could be less favourable than anticipated.

As part of its business strategy, the Company continues to carry out acquisitions and investments of varying sizes, some of which are significant, as well as develop additional power projects. This strategy may require entering into strategic alliances and partnerships and will involve substantial investments. The Company's success in implementing this strategy will depend on, among other things, its ability to identify and assess potential partners, investments and acquisitions, successfully finance, close, and integrate such investments and acquisitions, control costs, and maintain sufficient operational and financial controls.

This growth strategy could place significant demands on the Company's management and other resources. The Company's future growth may be adversely affected if it is unable to make these investments or form these partnerships, or if these investments and partnerships prove unsuccessful. Further, acquisitions and investments involve numerous risks, including, without limitation, the following: (i) the assumptions used in the underlying business plans may not prove to be accurate, in particular with respect to synergies and expected demand; (ii) the Company may not integrate acquired businesses, technologies, products, personnel, and operations effectively; (iii) the Company may fail to retain key employees, customers and suppliers of the companies acquired; (iv) the Company may be required or wish to terminate pre-existing contractual relationships, which could be costly and/or on unfavourable terms; and (v) the Company may increase its indebtedness to finance these acquisitions. As a result, it is possible that the expected benefits of completed or future acquisitions may not materialise within the time periods or to the extent anticipated or affect the Company's financial condition.

Further, the Company may not be able to identify suitable acquisition and investment opportunities or make acquisitions and investment, on beneficial terms, or obtain financing necessary to complete and support such acquisitions. Regulation of merger and acquisition activity by relevant authorities or other national regulators may also limit the Company's ability to make future acquisitions or mergers. The impact on the Company of any future

acquisitions or investments cannot be fully predicted and any of the risks outlined above, should they materialise, could have a material adverse effect on the Company's business, financial condition, results of operations, and prospects.

The Company nonetheless has shown capability to develop meaningful partnerships, has been agile and fast in decision making, and adept in structuring deals with potential partners. While the Company embarks on acquisitions to grow its portfolio, the Company also ensures it has its own portfolio of assets under development to secure its growth strategy.

The operations of the Company's power projects are subject to significant government regulation, including regulated tariffs such as FIT, and the Company's margins and results of operations could be adversely affected by changes in the law or regulatory schemes.

The Company's inability to predict, influence or respond appropriately to changes in law or regulatory schemes, including any inability or delay in obtaining expected or contracted increases in electricity tariff rates or tariff adjustments for increased expenses, or any inability or delay in obtaining or renewing permits for any facilities, could adversely impact results of operations and cash flow. Furthermore, changes in laws or regulations or changes in the application or interpretation of laws or regulations in jurisdictions where power projects are located, (particularly utilities where electricity tariffs are subject to regulatory review or approval) could adversely affect the Company's business, including, but not limited to:

- adverse changes in tax law;
- changes in the timing of tariff increases or in the calculation of tariff incentives;
- change in existing subsidies and other changes in the regulatory determinations under the relevant concessions;
- other changes related to licensing or permitting which increase capital or operating costs or otherwise affect the ability to conduct business; or
- other changes that have retroactive effect and/or take account of revenues previously received and expose power projects to additional compliance costs or interfere with our existing financial and business planning.

Any of the above events may result in lower margins for the affected businesses, which could adversely affect the Company's results of operations.

For renewable assets, pricing is fixed by regulatory arrangements which operate instead of, or in addition to, contractual arrangements. To the extent that operating costs rise above the level approved in the tariff, the Company's businesses that are subject to regulated tariffs would bear the risk. During the life of a project, the relevant government authority may unilaterally impose additional restrictions on the project's tariff rates, subject to the regulatory frameworks applicable in each jurisdiction. Future tariffs may not permit the project to maintain current operating margins, which could have a material adverse effect on the Company's business, financial condition, results of operations, and prospects.

As potential regulatory changes are an inherent risk on the industry where the Company is operating, the Company keeps track and remains up to speed on such potential changes, analyzes impact, and conducts risk assessment as necessary, and develops means to be able to cover such potential risks.

Failure to obtain financing on reasonable terms or at all could adversely impact the execution of the Company's expansion and growth plans.

The Company's expansion and growth plans are expected to require significant fund raising. The Company's current strategy is to exceed 2000MW of renewable energy capacity by 2025 and will require adequate funding for these projects. The Company's continued access to debt and equity financing as a source of funding for new projects, acquisitions, and investments, and for refinancing maturing debt is subject to many factors, including: (i) Philippine regulations limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers; (ii) the Company's compliance with existing debt covenants; (iii) the ability of the Company to service new debt; (iv) the macroeconomic fundamentals driving credit ratings of the Philippines; and (v) perceptions in the capital markets regarding the Company and the industries and regions in which it operates and other factors, some of which may be outside of its control, including general conditions in the debt and equity capital markets, political instability, an economic downturn, social unrest, changes in the regulatory environments where any power projects are located or the bankruptcy of an unrelated company operating in one or more of the same industries as the Company, any of which could increase borrowing costs or restrict the Company's ability to obtain debt or equity financing. There is no assurance that the Company will be able to arrange financing on

acceptable terms, if at all. Any inability of the Company to obtain financing from banks and other financial institutions or from capital markets would adversely affect the Company's ability to execute its expansion and growth strategies.

The Company nonetheless is on track in enhancing its balance sheet: it has low debt and debt servicing levels built on assets with proven track record of generating reliable cash returns, it invests into projects that are economically viable, it anticipates potential impacts to future performance of the projects caused by changes on the regulatory environment, and strives to be a partner of choice for potential investors to secure financing for its projects. It is well-managed by reputable finance professionals overseen by the Board of Directors, which enhances the credit profile of the Company as a borrower. The Company also maintains regular communication with its bankers to ensure continued availability of credit facilities.

Changes in tax policies affecting tax exemptions and tax incentives could adversely affect the Company's results of operations.

Certain Associates (as defined under the Philippine Financial Reporting Standards or the "PFRS") of the Company are registered with the Board of Investments and the Philippine Economic Zone Authority as new operators with pioneer status and non-pioneer status for greenfield projects and benefit from certain capital tax exemptions and tax incentives, deductions from taxable income subject to certain capital requirements, and duty-free importation of capital equipment, spare parts, and accessories.

If these tax exemptions or tax incentives expire, are revoked, or are repealed, the income from these sources will be subject to the corporate income tax rate, which is thirty percent (30%) of net taxable income. As a result, the Company's tax expense would increase, and its profitability would decrease. The expiration, non-renewal, revocation or repeal of these tax exemptions and tax incentives, and any associated impact on the Company, could have a material adverse effect on the Company's business, financial condition, and results of operations.

Similar to continuously monitoring potential changes in the regulatory environment, the Company anticipates the impact of potential changes on its projects' tax incentives. Whenever possible, contracts are negotiated to include provisions protecting the Company for any potential increases in tax due owing to the revocation or repeal of the tax incentives currently available to its projects.

The Company's long-term success is dependent upon its ability to attract and retain key personnel and in sufficient numbers.

The Company depends on its senior executives and key management members to implement the Company's projects and business strategies. If any of these individuals resigns or discontinues his or her service, it is possible that a suitable replacement may not be found in a timely manner or at all. If this were to happen, there could be a material adverse effect on the Company's ability to successfully operate its power projects and implement its business strategies.

Power generation involves the use of highly complex machinery and processes and the Company's success depends on the effective operation and maintenance of equipment for its power generation assets. Technical partners and third-party operators are responsible for the operation and maintenance of certain power projects. Any failure on the part of such technical partners and third-party operators to properly operate and/or adequately maintain these power projects could have a material adverse effect on the Company's business, financial condition, and results of operations.

In addition, the Company's growth to date has placed, and the anticipated further expansion of the Company's operations will continue to place, a significant strain on the Company's management, systems, and resources. In addition to training, managing, and integrating the Company's workforce, the Company will need to continue to develop the Company's financial and management controls. The Company can provide no assurance that the Company will be able to efficiently or effectively manage the growth and integration of the Company's operations and any failure to do so may materially and adversely affect the Company's business, financial condition, results of operations and prospects. In addition, if general economic and regulatory conditions or market and competitive conditions change, or if operations do not generate sufficient funds or other unexpected events occur, the Company may decide to delay, modify or forego some aspects of its growth strategies, and its future growth prospects could be adversely affected.

To mitigate such risks, the Company structures the organization in such a way that there is development and advancement opportunities for each individual within the organization, maintains competitive benefits, and compensation structure and ensures provision of training to its employees.

The Company may not be able to adequately influence the operations of its Associates and joint ventures and the failure of one or more of its strategic partnerships may negatively impact its business, financial condition, results of operations, and prospects.

The Company derives a portion of its income from investments in Associates and joint ventures, in which it does not have majority voting control. These relationships involve certain risks including the possibility that these partners:

- may have economic interests or business goals that are not aligned with the Company's;
- may be unable or unwilling to fulfill their obligations under relevant agreements, including shareholder agreements under which the Company has certain voting rights in respect of key strategic, operating and financial matters;
- may take actions or omit to take any actions contrary to, or inconsistent with, the Company's policies or objectives or prevailing laws;
- may have disputes with the Company as to the scope of their responsibilities and obligations; and/or
- may have difficulties in respect of seeking funds for the development or construction of projects.

The success of these partnerships depends significantly on the satisfactory performance by the partners and the fulfilment of their obligations. If the Company or a strategic partner fails to perform its obligations satisfactorily, or at all, the partnership may be unable to perform adequately. Thus, cooperation among its partners or consensus with other shareholders in these entities is crucial to these businesses' sound operation and financial success. The Company's business, financial condition, results of operations, and prospects may be materially adversely affected if disagreements develop between the Company and its strategic partners, and such disagreements are not resolved in a timely manner.

In addition, if any of the Company's strategic partners discontinues its arrangement with the Company, is unable to provide the expected resources or assistance, or competes with the Company on business opportunities, the Company may not be able to find a substitute for such strategic partner. Failure of one or more of the Company's strategic partners to perform their obligations may have a material adverse effect on the Company's business, financial condition, results of operations, and prospects.

In entering into partnerships, the Company ensures that there are adequate protection clauses in the shareholder agreements to protect the interest of Company. The criteria for the selection of potential partners also ensures that the Company is only working with those that are aligned with its core values.

Risks and delays relating to the development of greenfield power projects could have a material adverse effect on the Company's operations and financial performance.

The development of greenfield power projects involves substantial risks that could give rise to delays, cost overruns, unsatisfactory construction or development in the projects. Such risks include the inability to secure adequate financing, inability to negotiate acceptable offtake agreements, and unforeseen engineering and environmental problems, among others. Any such delays, cost overruns, unsatisfactory construction or development could have a material adverse effect on the business, financial condition, results of operation, and future growth prospects of the Company.

For the Company's projects under development, the estimated time frame and budget for the completion of critical tasks may be materially different from the actual completion date and costs, which may delay the date of commercial operations of the projects or result in cost overruns.

The Company is expanding its power generation operations and there are projects in its energy portfolio under construction. These projects involve environmental, engineering, construction, and commissioning risks, which may result in cost overruns, delays or performance that is below expected levels of output or efficiency. In addition, projects under construction may be affected by the timing of the issuance of permits and licenses by government agencies, any litigation or disputes, inclement weather, natural disasters, accidents or unforeseen circumstances, manufacturing and delivery schedules for key equipment, defect in design or construction, and supply and cost of equipment and materials. Further, project delays or cancellations or adjustments to the scope of work may occur from time to time due to incidents of force majeure or legal impediments.

Depending on the severity and duration of the relevant events or circumstances, these risks may significantly delay the commencement of new projects, reduce the economic benefit from such projects, including higher capital expenditure requirements and loss of revenues, which in turn could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

Given its growth target and considering the challenges on development, the Company ensures that it has an adequate pipeline of projects to manage potential delays, has a team specifically focused on development up to bringing a plant into construction and eventually commercial operations. In addition to green field developments, the Company keeps an open eye on potential mergers and acquisitions as well as partnership with other development companies to be on track with its growth targets.

Any restriction or prohibition on the Company's Associates' or joint ventures' ability to distribute dividends would have a negative effect on its financial condition and results of operations.

The Company is reliant on dividends paid to it by its Associates and joint ventures with respect to its obligations and in order to finance its Associates. The ability of the Company's Associates and joint ventures to pay dividends to the Company (and their shareholders in general) is subject to applicable law and may be subject to restrictions contained in loans and/or debt instruments of such Associates and may also be subject to the deduction of taxes. Currently, the payment of dividends by a Philippine corporation to another Philippine corporation is not subject to tax.

In addition, certain Associates are subject to debt covenants for their respective existing debt. Failure to comply with these covenants may result in a potential event of default, which if not cured or waived, could result in an actual event of default and the debt becoming immediately due and payable. This could affect the relevant company's liquidity and ability to generally fund its day-to-day operations. In the event this occurs, it may be difficult to repay or refinance such debt on acceptable terms or at all.

Any restriction or prohibition on the ability of some or all of the Company's Associates and/or joint ventures to distribute dividends or make other distributions to the Company, either due to regulatory restrictions, debt covenants, operating or financial difficulties or other limitations, could have a negative effect on the Company's cash flow and therefore, its financial condition.

Overall, the Company monitors potential regulatory impacts on its projects and anticipates means to manage the impact of any regulatory changes. The Company also regularly tracks the performance of its projects to ensure delivery of budgeted results including distribution of dividends to the Company.

The administration and operation of power generation projects by project companies involve significant risks.

The administration and/or operation of power generation projects by project companies involve significant risks, including:

- breakdown or failure of power generation equipment, transmission lines, pipelines or other equipment or processes, leading to unplanned outages and operational issues;
- flaws in the equipment design or in power plant construction;
- issues with the quality or interruptions in the supply of key inputs, including fuel or water;
- material changes in legal, regulatory or licensing requirements;
- operator error;
- performance below expected levels of output or efficiency;
- actions affecting power generation assets owned or managed by the Company, its joint ventures, affiliates or its contractual counterparties;
- pollution or environmental contamination affecting the operation of power generation assets;
- force majeure and catastrophic events including fires, explosions, earthquakes, volcanic eruptions, floods and terrorist acts that could cause forced outages, suspension of operations, loss of life, severe damage, and plant destruction;
- planned and unplanned power outages due to maintenance, expansion, and refurbishment;
- inability to obtain or the cancellation of required regulatory, permits, and approvals; and
- opposition from local communities and special interest groups.

There is no assurance that any event similar or dissimilar to those listed above will not occur or will not significantly increase costs or decrease or eliminate revenues derived by the Company, its joint ventures, and affiliates from their power projects.

As above risks are inherent in the industry where the Company's projects operate, the Company ensures that contracts with suppliers cover a portion of the risks and there are proper insurance coverages in case of the occurrence of events hampering the project's operations and develops an operations team that focuses on monitoring plant's performance and ensures proper repairs and maintenance procedures or capital expenditures are conducted at the right time.

Permits and approvals are regularly monitored by a team to ensure that all are properly renewed and maintained. Regular dialogues are conducted and CSR activities are implemented in the community where the projects are located.

Climate change may adversely affect the Company's business and prospects.

The Company is currently involved in the operation and development of a coal power plant in Batangas. Policy and regulatory changes, technological developments, and market and economic responses relating to climate change may affect the Company's business and the markets in which it operates. The enactment of an international agreement on climate change or other comprehensive legislation focusing on greenhouse gas emissions could have the effect of restricting the use of coal. Other efforts to reduce greenhouse gas emissions and initiatives in various countries to use cleaner alternatives to coal such as natural gas may also affect the use of coal as an energy source.

In addition, technological developments may increase the competitiveness of alternative energy sources, such as renewable energy, which may decrease demand for coal generated power. Other efforts to reduce emissions of greenhouse gases and initiatives in various countries to encourage the use of natural gas or renewable energy may also discourage the use of coal as an energy source. The physical effects of climate change, such as changes in rainfall, water shortages, rising sea levels, increased storm intensities, and higher temperatures, may also disrupt the Company's operations. As a result of the above, the Company's business, financial condition, results of operations, and prospects may be materially and adversely affected.

The Company keeps track of potential changes in the climate and regulations that may affect its business and prospects. To prepare for such changes, the Company develops a diverse portfolio of assets that is aligned with the country's vision of an optimum mix of energy sources. The Company has been focusing on the development of renewables in its portfolio which is aligned with the country's vision on optimum mix of energy sources. The Company further looks into advancements in technology as it develops its projects to be able to create a stable supply of power due to intermittent availability of power generated from renewable sources.

Environmental regulations may cause the relevant project companies to incur significant costs and liabilities.

The operations of the project companies are subject to environmental laws and regulations by central and local authorities in which the projects operate. These include laws and regulations pertaining to pollution, the protection of human health and the environment, air emissions, wastewater discharges, occupational safety and health, and the generation, handling, treatment, remediation, use, storage, release and exposure to hazardous substances and wastes. These requirements are complex, subject to frequent change and have tended to become more stringent over time. The project companies have incurred, and will continue to incur, costs and capital expenditures in complying with these laws and regulations and in obtaining and maintaining all necessary permits. While the project companies have procedures in place to allow it to comply with environmental laws and regulations, there can be no assurance that these will at all times be in compliance with all of their respective obligations in the future or that they will be able to obtain or renew all licenses, consents or other permits necessary to continue operations. Any failure to comply with such laws and regulations could subject the relevant project company to significant fines, penalties and other liabilities, which could have a material adverse effect on the Company's business, financial condition, results of operations, and prospects.

In addition, environmental laws and regulations, and their interpretations, are constantly evolving and it is impossible to predict accurately the effect that changes in these laws and regulations, or their interpretation, may have upon the Company's business, financial condition, results of operations or prospects. If environmental laws and regulations, or their interpretation, become more stringent, the costs of compliance could increase. If the

Company cannot pass along future costs to customers, any increases could have a material adverse effect on the Company's business, financial condition, results of operations, and prospects. To this effect, the Company exerts best efforts to comply with regulations as it develops its projects.

The Company's power project development operations and the operations of the power projects are subject to inherent operational risks and occupational hazards, which could cause an unexpected suspension of operations and/or incur substantial costs.

Due to the nature of the business power project development and operations, the Company and its project companies engage or may engage in certain inherently hazardous activities, including operations at height, use of heavy machinery, and working with flammable and explosive materials. These operations involve many risks and hazards, including the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment, labour disturbances, natural disasters, environmental hazards, and industrial accidents. These hazards can cause personal injury and loss of life, damage to or destruction of property and equipment, and environmental damage and pollution, any of which could result in suspension of the development or operations of any of the power projects or even imposition of civil or criminal penalties, which could in turn cause the Company or any of the project companies to incur substantial costs and damage its reputation and may have a material adverse effect on the Company's business, financial condition, and results of operations.

Given above risks, the Company procures proper insurance coverages, complies with various health and security measures, implements a culture of safety in the working environment, conducts proper and timely repairs and maintenance of the plants, and regularly trains employees on safety and security.

Grid curtailments may limit the generation capacity of power projects.

From time-to-time, national grid operators curtail the energy generation for a number of reasons, including to match demand with supply and for technical maintenance reasons, including as a result of grid infrastructure that is not up to international standards. In such circumstances, a power project's access to the grid and thus its generation capacity can be reduced. Such reductions result in a corresponding decrease in revenue, which, if prolonged or occur frequently, could have a material adverse effect on the Company's business, financial condition, results of operations, and prospects.

To manage such risk, the Company ensures that there is adequate capacity on the grid covering for the sites and projects it undertakes. Grid capacity availability is a key criterion on assessing the viability of a project in addition to consideration of the transmission development plan of NGCP.

The Company enters into transactions with related parties.

In the ordinary course of business, the Company transacts with its related parties, such as its Associates, and certain of its Associates and joint ventures enter into transactions with each other. These transactions have principally consisted of advances, loans, bank deposits, reimbursement of expenses, purchase and sale of real estate and other properties and services, sale of electricity, construction contracts and development, management, marketing, and administrative service agreements.

While the Company believes that all past related party transactions have been conducted at arm's length on commercially reasonable terms, these transactions may involve conflicts of interest, which, although not contrary to law, may be detrimental to the Company.

The Company has instituted internal policies with respect to related party transactions and the Company ensures that it is compliant with the policies instituted on transactions involving related parties. Relevant related party transactions are also discussed at the Related Party Transaction Committees or Audit and Risk Committees of the companies which oversee such matters.

For further information on the Company's related party transactions, see "Related Party Transactions."

The Company is exposed to credit and collection risks.

As in other businesses, the power business is exposed to credit and collection risks related to its customers. These include the TRANSCO, rated corporations as well as cooperatives that have varying credit ratings, and private DUs. There can, however, be no assurance that all customers will pay the Company in a timely manner or at all.

In such circumstances, the Company's working capital needs would increase, which could, in turn, divert resources away from the Company's other projects. If a large amount of its customers were unable or unwilling to pay the Company, its financial condition could be negatively affected.

Given potential collection risk, the Company conducts review of the capability of its potential clients as part of the accreditation process. Clients are also requested to put in security deposits equivalent to a certain period of their consumption.

The insurance coverage of the power projects may not be adequate.

The power projects maintain levels of insurance, which the Company believes are typical with the respective business structures and in amounts that it believes to be commercially appropriate. However, a power project may become subject to liabilities against which it has not insured adequately or at all, or are unable to insure. In addition, insurance policies contain certain exclusions and limitations on coverage, which may result in claims not being honoured to the extent of losses or damages suffered. Further, such insurance policies may not continue to be available at economically acceptable premiums, or at all. The occurrence of a significant adverse event, the risks of which are not fully covered or honoured by such insurers, could have a material adverse effect on a power project's business, financial condition, results of operations, and prospects. In addition, under some of the power project's debt agreements, the power project is required to name the lenders under such debt agreements as a beneficiary or a loss payee under some of its insurance policies, or assign the benefit of various insurance policies to the lenders. Therefore, even if insurance proceeds were to be payable under such policies, any such insurance proceeds will be paid directly to the relevant lenders instead of to the power project. If an insurable loss has a material effect on a power project's operations, the power project's lenders may not be required to pay any insurance proceeds or to compensate the power project for loss of profits or for liabilities resulting from business interruption, and this could have a material adverse effect on the Company's business, financial condition, results of operations, and prospects.

The Company regularly reviews its insurance coverages and benchmarks it with industry trends and keeps track of the insurance claims conducted in the past. The Company also continues to explore further means to strengthen its insurance coverages including participating in the Ayala Group's insurance optimization initiative to augment its existing insurance policies. These include optimizing coverages within a bigger pool to achieve scale and generate diversification for new types and approaches to loss mitigation to address plant-specific risks.

The Company may be adversely affected by WESM price fluctuations.

Market prices for electric power fluctuate substantially. As electric power can only be stored on a very limited basis and generally must be produced concurrently with its use, frequent supply and demand imbalances result in power prices that are subject to significant volatility. Electricity prices may also fluctuate substantially due to other factors outside of the Company's control, including, but not limited to:

- changes in the generation capacity in the markets, including additional new supply of power from development or expansion of power plants, and decreased supply from closure of existing power plants;
- additional transmission capacity;
- electric supply disruptions, such as power plant outages and transmission disruptions;
- changes in power demand or in patterns of power usage, including the potential development of demand-side management tools and practices;
- the authority of the ERC to review and adjust the prices on the WESM;
- climate, weather conditions, natural disasters, wars, embargoes, terrorist attacks, and other catastrophic events;
- availability of competitively priced alternative power sources; and
- changes in the power market and environmental regulations and legislation.

These factors may have a material adverse effect on the business, financial condition, and operations of the Company.

As it has been trading in the spot market since 2006, the Company has gained valuable experience in trading at the WESM. This experience will allow the Company to continue to take advantage of further opportunities in the WESM that will allow it to supplement its power generation business.

The Company's ability to produce and source electricity from various sources allows it to exploit trading opportunities in the WESM by purchasing power for its customers and/or selling excess supply if costs are less than the prevailing prices in the WESM.

The Company is dependent on the support of AC Energy, Inc.

ACEPH relies on AC Energy for certain shared services such as, but not limited to, human resources, corporate affairs, legal, finance, and treasury operations. There is no guarantee that AC Energy will continue to provide these services in the future. Should AC Energy cease to provide these services, the Company's business, financial condition, and results of operations could be adversely affected.

While the Company relies on AC Energy for certain shared services, these transactions are done on an arm's length basis. The Company likewise pursues strategic hiring for identified critical positions and strengthens the competencies of its employees to minimize its dependence on AC Energy for certain services.

Risks Relating to the Philippines

The operations of the Company are concentrated in the Philippines, and therefore any downturn in general economic conditions in the Philippines could have a material adverse impact on the Company.

Historically, the Company's results of operations have been influenced, and will continue to be influenced, to a significant degree by the general state of the Philippine economy and as a result, its income and results of operations depend, to a significant extent, on the performance of the Philippine economy. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the peso, and the imposition of exchange controls.

In addition, global financial, credit, and currency markets have, since the second half of 2007, experienced, and may continue to experience, significant dislocations and liquidity disruptions. There is significant uncertainty as to the potential for a continued downturn in the U.S. and the global economy, which would be likely to cause economic conditions in the Philippines to deteriorate. There can be no assurance that current or future governments will adopt economic policies conducive to sustaining economic growth.

Any political instability in the Philippines may adversely affect the Company.

The Philippines has from time to time experienced political and military instability. The Philippine constitution provides that in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately-owned public utility or business. In the last few years, there has been political instability in the Philippines, including public and military protests arising from alleged misconduct by the previous administration. No assurance can be given that the political environment in the Philippines will stabilise. Any political instability in the future may result in inconsistent or sudden changes in the economy, regulations, and policies that affect the Company, which could have an adverse effect on its business, results of operations, and financial condition.

Any decrease in the credit ratings of the Philippines may adversely affect the Company's business.

The Philippines is currently rated investment grade by major international credit rating agencies such as Moody's S&P and Fitch. While in recent months these rating agencies have assigned positive or stable outlooks to the Philippines' sovereign rating, no assurance can be given that these agencies will not in the future downgrade the credit ratings of the government and, therefore, Philippine companies, including the Company. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the government and Philippine companies, including the Company, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

Territorial disputes among the Philippines and its neighboring nations may adversely affect the Philippine economy and the Company's business.

China and other Southeast Asian nations, such as Brunei, Malaysia, and Vietnam, have been engaged in competing and overlapping territorial disputes over islands in the West Philippine Sea (also known as the South China Sea). This has produced decades' worth of tension and conflict among the neighboring nations. The West Philippine Sea is believed to house unexploited oil and natural gas deposits, as well as providing home to some of the biggest

coral reefs in the world. China, in recent years, has been vocal in claiming its rights to nearly the whole of the West Philippine Sea – as evidenced by its increased military presence in the area. This has raised conflict in the region among the claimant countries.

In 2013, the Philippines filed a case to legally challenge China's claims in the West Philippine Sea and to resolve the dispute under the United Nations Convention on the Law of the Sea. The case was filed with the Permanent Court of Arbitration, the international arbitration tribunal at the Hague, Netherlands. In July 2016, the tribunal ruled in favour of the Philippines and stated that China's claim was invalid. China rejected the ruling, claiming that it did not participate in the proceedings as the tribunal had no jurisdiction over the case. News reports have reported increased Chinese activity in the area, including the installation of missile systems and the deployment of bomber planes. Other claimants have challenged China's actions in the West Philippine Sea.

There is no guarantee that tensions will not escalate further or that the territorial disputes among the Philippines and its neighboring countries, especially China, will cease. In an event of escalation, the Philippine economy may be disrupted and the Company's business and financial standing may be adversely affected.

Item 2. Properties

ACEPH and its subsidiaries own the following fixed assets as of 31 December 2019:

In thousands

Properties	Location	Amount (in PhP)
Land and land improvements	Bacnotan, La Union/ Norzagaray, Bulacan/ Guimaras/ Calaca, Batangas/ Subic, Zambales	₱941,211
Buildings and improvements	Makati City/ Bacnotan, La Union/ Norzagaray, Bulacan/ Guimaras/ Calaca, Batangas/ Subic, Zambales	6,816,537
Machinery and equipment	Guimaras/ Norzagaray, Bulacan/ Bacnotan, La Union/ Calaca, Batangas/ Subic/ Iloilo/ Lapu-Lapu City	15,993,446
Transportation equipment	Makati City/ Guimaras/ Norzagaray, Bulacan/ Subic/ Bacnotan, La Union/ Calaca, Batangas/ Iloilo / Lapu-Lapu City	28,664
Tools and other miscellaneous assets	Makati City/ Guimaras/ Bacnotan, La Union/ Calaca, Batangas	95,734
Office furniture, equipment and others	Makati City/ Guimaras/ Bacnotan, La Union/ Norzagaray, Bulacan/ Calaca, Batangas/ Subic/ Iloilo/ Lapu-Lapu City	117,078
Construction in progress	Calaca, Batangas	178,077
Total		₱24,170,747
Less: Accumulated depreciation, amortization and impairment		2,606,487
Net		₱21,564,260

Source: Audited consolidated financial statements as of 31 December 2019

The land and land improvements of the Company includes approximately 27,800 square meters (sqm) in Norzagaray, Bulacan, and Bacnotan, La Union where the power plants are located and 33.7 has. of land in Barangay Puting Bato and Sinisian, Calaca, Batangas owned by SLTEC. In San Lorenzo Wind Farm, most parcels of land were acquired which approximate 605,800 sqm but some lots are subject of lease agreements.

The Company's subsidiary, PHINMA RE, entered into various easements and right of way agreements with various landowners to support the erection of transmission lines to be used to connect its 54 MW San Lorenzo Wind Power Project in Guimaras. These agreements convey to PHINMA RE the right to use the item and control over the utility of the asset. Also, PHINMA RE has entered into various lease agreements with individual landowners 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. Such lease terms indicate that the various landowners do not transfer to the Company substantially all the risks and rewards incidental to the ownership of the parcels of land. PHINMA RE's San Lorenzo Wind Power Project, with a carrying value of P4.22 billion and included under the "Machinery and equipment" account is mortgaged as security for its term loan as at 31 December 2019.

The Company's subsidiary, One Subic, has a lease agreement with SBMA for a parcel of land and electric generating plant and facilities. One Subic has determined that the risks and rewards related to the foregoing properties are retained with the lessor (e.g., no bargain purchase option and transfer of ownership at the end of the lease term).

Buildings and improvements are located in the respective power plants and offices.

Machinery and equipment includes a 52MW Bunker C-Fired power plant in Bulacan, a 21MW Bunker C-Fired power plant in La Union, capitalized equipment for the One Subic power plant, three (3) Power Barges in Iloilo and Cebu, the 54MW San Lorenzo Wind Power Project, and the 2x135 MW Circulating Fluidized Bed power plant under SLTEC. This also includes cost of construction, plant and equipment and other direct costs.

Transportation equipment, tools and other miscellaneous assets, office furniture and equipment are used by officers and personnel based in Makati, Guimaras, Bacnotan, La Union, Norzagaray, Bulacan, Subic, Barrio Obrero Iloilo, Lapu-Lapu City, and Calaca, Batangas.

For the next twelve (12) months, the Company will acquire machinery and equipment, furniture and fixtures, office equipment and transportation equipment which will utilize the Company's funds or bank loans. Total cost of the expenditures is not yet available.

Following the completion and implementation of the AC Energy-ACEPH Exchange, the Company will have the following assets:

Properties	Location	Amount (in PhP)
Land and land improvements	Manapla, Negros Occidental/ Bangui, Ilocos Norte	₱417,039
Buildings and improvements	Bangui, Ilocos Norte	19,910
Machinery and equipment	Bangui, Ilocos Norte/ Bais, Negros Occidental	5,507,272
Transportation equipment	Bangui, Ilocos Norte	12,173
Office furniture, equipment and others	Makati City/ Bangui, Ilocos Norte/ Bais, Negros Occidental	303,315
Construction in progress	Bangui, Ilocos Norte/ Bais, Negros Occidental	187,861
Total		₱6,447,570
Less: Accumulated depreciation, amortization and impairment		2,357,950
Net		₱4,089,620

Values as of 31 December 2019, excluding SLTEC which was accounted for in the consolidation of ACEPH

Land and land improvements includes 63.8 has. of land in Barangay Sta. Teresa, Municipality of Manapla, Negros Occidental owned by Manapla Sun Power Development Corp (MSPDC) and 25.3 has. located in Barangay Baruyen Bangui and Laoag City owned by NorthWind.

Building and improvements primarily includes plant buildings and structures of NorthWind.

Machinery and Equipment includes wind turbines of NorthWind and solar panels of MSPDC.

Item 3. Legal Proceedings

As of 25 March 2020, ACEPH has no knowledge and/or information of any material pending legal proceedings to which ACEPH or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

Item 4. Submission of Matters to a Vote of Security Holders

Except for matters taken up during the annual meeting of stockholders, there was no other matter submitted to a vote of security holders during the period covered by this report.

PART II OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholders' Matters

Market Price

ACEPH's common shares are listed with the Philippine Stock Exchange. Below are the high and low sales prices as of 25 March 2020 and for the calendar years 2019, 2018 and 2017:

Period	High	Low
As of 25 March 2020	1.67	1.60
Calendar 2019		
Fourth quarter	2.89	2.05
Third quarter	3.06	2.20
Second quarter	3.00	2.20
First quarter	2.89	1.38
Calendar 2018		
Fourth quarter	1.23	0.85
Third quarter	1.33	0.94
Second quarter	1.86	1.21
First quarter	1.89	1.48
Calendar 2017		
Fourth quarter	1.80	1.52
Third quarter	2.08	1.7
Second quarter	2.22	1.91
First quarter	2.48	2.18

Stockholders

The Company had 3,189 registered shareholders as of 29 February 2020. The following table sets forth the top 20 shareholders of the Company, the number of shares held, and the percentage of ownership as of 29 February 2020.

No.	Name of Stockholders	No. of Shares Held	% of Ownership
1	Philippine Depository and Trust Corporation (PCD Nominee Corp.) – Filipino	7,156,415,247	95.14%
2	Philippine Depository and Trust Corporation (PCD Nominee Corp.) – Non-Filipino	88,443,798	1.18%
3	John Eric Tecson Francia	48,981,270	0.65%
4	EMAR Corporation	37,283,937	0.50%
5	Patrice Rene Clausse	17,517,892	0.23%
6	Maria Corazon Gana Dizon	12,432,383	0.17%
7	Dodjie De Gracia Lagazo	6,526,166	0.09%
8	Roman Miguel Garfes De Jesus	6,194,849	0.08%
9	J. Edmond Cuison Garcia	5,623,624	0.07%
10	Gabino Ramon Gonzalez Mejia	5,221,428	0.07%
11	Louis Pintucan Bauí	4,461,444	0.06%
12	Janel Mugar Bea	4,214,634	0.06%
13	Ma. Chiara Lubich Hernandez Zotomayor	3,640,921	0.05%
14	Riolita Dela Cruz Inocencio	3,624,550	0.05%
15	Irene Soliman Maranan	3,587,718	0.05%
16	Lyrna Lumajin Esmeralda-Hewitt	3,551,142	0.05%
17	Gerard Joaquin Rivero Estrada	3,377,799	0.04%
18	Jayne Grace Yu Chua	3,340,654	0.04%
19	Princess Marie Angeles Tayag	3,168,236	0.04%
20	Phil Remnants Co. Inc.	2,801,218	0.04%

Dividends

There is no restriction on payment by ACEPH of dividends other than the availability of retained earnings following the SEC rule on calculation of available retained earnings for dividend declaration.

The Company declares cash or stock dividends to its common shareholders in amounts determined by the Board of Directors taking into consideration the results of the Company's operations, its cash position, investments and capital expenditure requirements, and unrestricted retained earnings. The Company also declares special cash dividends where appropriate.

As of 25 March 2020, no dividend has been declared for the year 2019, while dividends declared and paid in 2017 and 2018 are as follows:

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

Of the Group's consolidated retained earnings, P1.81 billion is available for dividend declaration as at December 31, 2019. This amount represents the Parent Company's retained earnings available for dividend declaration calculated based on the regulatory requirements of the Philippine SEC. The difference between the consolidated retained earnings and the Parent Company's retained earnings available for dividend declaration primarily consists of undistributed earnings of subsidiaries and equity method investees. Stand-alone earnings of the subsidiaries and share in net earnings of equity method investees are not available for dividend declaration by the Parent Company until declared by the subsidiaries and equity investees as dividends.

Sale of Unregistered Securities Within the Last Three (3) Years

On 24 June 2019, ACEPH signed a Subscription Agreement with AC Energy, Inc. for 2,632,000,000 new shares of stock of PHINMA Energy at P1.00 per share. Before the issuance, the total issued and outstanding common shares of PHINMA Energy was 4,889,774,922 shares. The issuance of 2,632,000,000 new shares of PHINMA Energy out of its authorized but unissued capital stock increased the total issued and outstanding common shares to 7,521,774,922. AC Energy, Inc., is a corporation duly organized and existing under Philippine law, with principal office address at 4F 6750 Building, Ayala Avenue, Makati City. AC Energy, Inc. manages a diversified portfolio of renewable and conventional power generation projects and engages primarily in power project development operations and in other businesses located in the Philippines, Indonesia, Vietnam, and Australia.

The requirement of registration under subsection 8.1 of the Securities Regulation Code does not apply to the issuance of new shares to AC Energy, Inc. as this is an isolated transaction not made in the course of repeated and successive transactions of a like character and the Company is not an underwriter of such security (*Section 10.1(c) of the Securities Regulation Code*). Upon its subscription of the primary shares, AC Energy, Inc. is an existing stockholder of 2,517,064,700 ACEPH shares by its acquisition of the 51.476% combined stake of PHINMA, Inc. and PHINMA Corporation in ACEPH, and that of additional 156,476 ACEPH shares under the mandatory tender offer conducted during the tender offer period. No commission or other remuneration was paid or given directly or indirectly in connection with the issuance of such capital stock (*Section 10.1(e) of the Securities Regulation Code*). Issuance of the shares were approved by the stockholders on 17 September 2019. The said shares were listed on 3 January 2020.

On 2 April 2007, the Company's Board of Directors and Stockholders approved a total of 100 million shares to be taken from the unsubscribed portion of the Company's authorized shares as (a) stock grants to officers and managers of the Company; and (b) stock options for directors, officers, and employees of the Company and its subsidiaries and affiliates, under terms and conditions as may be determined by the Executive Committee of the Board.

On 8 January 2008, the SEC approved the Company's Executive Stock Grants Plan and Stock Option Plan.

The executive stock grants are given to officers and managers of the Company computed at a predetermined percentage of their variable compensation pay based on certain performance criteria. The last stock grant resulted in the issuance of 3,877,014 shares for 2016. No stock grants were issued for 2017, 2018 and 2019.

On 22 July 2013, the Company awarded stock options under the same plan with an exercise price of P2.29 per share. The stock options expired on 21 July 2016. As of 25 March 2020, there are no outstanding stock options.

Issuance of these shares are exempt from registration under Section 10.2 of the Securities Regulation Code which states that the Commission may exempt certain transactions if it finds that the requirements for registration under the Code is not necessary in the public interest or for the protection of the investors such as by reason of the small amount involved or the limited character of the public offering. The Plan falls under Section 10.2 because the offer is limited only to qualified directors, officers and employees of ACEPH Energy and its subsidiaries and affiliates.

As of 25 March 2020, the remaining number of shares available for stock grants and stock options is 60,301,331 out of the 100,000,000 shares.

Item 6. Management's Discussion and Analysis or Plan of Operation

2019

The Company posted consolidated net loss amounting to ₱416.90 million for the calendar year ended 31 December 2019 compared to ₱593.16 million net loss in the same period last year.

The tables below summarize the consolidated results of operations of ACEPH's revenues, costs, and expenses for the calendar years ended 31 December 2019 and 31 December 2018.

In July 2019, AC Energy and Axia Power signed a share purchase agreement granting AC Energy the right to purchase Axia Power's twenty percent (20%) interest in SLTEC. AC Energy assigned the right to ACEPH who accounted for the business combination using the pooling-of-interests method which resulted in the consolidation of SLTEC effective 1 July 2019.

Revenues

In thousands	2019	2018	Inc (Dec)	%
Revenue from sale of electricity	15,297,719	15,113,601	184,118	1%
Dividend income	7,585	9,117	(1,532)	-17%
Rental income	1,359	674	685	102%

Dividend income

Lower dividend income was recognized from the Company's various investments in 2019 as compared to the same period last year.

Rental income

Increased as a result of new rental contract entered into by the Parent Company in the first half of the year.

Other Income and Expenses

In thousands	2019	2018	Inc (Dec)	%
Interest & other financial charges	(881,963)	(433,649)	448,314	103%
Equity in net earnings of associates & JV	(24,461)	532,460	(556,921)	-105%
Other income - net	716,053	120,252	595,801	495%

In thousands	2019	2018	Inc (Dec)	%
Claims for business interruption	236,306	10,167	226,139	100%
Interest & other financial income	107,602	96,851	10,751	11%
Gain on sale of:				
Property and equipment	294,100	254	293,846	115687%
Asset held for sale	14,289	-	14,289	100%
Fly ash and scrap	13,226	-	13,226	100%
Investment	1,375	5,834	(4,459)	-76%
Inventory	(461)	-	(461)	-
Recovery of costs from third party	-	28,626	(28,626)	-
Foreign exchange gain (loss)	12,330	29,329	(16,999)	-58%
Loss on derivatives - net	(6,851)	(15,056)	8,205	-54%
Provision for unrecoverable input tax	-	(43,712)	43,712	-
Others	44,137	7,959	36,178	455%

Interest and other finance charges

2019 includes non-cash PFRS 16 lease adjustments and interest on ₱5 billion loan.

Equity in net earnings of associates and JV

The Parent Company picked up its 45% share in the net loss of SLTEC from January to June 2019 compared to a full year equity method of accounting for SLTEC which earned income in 2018.

Other income – net

Went up due to the combined effects of the following:

- Claims for business interruption from SLTEC
- Increase in interest and other financial income due to higher level of investments
- Gain realized from the sale of property and equipment, asset held for sale, fly ash, scrap and investment, offset by loss on disposal of inventory
- Lower YTD foreign exchange gain on foreign-currency denominated deposits due to depreciation of peso in 2019.
- Lower loss on derivatives was posted in 2019 as compared to 2018.
- No provision for unrecoverable input tax was recorded in 2019 as compared in 2018.
- Others pertains to reimbursement of feasibility cost, reversal of outstanding payables, refund of excess business taxes paid, and oil hauling and disposal.

Provision for (benefit from) income tax

In thousands	2019	2018	Inc (Dec)	%
Current	68,673	20,699	47,974	232%
Deferred income tax	(217,492)	150,904	(368,396)	-244%

Provision for income tax - current

Increase due to higher consolidated taxable income in the calendar year ended 31 December 2019.

Provision for deferred income tax

Recognition of deferred tax asset on NOLCO with expected taxable income benefit in future years, offset by the tax effect of deferred revenue.

Material changes in Consolidated Statements of Financial Position accounts

The material changes in the consolidated statements of financial position accounts were mainly due to the consolidation of SLTEC. In December 2019, the Parent Company entered into a subscription agreement with Buendia Christiana Holdings Corp. ("BCHC") to subscribe to the increase in authorized capital stock of BCHC.

ASSETS				
In thousands	2019	2018	Inc (Dec)	%
Current Assets				
Cash and cash equivalents	8,581,663	1,022,366	7,559,297	739%
Short-term investments	100,000	35,326	64,674	183%
Financial assets at fair value through profit and loss	-	743,739	(743,739)	-
Fuel & spare parts	855,275	413,673	441,602	107%
Curent portion of				
Input tax	148,318	26,332	121,986	463%
Creditable withholding tax	123,700	79,443	44,257	56%
Other current assets	139,915	182,766	(42,851)	-23%
Asset held for sale	3,546	34,328	(30,782)	-90%
Noncurrent Assets				
Property, plant and equipment	21,564,260	5,760,963	15,803,297	274%
Investments and advances	723,165	4,322,684	(3,599,519)	-83%
Financial assets at fair value through other comprehensive income	1,251	257,995	(256,744)	-100%
profit and loss	-	5,452	(5,452)	-
Goodwill and intangible assets	280,193	320,219	(40,026)	-12%
Deferred income tax assets - net	612,546	261,346	351,200	134%
Right of use asset	524,936	-	524,936	-
Net current portion of creditable				
withholding tax	860,025	704,726	155,299	22%
Other noncurrent assets	2,124,748	1,777,202	347,546	20%

Cash and cash equivalents, short-term investments, and financial assets at fair value through profit and loss

The Consolidated Statements of Cash Flows detail the material changes of these accounts.

Fuel and spare parts

Aside from the effect of the SLTEC consolidation, fuel and spare parts inventory went down due to decrease in fuel purchases.

Input VAT

Higher due to increase in purchases subject to VAT.

Creditable withholding taxes – current portion

Higher balance brought about by lower income tax due.

Other current assets

Decrease primarily due to the collection of deposits as a result of the expiration of certain contracts.

Asset held for sale

Lower due to the sale of the Guimaras Power Plant.

Investments and advances and financial assets at fair value through other comprehensive income

Decrease due to the sale of shares of stock held by the Company and as a result of the SLTEC consolidation.

Property, plant and equipment

Significant increase due to consolidation of SLTEC with ₱15.6 billion plant assets and BCHC with land holdings.

Goodwill and intangible assets

Decrease brought about by the provision for probable loss in a geothermal service contract.

Deferred income tax assets

Increase mainly due to the recognition of deferred tax asset (“DTA”) on NOLCO, net of reversal of DTA on deferred income.

Right of use asset

Reported as a result of the application of PFRS 16.

Creditable withholding taxes - noncurrent

Increase due to withholding from customers. Also, the Parent Company had no income tax payments for the calendar year ended 31 December 2019.

LIABILITIES AND EQUITY				
In thousands	2019	2018	Inc (Dec)	%
Current Liabilities				
Accounts payable and other current liabilities	3,787,714	2,269,398	1,518,316	67%
Income and withholding taxes payable	41,208	11,762	29,446	250%
Current portion of lease liability	33,542	-	33,542	-
Current portion of long-term loans	593,847	265,460	328,387	124%
Short-term loan	-	400,000	(400,000)	-
Noncurrent Liabilities				
Long-term loans - net of current portion	20,192,081	6,071,473	14,120,608	233%
Lease liabilities - net of current portion	526,029	-	526,029	-
Pension & other employee benefits	60,503	40,246	20,257	50%
Deferred income tax liabilities - net	187,624	95,180	92,444	97%
Other noncurrent liabilities	3,176,846	1,383,077	1,793,769	130%
Equity				
Capital Stock	7,521,775	4,889,775	2,632,000	54%
Other equity reserve	(2,342,103)	18,338	(2,360,441)	-12872%
Unrealized fair value gains on equity instruments at FVOCI	(8,129)	59,772	(67,901)	-114%
Unrealized fair value losses on derivative instrument designated under hedge accounting	(14,742)	-	(14,742)	-
Remeasurement losses on defined benefit plan	(7,034)	536	(7,570)	-1412%
Retained earnings	2,922,514	3,303,708	(381,194)	-12%
Non-controlling Interests	2,978,580	45,450	2,933,130	6454%

Accounts payable and other current liabilities

Higher due to increase in purchases on account and includes the current portion of payable to Axia Power.

Income and withholding taxes payable

Increase mainly due to higher tax withheld from purchases.

Current and noncurrent lease liability

Recognized due to the application of PFRS 16.

Short-term loan

Decrease due to the prepayment and amortization of loans.

Long-term loans – current and noncurrent

Increase due to ₱10.7 billion balance of SLTEC loan and the ₱5 billion loan availed by the Parent Company in November 2019.

Pension and other employee benefits

Increase due to the accrual of retirement expense for the period.

Deferred tax liabilities - net

Higher due to the tax effect of the recognition of right of use asset as a result of the application of PFRS 16.

Other noncurrent liabilities

Increase brought about by the purchase of twenty percent (20%) interest of Axia Power in SLTEC on account.

Capital stock

Increase due to the capital infusion of the majority stockholder.

Other equity reserve and non-controlling interests

Due to the effect of the consolidation of SLTEC.

Unrealized fair value gains on equity instruments at FVOCI

Decrease due to the disposal of the shares of stocks held by the Company.

Unrealized fair value losses on derivative instrument designated under hedge accounting

Ineffective portion of the coal hedge entered into by the Parent Company.

Remeasurement losses on defined benefit plan

Losses recorded in 2019 as compared to gain in 2018.

Retained earnings

Went down due to net loss incurred during the period and the impact of the initial application of PFRS 16.

Key Performance Indicators of the Company

The table below sets forth the comparative performance indicators of the Company:

KPI	Formula	31-Dec-19 Audited	31-Dec-18 Audited	Increase (Decrease)	
				Difference	%
<i>Liquidity Ratios</i>					
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	2.84	1.74	1.10	63
Acid test ratio	$\frac{\text{Cash + Short-term investments +Receivables +Financial assetsat FVTPL}}{\text{Current liabilities}}$	2.55	1.49	1.06	71
<i>Solvency Ratios</i>					
Debt/Equity ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	2.58	1.26	1.32	105
Asset to equity ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	3.58	2.26	1.32	58
Interest coverage ratio	$\frac{\text{Earnings beforeinterest \& tax (EBIT)}}{\text{Interest expense}}$	0.36	0.03	0.33	1,100
Net debt to equity ratio	$\frac{\text{Debt - Cash \&cash equivalents,short-terminvestments \&financial assetsat FVTPL}}{\text{Total equity}}$	1.80	1.05	0.75	71

KPI	Formula	31-Dec-19 Unaudited	31-Dec-18 Unaudited	Increase (Decrease)	
				Difference	%
<i>Profitability Ratios</i>					
Return on equity	Net income after taxes	-4.28%	-6.77%	2.49	(37)
	Average stockholder's equity				
Return on assets	Net income after taxes	-1.42%	-2.99%	1.57	53
	Average total assets				
Asset turnover	Revenues	52.20%	76.22%	(24.02)	(32)
	Average total assets				

Current ratio and Acid test ratio

Increased due to the higher cash and cash equivalents provided by the issuance of capital stock. On the other hand, current liabilities increased by fifty-one percent (51%) due to increase in purchases on account and taxes payable.

Debt to equity ratio and Asset to equity ratio

Rose due to higher total liabilities and total assets tempered by thirty-three percent (33%) increase in equity resulting from issuance of new shares of stocks.

Interest coverage ratio

Went up due to net income before interest.

Net debt to equity ratio

Increased due to additional ₱5 billion loan availed in November 2019.

Return on equity and assets

Went up due to lower net loss incurred in 2019.

Asset turnover

Went down as revenues increased by only one percent (1%) while average total assets increased by forty-eight percent (48%).

Material events and uncertainties

- There were no events that triggered direct or contingent financial obligation that was material to the Company. There were no contingent assets or contingent liabilities since the last annual balance sheet date.
- There were no material off-balance sheet transactions, arrangements, obligations, and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- Except as disclosed in Note 40 (Events after the Reporting Period of the Audited Consolidated Financial Statements), there were no other material events that had occurred subsequent to the balance sheet date.
- Capital expenditures are planned to rehabilitate and improve the availability and capacity of generation assets. These will be funded by internal resources.
- Any known trends, events or uncertainties that have had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations
 - The results of operations of the Company and its subsidiaries depend, to a significant extent, on the performance of the Philippine economy.
 - The current highly competitive environment and operation of priority-dispatch variable renewable energy have driven market prices of electricity downward, resulting in lower margins.
 - However, limitations in the supply side and unscheduled outages of plants have driven WESM prices upwards. Movements in the WESM prices could have a significant favorable or unfavorable impact on the Company's financial results.
- There were no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way.
- There were no significant elements of income or loss that did not arise from continuing operations that had material effect on the financial condition or result of operations.
- There were no operations subject to seasonality and cyclicity except for the operation of PHINMA RE's wind farm. The wind regime is high during the northeast monsoon (*amihan*) season in the first and fourth quarters when wind turbines generate more power to be supplied to the grid. The generation drops in the second and third quarters due to low wind regime brought about by the southwest monsoon (*habagat*).

2018

The Company posted consolidated net loss amounting to ₱593.16 million for the calendar year of 2018 compared to ₱347.17 million net income in the same period last year.

The tables below summarize the consolidated results of operations of ACEPH's revenues, costs and expenses for the calendar year ended December 31, 2018 and 2017.

Revenues

In thousands	2018	2017	Inc (Dec)	%
Revenue from sale				
of electricity	15,113,601	17,011,044	(1,897,443)	-11%
Dividend income	9,117	8,483	634	7%
Rental income	674	706	(32)	-5%

- The decrease in revenue from sale of electricity was attributable to the lower energy sales from the Parent Company's power supply business as a result of the expiration of certain customers' contracts.
- The dividend income received from the Company's various investments were higher in the calendar year of 2018.
- Rental income decreased as the Parent Company used the previously leased space for its own operations.

Costs and Expenses

In thousands	2018	2017	Inc (Dec)	%
Costs of sale of electricity	15,109,491	16,929,239	(1,819,748)	-11%

- The decrease in the costs of sale of electricity was mainly due to lower energy sales resulting in lower energy purchased. Reduction in transmission costs, repairs and maintenance, salaries and rent were also reported in 2018.

Other Income and Expenses

In thousands	2018	2017	Inc (Dec)	%
Interest & other financial charges	(433,649)	(513,566)	79,917	-16%
Equity in net income of associates & JV	532,460	1,024,995	(492,535)	-48%
Other income - net	120,252	105,617	14,635	14%

In thousands	2018	2017	Inc (Dec)	%
Interest & other financial income	96,851	87,185	9,666	11%
Foreign exchange gain (loss) - net	29,329	(8,373)	37,702	450%
Gain (loss) on derivatives - net	(15,056)	9,399	(24,455)	-260%
Gain (loss) on sale of:				
Investments	5,834	-	-	-
Property, plant & equipment	261	-	261	-
Provision for unrecoverable input tax	(43,712)	-	(43,712)	-
Others	46,745	17,423	29,322	168%

- Interest and other finance charges went down due to payment of the amortization of long-term loans of the Parent Company and its subsidiary.
- Lower equity in net income of associates and JV were posted in 2018 as compared to 2017 due to lower generation from unscheduled shutdowns of SLTEC during the third quarter of 2018.
- Other income - net went up due to the combined effects of the following:
 - Increase in interest and other financial income due to higher fair value gains on investments held for trading and higher level of investments.
 - Higher YTD foreign exchange gain on foreign-currency denominated deposits due to depreciation of peso in 2018.
 - Loss on derivatives was posted in 2018 as compared to gain on derivatives in 2017. This was primarily from forward contracts entered into in 2017 that matured in 2018.
 - Gain was realized on the sale of property, plant and equipment and investment in 2018.
 - Reimbursement of expenses was collected in 2018.

Provision for (benefit from) income tax

In thousands	2018	2017	Inc (Dec)	%
Current	20,699	72,722	(52,023)	-72%
Deferred income tax	150,904	(376,400)	527,304	-140%

- The decrease in the provision for income tax - current was due to lower consolidated taxable income in 2018.
- Lower benefit from deferred income tax in 2018 was due to the tax effect of deferred revenue and non-recognition of deferred tax asset on NOLCO in 2018.

Material changes in Consolidated Statements of Financial Position accounts

ASSETS				
In thousands	2018	2017	Inc (Dec)	%
Current Assets				
Cash and cash equivalents	1,022,366	1,300,999	(278,633)	-21%
Short-term investments	35,326	478,362	(443,036)	-93%
Investments held for trading	-	1,483,519	(1,483,519)	-
Financial assets at fair value through profit or loss (FVTPL)	743,739	-	743,739	-
Fuel & spare parts	413,673	321,525	92,148	29%
Current portion of:				
Input VAT	26,332	20,127	6,205	31%
Creditable withholding taxes	79,443	598,526	(519,083)	-87%
Other current assets	182,766	281,593	(98,827)	-35%
Asset held for sale	34,328	-	34,328	-
Noncurrent Assets				
Property, plant & equipment	5,760,963	6,130,201	(369,238)	-6%
Investments and advances	4,322,684	4,057,602	265,082	7%
Financial assets at:				
Fair value through other comprehensive income (FVOCI)	257,995	-	257,995	-
FVTPL	5,452	-	5,452	-
Available-for-sale investments	-	293,127	(293,127)	-
Investment properties	13,085	50,915	(37,830)	-74%
Goodwill and other intangible assets	320,219	380,146	(59,927)	-16%
Deferred income tax assets - net	261,346	430,280	(168,934)	-39%
Net of current portion:				
Creditable withholding tax	704,726	-	704,726	-

- The Consolidated Statements of Cash Flows detail the material changes in cash and cash equivalents, short-term investments, investments held for trading and financial assets at fair value through profit or loss.
- Fuel & spare parts increased due to increase in fuel purchases coupled with higher fuel cost.
- Current portion of VAT increased due to higher deferred input tax.
- The Parent Company has no taxable income in 2018 which resulted in reclassification of its current creditable withholding tax to noncurrent.
- Other current assets decreased primarily due to the application of deposit receivable. and reclassification from current to noncurrent.
- Assets held for sale were recognized in 2018. Investment properties on the other hand decreased due to reclassification of the property to asset held for sale account.
- The decrease in property, plant and equipment was primarily due to depreciation recorded in 2018 and collection of insurance claim.
- The increase in investments in associates and joint ventures was brought about by reclassification of investment in subsidiary (PHINMA Solar) to investment in joint venture.
- With the implementation of PFRS 9, available-for-sale investments was reclassified into financial assets at fair value through other comprehensive income and fair value through profit or loss. The Parent Company sold its financial assets at fair value through other comprehensive income in 2018.
- Investment properties decreased due to the depreciation expense recorded during the year and the reclassification to asset held for sale.
- Goodwill and other intangible assets dropped due to provision for probable losses on deferred exploration costs set up in 2018.
- Deferred income tax assets decreased mainly due to the non-recognition of deferred tax asset of NOLCO and reversal of deferred income.

LIABILITIES AND EQUITY				
In thousands	2018	2017	Inc (Dec)	%
Current Liabilities				
Short-term loans	400,000	-	400,000	-
Accounts payable and other current liabilities	2,269,398	2,758,982	(489,584)	-18%
Income and withholding taxes payable	11,762	42,308	(30,546)	-72%
Due to stockholder	16,651	15,300	1,351	9%
Current portion of long-term loans	265,460	226,949	38,511	17%
Noncurrent Liabilities				
Long-term loans - net of current porion	6,071,473	6,622,427	(550,954)	-8%
Pension & other employment benefits	40,246	36,110	4,136	11%
Deferred tax income liabilities - net	95,180	111,387	(16,207)	-15%
Other noncurrent liabilities	1,383,077	1,805,511	(422,434)	-23%
Equity				
Unrealized fair value gains on equity instruments at FVOCI	59,772	-	59,772	-
Unrealized fair value gains on AFS investments	-	85,924	(85,924)	-
Remeasurement gains (losses) on defined benefit plan	536	(3,130)	3,666	-117%
Accumulated share in other comprehensive income of a joint venture	(2,193)	(3,413)	1,220	-36%
Retained earnings	3,303,708	4,018,980	(715,272)	-18%
Non-controlling Interests	45,450	78,110	(32,660)	-42%

- Short-term loan was availed in the third quarter of 2018.
- Accounts payable and other current liabilities decreased due to the settlement of purchases on account and lower level of payables to SLTEC whose Unit 2 was not operating as of yearend.
- The decrease in income and withholding taxes payable was mainly due to lower tax withheld at the end of 2018.
- Due to stockholders account's increase was brought about by unclaimed cash dividend checks in 2018.
- Principal amounts payable within 1 year were reclassified from noncurrent to current portion of long-term loans.
- Pension and other employees' benefits increased due to the accrual of retirement expense in 2018.
- Deferred income tax liabilities – net decreased due to tax effect of the depreciation of leasehold rights, and excess of cost over fair value of power plant.
- Other noncurrent liabilities decreased due to amortization of deferred revenue in 2018.
- The movements in Unrealized fair value gains on equity instruments at FVOCI and Unrealized fair value gains on AFS investments were due to the initial application of PFRS 9.
- The movement of remeasurement gains (losses) on defined benefit plan was due to the actuarial gains booked in 2018.
- Accumulated share in other comprehensive income of a joint venture decreased due to the adjustment in remeasurement loss on defined benefit plan of MGI and SLTEC.
- Retained earnings decreased due to cash dividends paid and net loss incurred in 2018.
- Non-controlling interests decreased due to net loss incurred in 2018.

Key Performance Indicators

The key performance indicators of ACEPH and its majority owned subsidiaries, as consolidated, are the following:

KPI	Formula	31-Dec-18 Audited	31-Dec-17 Audited	Increase (Decrease)	
				Difference	%
<i>Liquidity Ratios</i>					
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.74	2.37	(0.63)	(27)
Acid test ratio	$\frac{\text{Cash + Short-term investments + Accounts Receivables + Other liquid assets}}{\text{Current liabilities}}$	1.49	1.97	(0.48)	(24)
<i>Solvency Ratios</i>					
Debt/Equity ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	1.26	1.27	(0.01)	(1)
Asset to equity ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	2.26	2.27	(0.01)	(0)
Interest coverage ratio	$\frac{\text{Earnings before interest \& tax (EBIT)}}{\text{Interest expense}}$	0.03	1.08	(1.06)	(97)
Net debt to equity ratio	$\frac{\text{Debt - Cash \& cash equivalents}}{\text{Total equity}}$	1.13	0.91	0.22	24

KPI	Formula	31-Dec-18 Unaudited	31-Dec-17 Unaudited	Increase (Decrease)	
				Difference	%
<i>Profitability Ratios</i>					
Return on equity	$\frac{\text{Net income after tax}}{\text{Average stockholder's equity}}$	-6.77%	3.83%	(10.60)	(277)
Return on assets	$\frac{\text{Net income after taxes}}{\text{Total assets}}$	-2.96%	1.68%	(4.64)	(277)
Asset turnover	$\frac{\text{Revenues}}{\text{Total assets}}$	75.58%	82.16%	(6.58)	(8)

Current ratio & Acid test ratio

Current ratio & acid test ratio decreased due to the 28% decrease in current assets primarily brought about by the decrease in cash & cash equivalents used in operating activities and reclassification of creditable withholding tax from current to noncurrent. On the other hand, current liabilities increased by 3% due to increase in current portion of long-term loans and availing of short-term loan in 2018.

Debt to equity ratio and Asset to equity ratio

Debt to equity ratio and asset to equity ratio slightly increased due to the 8% decrease in equity brought about by payment of cash dividends and net loss incurred in 2018.

Interest coverage ratio

Interest coverage ratio dropped brought about by net loss before interest and tax in 2018.

Net debt to equity ratio

Net debt equity ratio slightly increased due to the decline in equity.

Return on equity and assets

Return on equity and assets went down due to net loss incurred in the period.

Asset turnover

Asset turnover slightly decreased as revenues decreased by 11%.

Material events and uncertainties

- There were no events that trigger direct or contingent financial obligation that was material to the Company. There were no contingent assets or contingent liabilities since the last annual balance sheet date.
- There were no material off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- There were no material events that had occurred subsequent to the balance sheet date except for the event after the reporting period disclosed in Note 39 of the Consolidated Financial Statements.
- Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures -
 - The Company has projects in solar roof, 40MW expansion of the Guimaras wind farm and 45MW solar farm in Batangas. Negotiations with interested parties and various distribution utilities are on-going. The plan for funding these projects will come partly from participation of offtakers and partly from external capital.
- Any known trends, events or uncertainties that have had or that were reasonably expected to have material favorable or unfavorable impact on net revenues/income from continuing operations
 - The results of operations of the Company and its subsidiaries depend, to a significant extent, on the performance of the Philippine economy.
 - The current highly competitive environment and operation of priority-dispatch variable renewable energy have driven market prices of electricity downward, resulting in lower margins.
 - Movements in the WESM prices could have a significant favorable or unfavorable impact on the Company's financial results.
- Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way – Material to the Company's liquidity and profitability is the negotiations to reduce supply costs. The Company is also pursuing customer contracts at higher prices from both the retail and wholesale markets. The Company has identified low-earning assets and have offered these in the market. The Company is also looking at cost optimization and reduction in operating expenses at the plant level as well as head office.
- There were no significant elements of income or loss that did not arise from continuing operations that had material effect on the financial condition or result of operations.
- There were no operations subject to seasonality and cyclicity except for the operation of PHINMA Renewable's wind farm. The wind regime is high during the northeast monsoon ("amihan") season in the first and fourth quarter when wind turbines generate more power to be supplied to the grid. The generation drops in the second and third quarter due to low wind regime brought about by the southwest monsoon ("habagat").

Item 7. Financial Statements and Supplementary Schedules

The consolidated financial statements and schedules as listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17 A.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There were no disagreements with SGV & Co. on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure.

The Audit Committee of ACEPH proposed that the accounting firm of SyCip Gorres Velayo & Co. (SGV) be retained as the Company's external auditor for the year 2019. The members of the Audit Committee are as follows:

a.	Ms. Ma. Aurora Geotina-Garcia	Chairman (effective 17 September 2019 until present)
b.	Ms. Corazon S. de la Paz-Bernardo	Chairman (until 16 September 2019)
c.	Mr. Jesus P. Francisco ⁺	Member (effective 17 September 2019 until 14 December 2019)
d.	Ms. Consuelo D. Garcia	Member (effective 17 September 2019 until present)
e.	Mr. Edward S. Go	Member (until 16 September 2019)
f.	Mr. Jose Rene Gregory Almendras	Member (1 July 2019 to 16 September 2019)
g.	Mr. Victor J. del Rosario	Member (until 1 July 2019)

SGV has been ACEPH's Independent Public Accountant since 1969. The Audit Committee, the Board, and the stockholders of ACEPH approved the engagement of SGV as the Company's external auditor for 2019. The services rendered by SGV for the calendar year ended 31 December 2019 included the examination of the parent and consolidated financial statements of the Company, assistance in the preparation of the Company's annual income tax return, and other services related to filing of reports made with the SEC.

The engagement partner who conducted the audit for Calendar Year 2019 was Mr. Benjamin N. Villacorte, an SEC accredited auditing partner of SGV. This is Mr. Villacorte's second year as engagement partner for the Company.

ACEPH complied with SRC Rule 68, paragraph 3(b)(ix) which requires the rotation of external auditors or signing partners every five (5) years of engagement and the mandatory two-year cooling-off period for the re-engagement of the same signing partner or individual auditor.

Audit and Audit-Related Fees

ACEPH paid SGV the amount of Php 1,200,000.00 for each of calendar years 2018 and 2017 for professional services rendered for the audits of the Company's annual financial statements and for services that are normally provided by external auditors in connection with statutory and regulatory filings or engagement. For 2019, audit fees amounted to Php 1,260,000.00.

SGV was also engaged to perform services in support of the AC Energy-ACEPH Exchange, including the review of 30 September 2019 interim financial statements, review of the offering circular, issuance of comfort letters, and related procedures. Fees for these services amounted to Php 6,000,000.00, exclusive of VAT.

The Audit Committee discusses the nature and scope of the audit with the external auditor before the audit commences. It pre-approves audit fees, plans, scope, and frequency during its third quarter committee meeting. It evaluates and determines non-audit work by the external auditor and reviews the non-audit fees paid to the external auditor, both in relation to their significance to the audit and in relation to the Company's total expenditure on consultancy.

Tax fees

No tax consultancy services were secured from SGV for the past two years.

All other fees (Non-Audit Fees)

ACEPH also engaged SGV as third-party auditor of the Company's stockholders' meeting voting procedures and results, for an engagement fee of Php 75,000.00

PART III. CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer.

Board of Directors

The following have been nominated to the Board for election at the annual stockholders' meeting, and have accepted their respective nominations:

JAIME AUGUSTO ZOBEL DE AYALA	FERNANDO ZOBEL DE AYALA
GERARDO C. ABLAZA, JR.	JOSE RENE GREGORY D. ALMENDRAS
JOHN ERIC T. FRANCIA	JOHN PHILIP S. ORBETA
CONSUELO D. GARCIA	MA. AURORA D. GEOTINA-GARCIA
SHERISA P. NUESA	MELINDA L. OCAMPO
MARIO ANTONIO V. PANER	

The nominees were formally nominated to the Corporate Governance and Nomination Committee of the Board by a minority stockholder of the Company, Francisco L. Viray, who holds two (2) common shares, or 0.00% of the total outstanding voting shares of the Company, and who is not related to any of the nominees. Mr. Mario Antonio V. Paner and Mses. Consuelo D. Garcia, Ma. Aurora Geotina-Garcia, Sherisa P. Nuesa, and Melinda L. Ocampo, are all being nominated as independent directors in accordance with Securities Regulation Code ("SRC") Rule 38 (Requirements on Nomination and Election of Independent Directors). The Corporate Governance and Nomination Committee evaluated the qualifications of all the nominees and prepared the final list of nominees in accordance with the Amended By-Laws and the Charter of the Board of the Company. None of the nominees for independent directors are incumbent directors.

Only nominees whose names appear on the final list of candidates are eligible for election as directors. No nominations will be entertained or allowed on the floor during the annual stockholders' meeting.

The Board of ACEPH is responsible for the overall management and direction of the Company. The Board meets quarterly, or as often as required, to review and monitor the Company's financial position and operations and decide on such other matters as may be required by law to be decided by the Board. The Company's directors are elected at the annual stockholders' meeting to hold office for one year and until their respective successors have been elected and qualified.

Fernando M. Zobel de Ayala, Chairman of the Board of the Company, owns 3.15% of the outstanding capital stock of the Company. No other director holds more than two percent (2%) of the Company's issued and outstanding capital stock.

A summary of the qualifications of the incumbent directors who are nominees for directors for election at the stockholders' meeting, and the nominees for independent director and incumbent officers is set forth below.

The officers of the Company are elected annually by the Board during its organizational meeting.

Board of Directors

Fernando Zobel de Ayala	Chairman
Jaime Augusto Zobel de Ayala	Vice-Chairman
John Eric T. Francia	President and CEO, Executive Member
Gerardo C. Ablaza, Jr.	
Jose Rene Gregory D. Almendras	
John Philip S. Orbeta	
Sherisa P. Nuesa	Lead Independent Director
Melinda L. Ocampo	Independent Director
Consuelo D. Garcia	Independent Director
Ma. Aurora D. Geotina-Garcia	Independent Director
Mario Antonio V. Paner	Independent Director

Fernando M. Zobel de Ayala, Filipino, 60, was elected as director on 23 July 2019. He has been a Director of Ayala Corporation since May 1994, and its President and COO since April 2006. He holds the following positions

in publicly listed companies: Chairman of Ayala Land, Inc. (“ALI”) and Manila Water Company, Inc. (“MWC”); Director of Bank of the Philippine Islands (“BPI”), Globe, and Integrated Micro-Electronics, Inc. (“IMI”); and Independent Director of Pilipinas Shell Petroleum Corporation. He is the Chairman of AC International Finance Ltd., Liontide Holdings, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Automobile Central Enterprise, Inc., Alabang Commercial Corporation, Accendo Commercial Corp., and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Vice-Chairman of ALI Eton Property Development Corporation, Aurora Properties Incorporated, Vesta Property Holdings, Inc., Ceci Realty Inc., Fort Bonifacio Development Corporation, Bonifacio Land Corporation, Emerging City Holdings, Inc., Columbus Holdings, Inc., Berkshires Holdings, Inc., and Bonifacio Art Foundation, Inc.; Director of Live It Investments, Ltd., AG Holdings Ltd., AC Infrastructure Holdings Corporation, Asiacom Philippines, Inc., Ayala Retirement Fund Holdings, Inc., AC Education, Inc., and AC Ventures Holding Corp., Honda Cars Philippines, Inc., Isuzu Philippines Corporation, and Manila Peninsula. He graduated with a B.A. in Liberal Arts at Harvard College in 1982 and holds a CIM from INSEAD, France.

Jaime Augusto M. Zobel de Ayala, Filipino, 61, was elected as director on 23 July 2019. He has been a Director of Ayala Corporation since May 1987, and its Chairman and CEO since April 2006. He holds the following positions in publicly-listed companies: Chairman of Globe, IMI and BPI; and Vice Chairman of ALI and MWC. He is also the Chairman of AC Education, Inc., Ayala Retirement Fund Holdings, Inc., AC Industrial Technology Holdings, Inc., AC Ventures Holding Corp., AC Infrastructure Holdings Corporation, and Asiacom Philippines, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte. Ltd., AC Energy, Ayala Healthcare Holdings, Inc., Light Rail Manila Holdings, Inc., and AG Holdings Limited. He graduated with a B.A. in Economics (Cum Laude) at Harvard College in 1981 and obtained an MBA at the Harvard Graduate School of Business Administration in 1987.

John Eric T. Francia, Filipino, 48, was elected as director on 9 May 2019 to serve effective 15 May 2019. He is the President and Chief Executive Officer of AC Energy, Inc. and Chairman, President and Chief Executive Officer of ACE Enexor, Inc. He has been a Managing Director and member of the Management Committee and the Ayala Group Management Committee since January 2009. He is also a member of the Board of Directors of the following companies within the Ayala Group: Purefoods International Limited, AC Education, Inc., AC Ventures Holding Corp., Ayala Aviation Corporation, Zapfam, Inc., Northwind Power Development Corporation, North Luzon Renewable Energy Corporation, Light Rail Manila Corporation, AC Infrastructure Holdings Corporation, MCX Tollway, Inc., Ayala Healthcare Holdings, Inc., Ayala Hotels, Inc., Michigan Holdings, Inc. and others. He received his undergraduate degree in Humanities and Political Economy (Magna Cum Laude) from the University of Asia & the Pacific. He then completed his master’s degree in Management Studies at the University of Cambridge in the United Kingdom, graduating with First Class Honors.

Gerardo C. Ablaza, Jr., Filipino, 66, was elected as director on 1 July 2019. He is a management consultant of Ayala Corporation and a member of the Board of Directors of AC Energy, Inc. He served as President and CEO of MWC from June 2010 to April 2017 and remains involved as a Director and member of various management committees. From 1998 to April 2009, he was President and CEO of Globe. In June 2015, he became a member of the International Advisory Panel of the Institute for Water Policy under the Lee Kuan Yew School of Public Policy in Singapore. He graduated as Summa Cum Laude and obtained his degree in Liberal Arts (Honors Accelerated Program), Major in Mathematics from the De La Salle University.

Jose Rene Gregory D. Almendras, Filipino, 60, was elected as director on 1 July 2019. He is the President & CEO of AC Infrastructure Holdings Corporation. Concurrently, he is a Managing Director and Head of Public Affairs and a member of Ayala Corporation’s Management Committee. He also serves as a member of the Board of Directors of the following companies within the Ayala Group: AC Energy, Inc., Light Rail Manila Holdings, Inc., MCX Tollway Inc. and AF Payments Inc. In the public sector, Mr. Almendras served as Secretary of Energy, Cabinet Secretary, and Secretary of Foreign Affairs. He landed his first CEO position as the President of City Savings Bank of the Aboitiz Group at the age of 37. During his stint as President of MWC, it was awarded as one of the Best Managed Companies in Asia, the Best in Corporate Governance, one of the Greenest Companies in the Philippines, and hailed as the world’s Most Efficient Water Company. In June 2016, he received the Presidential Award, Order of Lakandula, Rank of Gold Cross Bayani, highest honor given to a civilian by the Republic of the Philippines.

John Philip S. Orbeta, Filipino, 58, was elected as director on 1 July 2019. He is a Managing Director, the Chief Human Resources Officer and Group Head for Corporate Resources of Ayala Corporation. He is a member of Ayala Corporation’s Management Committee since May 2005 and the Ayala Group Management Committee since April 2009. He is also currently the Chairman of Ayala Aviation Corporation, Ayala Group HR Council,

Ayala Group Corporate Security Council, and Ayala Business Clubs; Chairman and President of HCX Technology Partners, Inc.; and Vice Chairman of Ayala Group Club, Inc. Mr. Orbeta also serves as Director of AG Counselors Corporation, AC Industrial Technology Holdings, Inc., Ayala Healthcare Holdings, Inc., Ayala Retirement Fund Holdings, Inc., Zapfam, Inc., BPI Family Bank, Inc., ALFM Growth Fund, Inc., ALFM Money Market Fund, Inc., ALFM Peso Bond Fund, Inc., ALFM Dollar Bond Fund, Inc., ALFM Euro Bond Fund, Inc., and the Philippine Stock Index Fund Corp.; and as Trustee of Ayala Foundation, Inc. Mr. Orbeta served as the President and CEO of AC Industrial Technology Holdings, Inc. (formerly Ayala Automotive Holdings Corporation) and Automobile Central Enterprise, Inc. (Philippine importer of Volkswagen), as Chairman and CEO of Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc. and Iconic Dealership, Inc.; and as Board Director of Honda Cars Cebu, Inc. and Isuzu Cebu, Inc. Prior to joining Ayala Corporation, he was the Vice President and Global Practice Director of the Human Capital Consulting Group at Watson Wyatt Worldwide (now Willis Towers Watson). He graduated with a degree in A.B. Economics from the Ateneo de Manila University.

Sherisa P. Nuesa, Filipino, 65, is an independent director of the Company elected on 17 September 2019. She is a former Managing Director of the Ayala Corporation until her retirement in 2011. Currently, she is a member of the boards of directors of MWC, IMI, Far Eastern University, Inc., FERN Realty Corp, and the ALFM Mutual Funds Group. She is also a member of the boards of trustees of the Institute of Corporate Directors, the Judicial Reform Initiative, and the Financial Executives Foundation. As a former Managing Director of Ayala Corporation, she served in various senior management positions, namely: Chief Finance Officer and Chief Administrative Officer of IMI (January 2009 to July 2010); Chief Finance Officer of MWC (January 2000 to December 2008); 3) Group Controller and later Vice President for Commercial Centers of ALI (January 1989 to March 1999); and as a member of the boards of various subsidiaries of ALI, MWC, and IMI. She graduated (Summa cum laude) from the Far Eastern University with a Bachelor of Science Degree in Commerce. She is a Certified Public Accountant. She also took post graduate courses in Harvard Business School (Advance Management Program and an audit program for board directors) and in Stanford University (Financial Management). She obtained her Master of Business Administration degree from the Ateneo-Regis Graduate School of Business in 2011.

Melinda L. Ocampo, Filipino, 63, is an independent director of the Company elected on 17 September 2019. She served as President of the Philippine Electricity Market Corporation (“PEMC”) from 27 March 2009 until 31 July 2017. PEMC is a nonstock, non-profit private organization that governs the country’s first and only wholesale electricity spot market. Her experiences include developing policies and programs during her stint as Undersecretary of the Department of Energy from May 2005 to December 2007. She was also involved in electric utility system regulation, planning and technical feasibility of electric power generation, transmission and distribution systems including granting of electric franchises to both electric cooperatives and private distribution utilities. She has extensive knowledge when it comes to energy regulation including petroleum and electricity pricing and competition rules and has provided consulting services to legislative leaders on electricity pricing, particularly on the power purchased adjustments. She was also a consultant in the World Bank’s project regarding Electric Cooperatives system loss reduction program and to the USAID under the Asia Foundation in its project to introduce the open access and competition in the coverage of Philippine Economic Zone (PEZA). She was a board member (February 1996 to June 1998) and Chairman (August 1998 to August 2001) of the Energy Regulatory Board (now Energy Regulatory Commission). She served as a division chief (October 1979 to November 1988) and a director (December 1988 to February 1996) of the National Electrification Administration. In 1977, she obtained her Bachelor of Science degree in Commerce, Major in Accounting, from the Republic Central Colleges, in Angeles City, Pampanga. She received her Masters Degree in Business Administration from the University of the Philippines, Diliman, Quezon City. She is a certified public accountant.

Consuelo D. Garcia, Filipino, 65, is an independent director of the Company elected on 17 September 2019. She is presently a Senior Consultant for Challengers and Growth Markets, Asia for ING Bank. Currently, she is a member of the board of the Financial Executives Institute of the Philippines (“FINEX”) and of the Finex Academy. She is the liaison director to the Finex Capital Markets Development Committee and is a member of the Ethics and Sustainable Development Working Group of the International Association of Financial Executives Institute (IAFEDI). She is also a director of a family-owned business - Saje Wellness Corporation. She was formerly the Country Manager and Head of Clients of ING Bank N.V. Manila, Philippines from September 2008-November 15, 2017. She joined ING in February 1991 as Head of Financial Markets. She previously worked with SyCip, Gorres, Velayo & Co. and Bank of Boston. She served as Director of the Board and concurrently Chairman of the Capital Markets Committee of the Bankers Association of the Philippines (“BAP”) and of Finex for many years. She was a former Board of Director and Treasurer of the European Chamber of Commerce of the Philippines (“ECCP”) from 2011 - 2015. In 2010, she was a National Member of ASEAN Bond Market Forum. She received a Bachelor of Science degree in Business Administration, major in Accounting (Magna Cum Laude) from University of the East and is a Certified Public Accountant.

Ma. Aurora D. Geotina-Garcia, Filipino, 67, is an independent director of the Company elected on 17 September 2019. She is currently the President of Mageo Consulting, Inc. , a corporate finance advisory services firm. She is also currently an Independent Director of Ace Energy Philippines, Cebu Landmasters Inc., and Queen City Development Bank. She was a director in the following companies and organizations: Bases Conversion and Development Authority (2011-2016), BCDA Management Holdings, Inc. (2011-2016), Fort Bonifacio Development Corporation (2011-2016), Heritage Park Management Corporation (2015-2016), Bonifacio Global City Estates Association, Inc. (2012-2016), Bonifacio Estates Services Corporation (2012-2016), and HBC, Inc. (2012-2016). She started her professional career at SyCip, Gorres, Velayo & Co. (SGV & Co.), where she joined the Management Services Division in 1974, and was promoted to Partner in 1990. She headed SGV & Co.'s Global Corporate Finance Division from 1992 until her retirement from the partnership in 2001, after which she remained as Senior Adviser to SGV & Co up to September 2006. She received a Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines in 1973 and completed her Master of Business Administration from the same university in 1978. She is a Certified Public Accountant and a Fellow of the Institute of Corporate Directors.

Mario Antonio V. Paner, Filipino, 61, is a nominee for independent director of the Company. He was previously the Treasurer and head of the BPI's Global Markets Segment, responsible for managing the Bank's interest rate and liquidity gaps, as well as its fixed income and currency market-making, trading, and distribution activities—in the Philippines and abroad. Mr. Paner was also previously the Chairman of the BPI's Asset & Liability Committee and was a member of the Management Committee and Asset Management Investment Council. He also served as a Board member of BPI Europe Plc.

Mr. Paner joined BPI in 1985, when the Bank acquired Family Savings Bank and performed various Treasury and Trust positions until 1989. Between 1989 and 1996, he worked at Citytrust, then the consumer banking arm of Citibank in the Philippines, which BPI acquired in 1996. At BPI, was responsible for various businesses of the bank, including Risk Taking, Portfolio Management, Money Management, Asset Management, Remittance and Private Banking. Mr. Paner served as President of the Money Market Association of the Philippines (MART) in 1998 and remains an active member up to present. He is currently the Vice Chairman of the Bankers Association of the Philippines' (BAP) Open Market Committee. He is also a member of the Makati Business Club, Management Association of the Philippines, British Chamber of Commerce, and the Philippine British Business Council.

He obtained an A.B. Economics degree from Ateneo de Manila University in 1979 and completed various courses in Business and Finance, including Strategic Financial Management in 2006. In 2009, he completed the Advanced Management Program at Harvard Business School.

Nominees to the Board of Directors for election at the stockholders' meeting

All the above are nominee directors.

The certifications on the qualifications of the nominees for independent directors are attached, followed by the certification that no directors or officers are connected with any government agencies or its instrumentalities.

ACEPH Group Management Committee Members / Senior Leadership Team

John Eric T. Francia	President and Chief Executive Officer
Maria Corazon G. Dizon	Treasurer and CFO, Compliance Officer, Chief Risk Officer
Solomon M. Hermosura	Corporate Secretary
Dodjie D. Lagazo	Head, Legal and Regulatory and Assistant Corporate Secretary
Alan T. Ascalon	Assistant Corporate Secretary
Roman Miguel G. de Jesus	Head, Commercial Operations
Gabino Ramon G. Mejia	Co-Head, Plant Operations
Sebastian Arsenio R. Lacson	Co-Head, Plant Operations
Andree Lou C. Kintanar	Head, Human Resources
Irene S. Maranan	Head – Corporate Communications and Sustainability
Henry T. Gomez, Jr.	Chief Audit Executive
Mariejo P. Bautista	SVP-Finance and Controller
Danilo L. Panes	VP-Wind Operations

John Eric T. Francia, Filipino, 48, was elected as director on 9 May 2019 to serve effective 15 May 2019. He is the President and Chief Executive Officer of AC Energy, Inc. and Chairman, President and Chief Executive Officer of ACE Enexor, Inc. He has been a Managing Director and member of the Management Committee and the Ayala Group Management Committee since January 2009. He is also a member of the Board of Directors of the following companies within the Ayala Group: Purefoods International Limited, AC Education, Inc., AC Ventures Holding Corp., Ayala Aviation Corporation, Zapfam, Inc., Northwind Power Development Corporation, North Luzon Renewable Energy Corporation, Light Rail Manila Corporation, AC Infrastructure Holdings Corporation, MCX Tollway, Inc., Ayala Healthcare Holdings, Inc., Ayala Hotels, Inc., Michigan Holdings, Inc. and others. He received his undergraduate degree in Humanities and Political Economy (Magna Cum Laude) from the University of Asia & the Pacific. He then completed his master's degree in Management Studies at the University of Cambridge in the United Kingdom, graduating with First Class Honors.

Maria Corazon G. Dizon, Filipino, 56, was appointed as Chief Finance Officer on 9 May 2019, effective 15 May 2019. She is currently the Chief Finance Officer of AC Energy, Inc. and ACE Enexor, Inc. She previously held positions with ALI, the publicly listed real estate vehicle of Ayala Corporation, as Head of ALI Capital Corp., Head of Business Development and Strategic Planning of the Commercial Business Group, Head of Asset Management Group of Shopping Centers, Head of Control and Analysis, Head of Investor Relations as well as Chief Financial Officer of Residential Buildings, Office Buildings and Shopping Centers groups. Ms. Dizon worked in SGV & Co for three years as a senior auditor. She is a Certified Public Accountant and graduated with a degree in Accountancy, cum laude, from the University of Santo Tomas. She completed academic units for a Masters degree in Business Administration from De la Salle University Graduate School of Business, and attended an Executive Management Program from the Wharton University of Pennsylvania.

Solomon M. Hermosura, Filipino, 57, has been a Managing Director of Ayala Corporation since 1999, a member of the Ayala Corporation Management Committee since 2009, and a member of the Ayala Group Management Committee since 2010. He is also the Group Head of Corporate Governance, General Counsel, Compliance Officer, and Corporate Secretary of Ayala Corporation, as well as the CEO of AG Counselors Corporation. He likewise serves as General Counsel and Corporate Secretary of ALI, and Corporate Secretary of Globe Telecom, Inc., MWC, IMI and Ayala Foundation, Inc., and a member of the Board of Directors of a number of companies in the Ayala group. He graduated valedictorian with a Bachelor of Laws degree from San Beda College in 1986 and placed third in the 1986 Bar Examination.

Dodjie D. Lagazo, Filipino, 40, is the Head of the Legal and Regulatory Group of the Company, He is also an Executive Director of AC Energy, Inc. Previously, he served as Director and member of AG Counselors Corporation's Management Committee from January 2014 to July 2017. He is also the Assistant Corporate Secretary of Ayala Corporation, the Assistant Corporate Secretary of AC Energy, Inc. and the Corporate Secretary of ACE Enexor, Inc. and other various AC Energy subsidiaries and affiliates. Mr. Lagazo received his undergraduate degree in Political Science from the University of the Philippines, Diliman, graduating magna cum laude. He then completed his Bachelor of Laws Degree in the College of Law of the University of the Philippines, Diliman. He is a member in good standing of the Integrated Bar of the Philippines.

Alan T. Ascalon, Filipino, 45, is Vice President for Legal and Regulatory of ACEPH. He served as director of PHINMA Renewable Energy Corporation and is the Corporate Secretary of PHINMA Renewable Energy Corporation, One Subic Power Generation Corp., One Subic Oil Distribution Corp., PHINMA Power Generation Corporation, and CIP II Power Corporation. He is also Assistant Corporate Secretary of ACE Enexor, Inc. and Palawan55 Exploration and Production Corp. He was the Assistant Legal Counsel of PHINMA, Inc. from 2005 to 2008. He graduated from the University of the Philippines with a Bachelor of Arts degree in Journalism in 1996 and a Bachelor of Laws degree in 2000.

Roman Miguel G. de Jesus, Filipino, 45, is the Company's Head of Commercial Operations. He was formerly President and CEO of North Luzon Renewable Energy Corporation ("NLR") and Head of the Retail Electricity Supply group of AC Energy, Inc. Prior to joining AC Energy, Inc., he held the positions of Chief Legal and Compliance Officer and then Chief Operating Officer of NLR. He practiced law in the law firms of Romulo Mabanta Buenaventura Sayoc & de los Angeles where he specialized in corporate banking and finance, and Puyat Jacinto & Santos where he specialized in energy law and special projects. He has Bachelor of Arts and Master of Arts degrees in Philosophy from the Ateneo de Manila University, where he was an instructor for 10 years. He also has a Bachelor of Laws degree from the University of the Philippines where he graduated cum laude and was the Chair of the Philippine Law Journal.

Gabino Ramon G. Mejia, Filipino, 48, is the Company's Co-Head of Plant Operations and the Senior Vice President, Head of the Asset Management Group of AC Energy, Inc. He also holds the following positions among the subsidiaries of AC Energy, Inc.: Executive Vice President of GNPowder Kauswagan Ltd. Co., President of Northwind Power Development Corporation and NLR, President of Monte Solar Energy, Inc., and President of Negros Island Solar Power Inc. and San Carlos Solar Energy, Inc. He holds a master's degree in Business Administration (MBA) from the Asian Institute of Management and has completed his MBA Internship in York University, Schulich School of Business. He obtained his Bachelor of Arts in Philosophy and Letters degree from San Beda College where he graduated with Academic Distinction.

Sebastian Arsenio R. Lacson, Filipino, 49, is the Co-Head of the Plant Operations Group of the Company. He is also a Senior Vice President for Plant Operations of AC Energy, Inc. and concurrently the President of South Luzon Thermal Energy Corporation. He served as President of Aboitiz Power's Coal Business Unit from 2015 to 2018 and was Chief Vice President – Chief Reputation Officer of Aboitiz Equity Ventures from 2009 to 2011. He was the Chief Operating Officer of Visayas Electric Co. from 2012 to 2015, and headed its customer services and administration from 2008 to 2009. From 2006 to 2008, he was expatriated to the Panama electric distribution business by Spanish utility company Union Fenosa, where he served as Corporate Director and Technical Assistant to the regional (Central America) Chairman of the Board. He also worked in various positions within the management control unit of Union Fenosa's international electric distribution business from 2001 to 2006. Mr. Lacson received his Bachelor of Arts degree in Interdisciplinary Studies from the Ateneo de Manila University in 1992. He then completed his Master's degree in Business Administration from the University of Navarre (ISSE), Barcelona Campus in 1996.

Andree Lou C. Kintanar, Filipino, 45, is the Company's Head of Human Resources. She is also the Head of Human Resources & Corporate Services of AC Energy, Inc. Prior to joining AC Energy, Inc., Andree was Head of HR & Corporate Services for AffinityX ROHQ, the marketing and creative services company of Ayala's LiveIt Investments Ltd. She was also Assistant Vice President & HR Business Partner at Deutsche Knowledge Services, and previously held various HR & OD leadership roles at Bayan Telecommunications, SAP Phils. Partner SSIP Asia, San Miguel Packaging Products and Philips Electronics & Lighting. She graduated from St. Scholastica's College with a double degree in B.S. Psychology and B.S. Commerce major in Human Resource Development, honors' program. She completed the academic units for a master's degree in Business Administration from the Ateneo Graduate School of Business.

Irene S. Maranan, Filipino, 45, is the Head of Corporate Communications and Sustainability of the Company. She leads the overall communications team in protecting and building the Company's reputation, oversees public relations and drives the corporate sustainability strategy. Prior to joining Ayala, she established and headed strategic marketing and corporate communications for companies across diverse industries such as Chevron, Globe, and various real estate companies. She holds a bachelor's degree in Mass Communications from St. Scholastica's College, Manila, and earned a post-graduate degree in Events Management from De La Salle University.

Henry T. Gomez, Jr., Filipino, 30, is the Company's Chief Audit Executive. He is also the Internal Audit Head of AC Energy, Inc. Prior to joining AC Energy, Inc. he worked with Aboitiz Power Corporation in 2012 as a Senior Internal Auditor and at SGV & Co. in 2011 as an Assurance Associate. He is a Certified Public Accountant, Certified Internal Auditor (CIA), a passer of the Certified Information Systems Auditor (CISA) examinations, and a CQI & IRCA Certified ISO 14001:2015 Environmental Management System Lead Auditor. He graduated from University of the Philippines-Visayas with a degree in BS in Accountancy.

Mariejo P. Bautista, Filipino, 54, obtained her Bachelor of Science degree in Business Administration and Accountancy, magna cum laude, from the University of the Philippines Diliman. She is a Certified Public Accountant with a Master's degree in Business Management from the Asian Institute of Management. She worked with SyCip Gorres Velayo & Co. in 1987 and with various multinational manufacturing and service companies up to August 2011. She joined PHINMA Energy in September 2011. She is the Senior Vice President – Finance and Controller of ACEPH, PHINMA Power Generation Corporation, CIP II Power Corporation, One Subic Power Generation Corp., PHINMA Renewable Energy Corporation, ACE Enexor, Inc., One Subic Oil Distribution Corp., and Palawan55 Exploration and Production Corporation.

Danilo L. Panes, Filipino, 63, is a licensed Mining Engineer, who obtained his Bachelor of Science degree in Mining Engineering from Mapua Institute of Technology as a government scholar. He joined PHINMA Energy in May 1996 as Project Development Manager and was promoted to Assistant Vice President for Renewable

Energy in May 2006. He obtained his MBA studies from De La Salle University and completed the Management Development Program at the Asian Institute of Management. He is currently holding the position of Vice President in PHINMA Renewable Energy Corporation and Vice President for Wind Operations in ACEPH.

Ma. Teresa P. Posadas, Filipino, 52, has been the Company's Assistant Vice President for Human Resources since April 2015. She was first employed with PHINMA, Inc. in May 1989, then a fresh graduate of Maryknoll College with a degree of Bachelor of Science in Behavioural Science. In 2013, Ms. Posadas completed her Management Development Program from the Asian Institute of Management.

Significant Employee

Other than the directors and officers of the Company, no other employee has significant influence on ACEPH's major and/or strategic planning and decision-making.

Family Relationships

Fernando Zobel de Ayala, Chairman and director, and Jaime Augusto Zobel de Ayala, Vice-Chairman and director, are brothers. Except for the foregoing, there are no known family relationships between the current members of the Board and key officers.

Other than the foregoing family relationships, none of the directors, executive officers or persons nominated to be elected to ACEPH's Board are related up to the fourth civil degree, either by consanguinity or affinity.

Ownership structure and parent company

As of 25 March 2020, AC Energy owns 66.34% of the outstanding voting shares of the Company. The parent company of ACEPH is AC Energy (the "**Parent Company**"). The Company has a management contract with the Parent Company until 1 September 2023. Under the contract, the Parent Company has general management authority with corresponding responsibility over all operations and personnel of ACEPH, including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance, and other business activities of the Company.

On 9 October 2019, the Company executed a deed of assignment with the Parent Company whereby the Company will issue 6,185,182,288 shares of stock in the Company to the Parent Company out of the increase in the authorized capital stock of the Company to Php 24.4 billion, in exchange for property needed by the Company for corporate purposes consisting of shares of stock owned by the Parent Company in select subsidiaries and affiliates in the Philippines. The application for increase is currently pending with the SEC.

Independent Directors

The independent directors of ACEPH for the year ending 31 December 2019 and for the current year as of the submission of this Statement are as follows:

1. Mr. Ricardo V. Camua (until 16 September 2019)
2. Mr. David L. Balangue (until 15 February 2019)
3. Mr. Guillermo D. Luchangco (until 16 September 2019)
4. Ms. Corazon dela Paz-Bernardo (until 16 September 2019)
5. Mr. Edward S. Go (from 01 March 2019 to 16 September 2019)
6. Ms. Consuelo D. Garcia
7. Ms. Aurora D. Geotina-Garcia
8. Mr. Jesus P. Francisco⁺ (from 17 September 2019 to 14 December 2019)
9. Ms. Sherisa P. Nuesa
10. Ms. Melinda L. Ocampo

The incumbent independent directors were nominated by Mr. Francisco L. Viray. Mr. Viray is not related to any of the independent directors either by consanguinity or affinity.

The independent directors of ACEPH are not officers or substantial stockholders of the Company.

Involvement in Certain Legal Proceedings

As of 25 March 2020, ACEPH has no knowledge and/or information that any of the Company's directors, officers or nominees for election as Directors is, presently or during the last five (5) years, involved in any material legal proceeding which will have any material effect on the Company, its operations, reputation, or financial condition.

As of 25 March 2020, Ms. Ma. Aurora Geotina-Garcia, independent director, is subject of the following criminal or administrative investigation or proceedings:

Offense charged / investigated	Tribunal / agency involved	Status
Libel during Ms. Geotina-Garcia's term as director of the Bases Conversion and Development Authority ("BCDA") Board (Crim. Case No. 150045-PSG)	Branch 167 of the Pasig City Regional Trial Court	Trial on the merits is ongoing. The accused has a pending Motion for Leave to File Demurrer to Evidence.
Criminal complaint for acts of the BCDA's Board during Ms. Geotina-Garcia's term as BCDA director (OMB-C-C-12-0287-G)	Case filed with the Office of the Ombudsman was dismissed. Case elevated to the Supreme Court by complainant is pending.	The Office of the Ombudsman dismissed the complaint. The Petition for Review filed by the complainant before the Supreme Court (G.R. No. 225565) is pending resolution.
Administrative complaint for acts of the BCDA's Board during Ms. Geotina-Garcia's term as BCDA director (OMB-C-A-12-1308-G)	Case filed with the Office of the Ombudsman was dismissed. Case was elevated to the Court of Appeals.	The Office of the Ombudsman dismissed the complaint. The complainant, CJH DevCo, filed a Petition for Review before the Court of Appeals (CA-G.R. SP No. 145849), which was likewise dismissed. CJH DevCo filed a Motion for Reconsideration, which was denied by the Court of Appeals. Ms. Geotina-Garcia is not aware of any appeal or petition filed by CJH DevCo from the Court of Appeals' rulings.

The libel case is a nuisance case filed against Ms. Geotina-Garcia, as then member of the Board of BCDA. The administrative and criminal complaints filed against Ms. Geotina-Garcia as a member of the Board of BCDA have already been dismissed by the Office of the Ombudsman showing the lack of basis and merits to the charges. Notwithstanding the pendency of these cases, the Company believes that these cases will not and do not in any way affect Ms. Geotina-Garcia's ability and bias her judgement and independence to act as an independent director of the Company. Further, the issues raised therein, as well as the parties to these cases, are not related in any way to the Company or any of its business.

On 4 March 2020, ACEPH was provided a copy of a subpoena issued by the Office of the Provincial Prosecutor of the Province of Lanao Norte (the "Subpoena") as part of its preliminary investigation, together with the Affidavit-Complaint filed against members of the management team of GN Power Kauswagan Ltd. Co. ("GNPK") and officers and employees of Meralco Industrial Engineering Services Corporation. Mr. John Eric T. Francia, director, and Mr. Gabino Ramon G. Mejia, Head of Plant Operations, were impleaded in their capacities as members of the management team of GNPK. The Affidavit-Complaint alleges the following violations:

- Republic Act ("RA") No. 8048 as amended by RA 10593 - for cutting coconut tree or trees without a Philippine Coconut Authority permit;
- PD 708 (Forestry Code) - for cutting timber or forest products without a license;
- RA 9175 (Chainsaw Act) - for cutting trees without a license with the use of chainsaw; and
- Article 281 of the Revised Penal Code (Other forms of Trespass) - for encroaching on a portion of a certain property without consent.

The alleged encroachment is connected with an existing right-of-way agreement for the 230kV transmission asset of GNPK, which is already subject to an approved settlement amount. While ACEPH views the complaint as a nuisance case, Messrs. Francia and Mejia will be submitting their counter-affidavits in due course.

Furthermore, none of the Company's directors and senior executive officers have been the subject of the following during the last five (5) years: (a) bankruptcy petition by or against any business of which such director was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time; (b) a conviction by final judgment, in a criminal proceeding, domestic or foreign; (c) any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; or (d) a finding by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or other organized trading, market or self-regulatory organization, of violation of the securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Resignation of Directors/Management Committee members/Key Officers

To date, no director has resigned from, or has declined to stand for re-election to the Board since the date of the 2019 annual meeting of stockholders.

Item 10. Executive Compensation

For calendar years ended 31 December 2019 and 31 December 2018, the total salaries, allowances, and bonuses paid to the directors and executive officers of ACEPH are as follows:

Name/Position	Year	Salaries	Bonus	Other Annual Compensation
CEO and Top 4 Most Highly Compensated Executive Officers (Total Compensation)				
Francisco L. Viray, President and CEO (until 15 May 2019)				
Mariejo P. Bautista, SVP- Finance & Controller				
Danilo L. Panes, VP – Wind Operations				
Alan T. Ascalon, Assistant Corporate Secretary & VP – Legal				
Ma. Teresa P. Posadas, AVP – Human Resources				
Estimate	2020	12,155,430	1,058,234	3,815,000
	2019	21,478,153	4,630,134	1,945,000
	2018	21,444,674	2,980,335	590,600
All Other Officers and Directors as a Group (Total Compensation)				
Estimate	2020	-	-	3,720,000
	2019	17,827,743	3,651,125	4,645,000
	2018	12,727,585	1,160,775	2,112,500

The management fees billed by ACEI to the Company in 2019 include ₱15,577,686 which pertain to compensation of officers.

Compensation of Directors

The incumbent non-independent directors do not receive allowances, per diem, or bonuses. The incumbent independent directors are entitled to receive Php 100,000.00 per Board meeting attended, and Php 20,000.00 per Committee meeting attended.

There are no other existing arrangements/agreements to which said directors are to be compensated during the last completed fiscal year and the ensuing year.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

Under ACEPH's By-Laws, the Officers of the Company shall hold office for one (1) year and until their successors are chosen and qualified in their stead. Any officer elected or appointed by the majority of the Board may be removed by the affirmative vote of the Board.

ACEPH does not have written contracts with any of its executive officers or other significant employees.

Compensatory Plan or Arrangement

The compensation received by officers who are not members of the Board consists of salaries, bonuses, and other benefits.

All permanent and regular employees of the Company are covered by the ACEPH retirement plan (the "Plan"). The Plan provides benefits upon normal retirement beginning at age sixty (60), early retirement beginning at age fifty (50) with completion of at least ten (10) years of service, voluntary separation beginning upon completion of at least ten (10) years of service, total and physical disability, death, and involuntary separation. The benefits are based on the employee's final monthly basic salary and length of service.

Warrants and Options Outstanding

On 2 April 2007, the Board and stockholders authorized ACEPH to set aside a total of one hundred million (100,000,000) shares from the unsubscribed portion of the Company's authorized shares for the following purposes and under terms and conditions as determined by the Executive Committee of the Board:

1. Stock grants to officers and managers of the Company; and
2. Stock options for directors, officers, and employees of the Company and its subsidiaries and affiliates for the purposes.

On 8 January 2008, the SEC approved the Company's Executive Stock Grants Plan and Stock Option Plan.

The Executive Stock Grants Plan is available to all officers of ACEPH and its subsidiaries, including unclassified managers. Upon achievement of the Company's goals and the determination of any variable compensation, twenty percent (20%) of the variable compensation of the officers or managers who are entitled to avail of the Executive Stock Grants Plan are given in the form of ACEPH's shares with a twenty percent (20%) discount on the weighted average closing price for twenty (20) trading days before the date of the grant but not lower than the par value of P1.00 per share. The first stock grants were subject to a holding period of one (1) year for the first one-third (1/3) of the shares, two (2) years for the next one-third (1/3) of shares and three (3) years for the remaining one-third (1/3) of the shares. Succeeding stock grants are subject to a holding period of three (3) years.

The Stock Option Plan is available to all directors and permanent officers and employees of ACEPH and its affiliates/subsidiaries. Employees may purchase up to thirty-three percent (33%) of their allocated shares within the first year of the grant, up to sixty-six percent (66%) on the second year of the grant, and up to one hundred percent (100%) on the third year of the grant, in cash at the weighted average closing price for twenty (20) trading days prior to date of grant but not lower than the par value of P1.00 per share.

As of 25 March 2020, the remaining number of shares available for stock grants and stock options is 60,301,331 out of the 100,000,000 shares.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security ownership of certain record and beneficial owners of more than five percent (5%)

The table below shows the persons or groups known to ACEPH to be directly the record or beneficial owners of more than five percent (5%) of the Company's voting securities as of 29 February 2020:

Title of Class of Shares	Name & Address of Record Owner & Relationship with Issuer	Name & Address of Beneficial Owner & Relationship with Record Owner	Citizenship	No. of Shares Held	% Held
Common	PCD Nominee Corporation ¹ 29/F BDO Equitable Tower, 8751 Paseo de Roxas, Makati City Stockholder		Filipino	7,156,415,247	95.14%

Security Ownership of Directors and Management as of 29 February 2020

None of the directors and officers individually owns five percent (5%) or more of the outstanding capital stock of ACEPH. The table below shows the securities owned by the directors and officers of the Company as of 29 February 2020:

Title of Class of Outstanding Share	Name of beneficial owner	Citizenship	Amount of beneficial ownership	Nature of beneficial ownership	% of total outstanding shares
Common	Gerardo C. Ablaza, Jr.	Filipino	1,000,001 ²	Indirect ¹	0.01%
Common	Jose Rene Gregory D. Almendras	Filipino	1 ²	Indirect ¹	0.00%
Common	John Eric T. Francia	Filipino	48,981,271 30,000,001 ²	Direct Indirect ¹	1.05%
Common	John Philip S. Orbeta	Filipino	1 2,000,000 ²	Direct Indirect ¹	0.03%
Common	Fernando M. Zobel de Ayala	Filipino	1 237,258,001	Direct Indirect ¹	3.15%
Common	Jaime Augusto M. Zobel de Ayala	Filipino	1	Direct	0.00%
Common	Consuelo D. Garcia	Filipino	1,000	Direct	0.00%
Common	Ma. Aurora D. Geotina-Garcia	Filipino	1	Direct	0.00%
Common	Sherisa P. Nuesa	Filipino	90,000 150,000	Direct Indirect ³	0.00%
Common	Melinda L. Ocampo	Filipino	1	Direct	0.00%
Common	Mario Antonio V. Paner	Filipino	1	Direct	0.00%
Common	Maria Corazon G. Dizon	Filipino	12,432,383 8,000,000	Direct Indirect ³	0.27%
Common	Gabino Ramon G. Mejia	Filipino	5,221,428	Direct	0.07%
Common	Roman Miguel G. de Jesus	Filipino	6,194,849 4,799,200	Direct Indirect ³	0.15%
Common	Solomon M. Hermosura	Filipino	17,712,000	Indirect ³	0.09%
Common	Dodjie D. Lagazo	Filipino	6,526,166	Direct	0.09%

¹ The beneficial owners of such shares are the participants of PCD which holds the shares on their behalf or in behalf of their clients. PCD is a private institution established in March 1995 to improve operations in securities transactions. PCD seeks to provide a fast, safe and highly efficient system for securities settlement. The PCD was organized to implement an automated book-entry system of handling securities transaction in the Philippines.

As of 29 February 2020, BPI Securities Corporation (BSC) is the only PCD Nominee who holds more than five percent (5%) of the Company's securities. BSC is a corporation primarily engaged in securities brokerage, organized and existing under the laws of the Philippines, and a wholly-owned subsidiary of BPI Capital Corporation.

Common	Alan T. Ascalon	Filipino	347,173 276,000	Direct Indirect ³	0.01%
Common	Mariejo P. Bautista	Filipino	1,101,450 1,151,227	Direct Indirect ³	0.03%
Common	Danilo L. Panes	Filipino	94,530 435,207	Direct Indirect ³	0.01%
Common	Ma. Teresa P. Posadas	Filipino	211,898 89,000	Direct Indirect ³	0.00%
Common	Irene S. Maranan	Filipino	3,587,718 1,685,000	Direct Indirect ³	0.07%
Common	Henry T. Gomez, Jr.	Filipino	0	N/A	0.00%
Common	Sebastian Arsenio R. Lacson	Filipino	0	N/A	0.00%
TOTAL			378,419,511		5.03%

¹ The indirect shares held by the following directors: Messrs. Gerardo C. Ablaza, Jr., Jose Rene Gregory D. Almendras, John Eric T. Francia, John Philip S. Orbeta, Fernando M. Zobel de Ayala, and Mses. Consuelo D. Garcia, Ma. Aurora Geotina-Garcia, Sherisa P. Nuesa, and Melinda L. Ocampo are lodged with the PCD Nominee.

² The one (1) nominal share of each of Messrs. Gerardo C. Ablaza, Jr., Jose Rene Gregory D. Almendras, John Eric T. Francia, and John Philip S. Orbeta are qualifying shares held in trust for AC Energy, Inc.

³ The indirect shares held by the following officers: Messrs. Roman Miguel G. de Jesus, Solomon M. Hermosura, Alan T. Ascalon, and Danilo L. Panes, and Mses. Maria Corazon G. Dizon, Mariejo P. Bautista, Ma. Teresa P. Posadas, and Irene S. Maranan are lodged with the PCD Nominee.

Fernando M. Zobel de Ayala, Chairman of the Board of Directors (“Board”) of the Company, owns 3.15% of the outstanding capital stock of the Company. No other director or member of the Company’s management owns more than two percent (2%) of the outstanding capital stock of the Company.

Voting Trust Holders of 5% or more

ACEPH is not aware of any person holding five percent (5%) or more of the Company’s outstanding shares under a voting trust agreement or similar agreement.

Changes in Control

There are no arrangements that may result in a change in control of ACEPH.

Item 12. Certain Relationships and Related 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, P10.26 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 Company 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 year ended 31 December 2019 and 2018 with related parties are as follows:

As at and for the Year Ended December 31, 2019							
Company	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions	
			Receivable	Payable			
<u>Parent</u>							
<u>AC Energy, Inc.</u>							
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	
<u>Associates</u>							
<u>MGI</u>							
Cost of sale of electricity	₱758,974	Purchase of electricity	₱–	(₱157,965)	30-day, non-interest bearing	Unsecured; no impairment	
<u>Asia Coal</u>							
Due to related parties	–	Advances	–	(254)	Non-interest bearing	Unsecured	
<u>Entities Under Common Control</u>							
<u>Direct Power Services, Inc.</u>							
Revenue from sale of electricity	193,644	Sale of electricity	–	–	30-day, non-interest bearing	Unsecured; no impairment	
<u>Ingrid Power Holdings, Inc.</u>							
Advances to affiliates	150,000	Advances	150,000	–	Subsequently demand	on Unsecured	
<u>SolarAce1 Energy Corp.</u>							
Advances to affiliates	26,000	Advances	26,000	–	Subsequently demand	on Unsecured	
<u>Parent</u>							
<u>Other Related Parties</u>							
<u>Directors</u>							
General and administrative expenses	8,993	Directors' fee	–	(50)	On demand	Unsecured	
<u>Stockholders</u>							
Due to stockholders	–	Cash Dividends	–	(16,594)	On demand	Unsecured	
Due from related parties			₱9	₱–			
Advances to affiliates			176,000	–			
Due to related parties			–	(190,062)			
Accrued director's fees			–	(50)			
Due to stockholders			–	(16,594)			

As at and for the Year Ended December 31, 2018						
Company	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
			Receivable	Payable		
<u>Ultimate Parent</u>						
<u>PHINMA, Inc.</u>						
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
<u>Joint Ventures</u>						
<u>SLTEC</u>						
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

(Forward)

As at and for the Year Ended December 31, 2018							
Company	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions	
			Receivable	Payable			
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	
<i>PHINMA Solar</i>							
Due to related parties		Advances	–	(90,000)	Non-interest bearing	Unsecured	
<i>Associates</i>							
<i>MGI</i>							
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	
<i>Asia Coal</i>							
Due to related parties		Advances	–	(253)	Non-interest bearing	Unsecured	
<i>Entities Under Common Control</i>							
<i>PHINMA Property Holdings Corporation (PPHC)</i>							
Due to related parties		Advances	–	(171)	30-60 day, non-interest bearing	Unsecured	
<i>PHINMA Corporation</i>							
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	
<i>Union Galvasteel Corp. (UGC)</i>							
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	
<i>T-O Insurance, Inc.</i>							
Due to related parties/ General and administrative expenses	59,146	Insurance expense and membership fees	–	(32,857)	30-60 day, non-interest bearing	Unsecured	
<i>Other Related Parties</i>							
<i>Directors</i>							
General and administrative expenses	10,145	Directors’ fee and annual incentives	–	–	On demand	Unsecured	
<i>Stockholders</i>							
Due to stockholders	89,718	Cash dividends	–	(16,651)	On demand	Unsecured	
Due from related parties			₱333,576	₱–			
Due to related parties			–	(801,165)			
Due to stockholders			–	(16,651)			

As at and for the Year Ended 31 December 2017							
Company	Amount/ Volume	Amount/ Volume	Nature	Outstanding Balances		Terms	Conditions
				Receivable	Payable		
<u>Ultimate Parent</u>							
PHINMA, Inc.							
Rental and other income	P1,100	P771	Rent and share in expenses	P54	P-	30-60 day, non-interest bearing	Unsecured, no impairment
General and administrative expenses	104,055	80,903	Management fees and share in expenses	-	(31,164)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	97,855	49,308	Cash dividend	-	-	On demand	Unsecured
<u>Joint Ventures</u>							
SLTEC							
Revenue from sale of electricity, rental and other income	28,074	27,213	Sale of electricity, rent and share in expenses	20,046	-	30-day, non-interest bearing	Unsecured, no impairment
Investments and advances	644,945	1,056,742	Dividends received	-	-	30-day, non-interest bearing	Unsecured
Cost of sale of electricity	6,077,461	8,230,415	Purchase of electricity	-(1,035,505)	-	30-day, non-interest bearing	Unsecured
ACTA							
Investments and advances	-	18,073	Additional investment	-	-	Non-interest bearing	Unsecured
<u>Associates</u>							
Asia Coal							
Accounts payable and other current liabilities	P-	P-	Advances	P-	(P254)	Non-interest bearing	Unsecured
MGI							
Cost of sale of electricity	785,167	830,802	Trading cost	-	(83,101)	30-day, non-interest bearing	Unsecured
Investments and advances	-	25,000	Dividend received	-	-	Non-interest bearing	Unsecured
Investments and advances	-	80,250	Additional investment	-	-	Non-interest bearing	Unsecured
<u>Entities Under Common Control</u>							
PPHC							
Accounts payable and other current liabilities	-	-	Advances	-	(171)	30-60 day, non-interest bearing	Unsecured
PHINMA Corporation							
Dividend and other income	5,387	5,387	Cash dividend and share in expenses	-	-	30-60 day, non-interest bearing	Unsecured
Other expenses	2,169	3,763	Share in expenses	-	(1,429)	30-day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	102,394	51,285	Cash dividends	-	-	On demand	Unsecured
Accounts payable and other current liabilities	-	4,178	Purchase of U.S. dollars	-	-	On demand	Unsecured
UGC							
Dividend income	2,281	3,334	Cash dividend	-	-	30-60 day, non-interest bearing	Unsecured
Rental income	-	329	Rent	214	-	30-60 day, non-interest bearing	Unsecured, no impairment
Accounts payable and other current liabilities	-	-	Rental deposit	-	(159)	End of lease term	Unsecured
General and administrative expenses	92	108	Roofing materials	-	-	30-60 day, non-interest bearing	Unsecured
T-O Insurance, Inc.							
General and administrative expenses	91,400	112,000	Insurance expense and membership fees	-	(36,062)	30-60 day, non-interest bearing	Unsecured
Receivables	69	15	Refund of overpayment	-	-	30-60 day, non-interest bearing	Unsecured
Emar Corporation							
Other income	646	64	Share in expenses	-	-	30-60 day, non-interest bearing	Unsecured
Accounts payable and other current liabilities	8,559	4,279	Cash dividend	-	-	On demand	Unsecured

(Forward)

Company	As at and for the Year Ended 31 December 2017						
	Amount/ Volume	Amount/ Volume	Nature	Outstanding Balances			Conditions
				Receivable	Payable	Terms	
PHINMA Education							
General and administrative expenses	2,698	2,298	Service fee	–	–	30-60 day, non-interest bearing	Unsecured
<u>Other Related Parties</u>							
Directors							
General and administrative expenses	72,846	33,546	Directors' fee and annual incentives	–	(19,757)	On demand	Unsecured
Stockholders							
Due to stockholders	179,320	89,564	Cash dividends	–	(15,300)	On demand	Unsecured
Due from related parties				P20,314	P–		
Due to related parties				–	(1,187,845)		
Accrued directors' and annual incentives				–	(19,757)		
Due to stockholders				–	(15,300)		

South Luzon Thermal Energy Corporation

The transactions with South Luzon Thermal Energy Corporation (“SLTEC”) include the sale and purchase of electricity, reimbursements of expenses and receipt of dividends. SLTEC became a subsidiary and was consolidated effective July 1, 2019.

MGI

The Company purchases the entire net electricity output of MGI.

Ayala Land, Inc. (ALI)

The Parent Company leases office unit and parking slots from ALI.

AC Energy, Inc.

The Company is the assignee of a lease contract from AC Energy, Inc. (“AC Energy”) for the 22nd floor, 6750 Office Tower, Ayala Ave., Makati City, and has paid AC Energy for the proportionate share in fit-out costs, cabling, systems development, and other costs. The lease period is from 1 September 2019 to 31 December 2021. The Company and its subsidiaries PHINMA Renewable Energy Corporation (“PHINMA RE”), ACE Enexor, Inc., PHINMA Power Generation Corporation (“PHINMA Power”), and CIP II Power Corporation (“CIPP”) have a management contract with AC Energy for five (5) years from effectivity. Under the management contracts, AC Energy has general management authority with corresponding responsibility over all operations and personnel of ACEPH, including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance, and other business activities of the Company. AC Energy also billed the Company for recovery of general and administrative expenses in 2019.

On 9 October 2019, the Company executed a deed of assignment with AC Energy whereby the Company will issue 6,185,182,288 shares of stock in the Company to AC Energy out of the increase in the authorized capital stock of the Company to Php 24.4 billion in exchange for property needed by the Company for corporate purposes consisting of shares of stock owned by AC Energy in select subsidiaries and affiliates in the Philippines. The application for increase is currently pending with the SEC.

On 9 October 2019, the Board of the Company approved the following transactions:

- (a) assignment of AC Energy's right to purchase Axia Power Holdings Philippines Corporation's (“Axia Power”) twenty percent (20%) ownership in SLTEC to the Company, subject to certain terms including the payment by the Company of an annual guarantee fee of 25 basis points of the amount secured under the payment security to AC Energy in consideration for AC Energy procuring and making available the payment guarantee to Axia Power; and
- (b) the guarantee arrangement for AC Energy to guarantee the Company's payment obligation under the coal hedging agreement to be entered into with the Macquarie group in exchange for an annual guarantee fee

payable to AC Energy equal to 25 basis points per annum of the estimated notional credit exposure of the Company.

NLR/Northwind

On 2 January 2020, the Company entered into separate services agreements with North Luzon Renewable Energy Corp. ("NLR") and Northwind Power Development Corporation ("Northwind") covering the provision of management and administrative support services to the two companies. The service agreements will expire on 31 December 2022.

Other Information

Other information about the Company are disclosed in appropriate notes in the accompanying Audited Consolidated Financial Statements for December 31, 2019 or discussed in previously filed SEC17Q and SEC17-C reports for 2019 (refer to Item 14. Exhibits and Schedules Reports on SEC Form 17-C). Also, the Company's Definitive Information Statement (DIS) report and Annual Report (AR) document are also sources of other information about Ayala group. These documents are available at the Company's website www.acenergy.ph.

In addition, the Company has the following major transactions and information from the issuance date of the 2019 consolidated financial statements to the issuance date of this SEC17A report:

In compliance with the SEC's notice dated March 12, 2020, mandating publicly listed companies to apprise the investing public on the impact on business operations and measures being undertaken in connection with the COVID-19 pandemic, on March 16, 2020, Ayala informed that it has existing business continuity and crisis management plans in place to mitigate the adverse effect of the COVID- 19 pandemic in its business operations.

Ayala has a robust business continuity management system (BCMS), which provides a framework for building organizational resilience with the capability of an effective response that safeguards the interest of its key stakeholders, reputation, brand, and value-creating activities. The BCMS consists of incident and emergency response, business continuity planning, information technology disaster recovery planning, and crisis management which includes a pandemic preparedness plan.

In particular, in view of the COVID-19 situation, Ayala institutionalized social distancing measures to ensure the safety of its workforce while ensuring continuity of its business operations across all its business units. The guidelines follow the recommendations of the Department of Health (DOH), Center for Disease Control, World Health Organization, and other local medical professional societies.

To ensure the health and safety of our workforce, we have put in place policies on alternative work arrangements such as work-from-home and flexible workhours, restrictions on non-essential overseas travel for business and personal reasons, shift to teleconferencing and videoconferencing to minimize in-person business meetings, regular cleaning and disinfection of the workplace, and cancellation of official mass gatherings.

The Company develops and operates several power projects in the Philippines and around the region using various technologies. It also participates in the Philippine wholesale electricity spot market (WESM) to the extent of uncontracted capacity that has to be bought from or sold to the spot market. WESM prices are dependent on the balance of power supply and demand. Restrictions on travel and businesses resulting from COVID-19 pandemic may adversely affect electricity consumption and may result in lower WESM prices. Further, AC Energy relies on imported fuel and equipment for some of its power projects. Strict quarantine measures imposed locally or abroad may result in delays in importation of such equipment and fuel. For its commercial operations, AC Energy: (a) maintains a balanced supply and demand portfolio to minimize merchant risk, and (b) maintains adequate fuel inventories to ensure continued operations. It also has catch-up plans in case of construction delays and liquidated delay damages are expected from contractors for such situations.

For its international business, AC Energy has mandated to limit travel plans and has implemented a self-quarantine protocol and remote work arrangements following Ayala's overall preventive measures. The same principle is applied to those deployed outside the Philippines (in Vietnam, Myanmar, and Singapore).

The Company signed a subscription agreement with the Issuer, Giga Ace 1, Inc. ("Giga Ace 1") for the subscription by ACEPH of 75,000 Common Shares to be issued out of the unissued authorized capital stock ("ACS") of Giga Ace 1, and 43,069,625 Common Shares and 53,562,609 Class A Redeemable Preferred Shares

("RPS A") to be issued out of increase in ACS of Giga Ace 1. Giga Ace 1 is a wholly-owned subsidiary of the Company.

On February 27, 2020, the Company completed the acquisition of Philippine Wind Holdings Corp. ("PhilWind") and the final purchase price in the amount of Php2.573 billion was paid by Giga Ace 1, Inc., the Company's wholly-owned subsidiary and the entity designated by the Company to purchase and hold the PhilWind shares.

The Company signed a subscription agreement with Giga Ace 1, Inc. ("Giga Ace 1") for the subscription by ACEPH to additional 1,170,000 Common Shares and 32,500 Class A Redeemable Preferred Shares ("RPS A") to be issued out of the increase in authorized capital stock ("ACS") of Giga Ace 1. Giga Ace 1 is a wholly-owned subsidiary of the Company.

On 18 March 2020, the Board of Directors of the Company approved a share buy-back program to support share prices through the repurchase in the open market of up to Php1 billion worth of common shares beginning 24 March 2020. As of April 14, 2020 the Company has bought back a total of 10,538,000 shares for a total amount of Php20,319,240.00

At its meeting held on 31 March 2020, the Executive Committee of AC Energy Philippines, Inc. (the "Company" or "ACEPH"), acting on delegated authority from the Board of Directors granted in its meeting held on 18 March 2020, approved the issuance of 16,685,800,533 shares of stock in the Company (the "Shares") to AC Energy, Inc. ("ACEI") at an issue price of Php2.97 per share in exchange for property consisting of 100% of ACEI's shares in Presage Corporation ("Presage"), ACEI's wholly-owned subsidiary, which holds all of ACEI's international renewable energy assets and investment. The Shares will be issued out of the increase in ACEPH's authorized capital stock to Php48.4 billion, which was also approved by the Board of Directors on 18 March 2020.

The Shares are exclusive of the 6,185,182,288 shares of stock to be issued by the Company to ACEI in exchange for ACEI's shares in its Philippine generation and development assets, which is the subject of a separate disclosure filed on 14 October 2019 (PSE Circular No. C07131-2019 to C01141 2019), and is currently undergoing regulatory review and approval.

PART IV – CORPORATE GOVERNANCE AND SUSTAINABILITY

Item 13.A. Corporate Governance

For the full details and discussion, please refer to the Definitive Information Sheet and Annual Corporate Governance Report posted in the Company's Official Website www.acenergy.ph. The detailed discussion of the Annual Corporate Governance Section was deleted as per SEC Memorandum Circular No. 5, series of 2013, issued last March 20, 2013.

Corporate Governance

The Board of Directors, officers and employees of the Company commit themselves to the principles and best practices embodied in its Corporate Governance Manual. The Company believes that good corporate governance is a necessary component of what constitutes sound strategic business management and will therefore exert every effort to ensure adherence thereto within the organization.

Compliance Officer

The Board designates a Compliance Officer who reports to the Chairman of the Board. As required of publicly-listed companies, the appointment of Compliance Officer is properly disclosed to the SEC. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.

The Compliance Officer's duties include ensuring proper on boarding of new directors (i.e., orientation on the company's business, charter, articles of incorporation and by-laws, among others), monitor, review, evaluate and ensure compliance by the Corporation, its officers and directors with the relevant laws, with the Code of Corporate Governance ("Code"), rules and regulations and all governance issuances of regulatory agencies, appear before the SEC upon summon on matters in relation to compliance with the Code, ensure the integrity and accuracy of all documentary submissions to regulators, determine violation/s of the Code and recommend to the Board the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation, identify possible areas of compliance issues and work towards the resolution of the same, develop and establish, subject to approval of the Board, a monitoring and evaluation system to determine compliance with this Manual, which system shall provide for a procedure that fulfils the requirements of due process, ensure the attendance of board members and key officers to relevant trainings and perform such other duties and responsibilities as may be provided by the SEC.

Integrated Annual Corporate Governance Report (I-ACGR)

SEC MC No. 15, Series of 2017 was released in December 2017 which mandates all publicly-listed companies to submit an Integrated Annual Corporate Governance Report (I-ACGR) on or before May 30 of the following year for every year that the company remains listed in the PSE, covering all relevant information for the preceding year.

The I-ACGR supersedes the ACGR last submitted for the year 2017 to the SEC and the Compliance Report on Corporate Governance last submitted for the year 2017 to the PSE. The Company submitted its I-ACGR for the year 2017 on 30 May 2018. For the fiscal year 2018, the Company submitted its I-ACGR on 30 May 2019.

As of 31 December 2019, the Company has substantially complied with the principles and best practices contained in the Corporate Governance Manual. There were no sanctions imposed on any director, officer or employee for non-compliance of the Manual. The Company is taking further steps to enhance adherence to principles and practices of good corporate governance.

Item 13.B. Sustainability Report

Please refer to the Integrated Report (which includes the Sustainability Report) that will be posted in the Company's Official Website with the following link: <https://www.acenergy.ph/ac-energy-philippines-ir-2019> on or before April 17, 2020. We will notify the SEC and the PSE once it is uploaded.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C (Current Report)

(a) Exhibits - See accompanying Index to Financial Statements and Supplementary Schedules

(b) Reports on SEC Form 17-C

Aside from compliance with periodic reporting requirements, Ayala promptly discloses major and market sensitive information such as dividend declarations, joint ventures and acquisitions, the sale and disposition of significant assets, and other information that may affect the decision of the investing public.

The Company submitted SEC form 17-C and Press Statements to PSE, SEC on the following matters in 2019:

1. Attendance of Directors in 2018 Board of Directors Meetings
2. AC Energy's purchase of 51.48% stake in AC Energy Philippines, Inc. (formerly PHINMA Energy Corporation) ("ACEPH")
3. Postponement of Annual Stockholders Meeting
4. Resignation of Directors and Officers
5. PHINMA Petroleum and Geothermal, Inc., ("PPG") subsidiary of PHINMA Energy Corporation, relinquished its 14.063% participating interest in SC 6 Block B, approval of which was granted by the Department of Energy on 30 October 2018.
6. Audited Financial Statements for the year ended December 31, 2018 showing consolidated net loss of P 593.156 million, were approved.
7. Approval from the Philippine Competition Commission ("PCC") for the sale of its PHINMA Inc. and PHINMA Corporation's (PHN) combined 51.48% stake in PHEN to AC Energy.
8. Authority to issue 2,632,000,000 primary shares to AC Energy, Inc. at P 1.00 per share.
9. Announcement of Intention to Make A Tender Offer to Shareholders of PHINMA Petroleum and Geothermal, Inc.
10. Authority to negotiate the purchase of PHINMA, Inc.'s and PHINMA Corp.'s shares in PHINMA Petroleum and Geothermal, Inc. (PPG) which represents 25.18% of PPG's total outstanding capital stock
11. Authority to undertake a Voluntary Tender Offer (VTO) for the remaining common shares of PPG, the terms of which shall be announced separately on the date of the commencement of the tender offer.
12. Consent to the assignment of Management Contract from PHINMA, Inc. to AC Energy, Inc. under the same terms and conditions.
13. Signing of the Agreement among PHINMA Energy Corporation (PHEN), PHINMA Corporation (PHN) and Philippine Investment Management (PHINMA), Inc. (PHI) on the sale of PHN and PHI's interests in PHINMA Petroleum and Geothermal, Inc. (PPG).
14. Comprehensive Corporate Disclosure on Issuance of 2,632,000,000 primary shares of PHINMA Energy in favor of AC Energy, Inc. ("AC Energy") at P 1.00 per share (the "Primary Issuance").
15. Signing of the Deeds of Absolute Sale between AC Energy, Inc., PHINMA Corporation (PHN) and Philippine Investment Management (PHINMA), Inc. (PHI) on the sale of PHN and PHI's interests in PHINMA Energy Corporation (PHEN).
16. Signing of the Deeds of Absolute Sale between PHINMA Energy Corporation (PHEN), PHINMA Corporation (PHN) and Philippine Investment Management (PHINMA), Inc. (PHI) for the sale of PHN and PHI's interests in PHINMA Petroleum and Geothermal, Inc. (PPG).
17. Notice of Annual or Special Stockholders' Meeting
18. Matters taken up at the special board meeting held on 23 July 2019.
19. Amendments to the articles of incorporation of the Company
20. Amendments to the by-laws of the Company
21. Matter taken up at the special board meeting held on 5 September 2019.
22. PHINMA Energy Corporation ("PHEN") was declared as one of the best bids after the opening and evaluation of bids of Manila Electric Company's ("Meralco")'s 1200 MW (net) competitive bidding for the supply of electricity, held on 9 September 2019.
23. PHINMA Energy Corporation ("PHEN") was declared as one of the best bids after the opening and evaluation of bids of Manila Electric Company's ("Meralco")'s 500MW (net) competitive bidding for the supply of electricity, held on 11 September 2019.
24. Results of the Annual Stockholders' Meeting of PHINMA Energy Corporation
25. Results of the Organizational Meeting of the Board of Directors of PHINMA Energy Corporation
26. Change in Corporate Contact Details

27. The reimbursement to AC Energy, Inc. ("ACEI") of actual personnel costs plus value added tax in relation to the management and operations of the Company;
28. The Company's Revised Related Party Transactions (RPT) Policy;
29. The appointment of Maria Corazon G. Dizon as the Company's Chief Risk Officer;
30. The appointment of Henry T. Gomez as the Company's Chief Audit Executive;
31. The availment by the Company of term loan facilities for up to Php15 Billion;
32. The investment by the Company into the following greenfield power projects: (i) a solar farm project in Alaminos, Laguna; and (ii) a diesel power project to be located in Pililla, Rizal;
33. The transfer to the Company of the right to purchase the 20% ownership stake of Axia Power Holdings Philippines, Inc. in South Luzon Thermal Energy Corporation;
34. The guarantee fee arrangement with ACEI in exchange for ACEI guaranteeing the Company's payment obligations under its coal hedging agreement with the Macquarie Group;
35. The assignment to the Company of ACEI's rights to purchase 80MW of capacity from GN Power Dinginin Ltd. Co.;
36. The share swap between the Company and ACEI and the issuance of 6,185,182,288 shares of stock in the Company in favor of ACEI at Php2.37 per share in exchange for ACEI's shares of stock in its various Philippine subsidiaries and affiliates which is within the share price range determined in the Fairness Opinion issued by FTI Consulting Philippines, Inc. an SEC-accredited and PSE-accredited independent financial valuation firm; and
37. The undertaking of a stock rights offering for up to 2.27 billion shares, subject to applicable regulatory approvals, at an offer price range between Php2.25/share and Php2.37/share, and the delegation to the Executive Committee of authority to determine the final issue size and offer price within the prescribed price range.
38. Comprehensive Corporate disclosure on The issuance of 6,185,182,288 shares of stock in the Company (the "Shares") to AC Energy, Inc. ("ACEI") out of the increase in the authorized capital stock of the Company to Php24.4 billion in exchange for property needed by the Company for corporate purposes consisting of shares of stock owned by ACEI in select subsidiaries and affiliates in the Philippines (the "Property") as approved by the Board on 9 October 2019 (the "Transactions").
39. Amendments to the by-laws of the Company
40. Change in the corporate name of the Company.
41. Approval by SEC of the Amendments to the articles of incorporation of the Company
42. Executive Committee authorized the signing of a share purchase agreement with the Philippine Investment Alliance for Infrastructure ("PINAI") for the Company to acquire PINAI's ownership interest in North Luzon Renewables Energy Corporation ("North Luzon Renewables"), which owns and operates an 81 MW wind farm in Pagudpud, Ilocos Norte.
43. Deed of assignment with AC Energy Inc. ("ACEI"), whereby ACEI transferred its right to purchase the 20% ownership stake of Axia Power Holdings Philippines, Inc. ("Axia Power") in South Luzon Thermal Energy Corporation ("SLTEC") in favor of the Company.
44. Share purchase agreement with the Philippine Investment Alliance for Infrastructure ("PINAI") for the acquisition of PINAI's 31% effective preferred equity ownership and 15% effective common equity ownership in North Luzon Renewables Energy Corporation ("North Luzon Renewables").
45. Purchase of Interest in Philippine Wind Holdings Corporation
46. Matters taken up at the regular board meeting held on 11 November 2019
 - a. ratified the Executive Committee's approval to enter into a share purchase agreement with the Philippine Investment Alliance for Infrastructure (PINAI) fund for the acquisition by the Company of the latter's ownership interest in Philippine Wind Holdings Corporation, the parent company of North Luzon Renewables Energy Corporation (North Luzon Renewables);
 - b. approved the 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 that is operating under the feed-in-tariff (FIT) regime;
 - c. approved the 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;
 - d. approved additional short-term credit lines of up to Php8 Billion;
 - e. approved the Company's financial statements for the nine months ended and as at 30 September 2019, and the Company's pro-forma consolidated unaudited financial statements as at 30 September 2019 and the year ended 31 December 2018;
 - f. approved the Company's budget for calendar year 2020; and
 - g. approved the engagement of the Bank of the Philippine Islands, through its Stock Transfer Office, as the Company's stock transfer agent, and the termination of the existing stock transfer agent agreement.

47. Amended and Restated Deed of Assignment amending the Deed of Assignment dated 9 October 2019 (the "Deed of Assignment"), covering the issuance of 6,185,182,288 shares of stock in the Company in favor of AC Energy, Inc. ("ACEI") in exchange for ACEI's shares of stock in its various Philippine subsidiaries and affiliates.
48. Response to the Exchange's request for additional information on the solar power plant project in Palauig, Zambales.
49. AC Energy Inc. ("AC Energy"), the Corporation's parent company, successfully set the terms of its inaugural US dollar-denominated senior perpetual fixed-for-life (non-deferable) green bond issuance
50. Purchase by ACEPH of controlling interest in Negros Island Solar Power Inc.
51. Purchase by ACEPH of controlling interest in San Carlos Solar Energy, Inc.
52. Signing of Subscription Agreement with Ingrid Power Holdings, Inc.

Clarification of News Reports

1. News article in Manila Times (Online Edition) on 18 September 2019 entitled "PHINMA Energy to spend \$2 billion for RE projects"
2. News article in the Business Mirror (Online Edition) on 20 November 2019 entitled "AC Energy Development setting up new solar plant in Zambales"
3. News article in the Manila Times (Online Edition) posted on 6 December 2019 entitled "Ayala unit seeks to beef up power capacity"

Structured Reports submitted to SEC and PSE

1. Top 100 Stockholders Report
2. Public Ownership Reports
3. Statement of Changes in Beneficial Ownership of Securities of directors, officers, and 10% owners
4. Initial Statement of Beneficial Ownership of Securities of directors, officers, and 10% owners
5. Quarterly Financial Reports
6. Annual Report

SIGNATURES

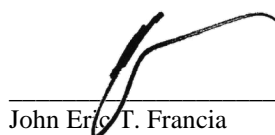
Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati on 12 May 2020.

AC ENERGY PHILIPPINES INC.

By:



Fernando Zobel de Ayala
Chairman of the Board



John Eric T. Francia
President and Chief Executive Officer



Maria Corazon G. Dizon
Chief Finance Officer, Chief Risk Officer,
Chief Compliance Officer, and Finance Group Head Officer

Solomon M. Hermosura
Chief Legal Officer and Corporate Secretary



Mariejo P. Bautista
Controller



Gabino Ramon G. Mejia
Head of Plant Operations

SUBSCRIBED AND SWORN to before me this _____ at Makati City, affiants exhibiting to me their respective passports/driver's license, to wit:

Fernando Zobel de Ayala	P0349883B	22 January 2019	DFA Manila
John Eric T. Francia	EC 4715458	21 July 2015	DFA NCR East
Maria Corazon G. Dizon	P6253635A	2 March 2018	DFA NCR East
Solomon M. Hermosura	P3081434B	14 October 2019	DFA NCR East
Mariejo P. Bautista	EC8230873	7 July 2016	DFA Manila
Gabino Ramon G. Mejia	P7435224A	4 June 2018	DFA Manila

Doc. No. _____

Page No. _____

Book No. _____

Series of 2020.

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati on 12 May 2020.

AC ENERGY PHILIPPINES INC.

By:

Fernando Zobel de Ayala
Chairman of the Board

John Eric T. Francia
President and Chief Executive Officer

Maria Corazon G. Dizon
Chief Finance Officer, Chief Risk Officer,
Chief Compliance Officer, and Finance Group Head Officer

 Rectangular

Solomon M. Hermosura
Chief Legal Officer and Corporate Secretary

Mariejo P. Bautista
Controller

Gabino Ramon G. Mejia
Head of Plant Operations

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Gabino Ramon G. Mejia	P7435224A	4 June 2018	DFA Manila

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

Report of the Audit Committee to the Board of Directors For the Year Ended 31 December 2019

The Board-approved Audit Committee (“the Committee”) Charter defines the duties and responsibilities of the Committee. In accordance with the Charter, the Committee assists the Board of Directors in fulfilling its oversight responsibilities to the shareholders with respect to the:

- Integrity of the Company’s financial statements and the financial reporting process;
- Appointment, remuneration, qualification, independence and performance of the external auditors and the integrity of the audit process as a whole;
- Effectiveness of the system of internal control;
- Performance and leadership of the internal audit function; and
- Company’s compliance with applicable legal and regulatory requirements.

In compliance with the Audit Committee Charter, we confirm that:

- An independent director chairs the Committee with two independent members;
- We had two (2) meetings in 2019 since the acquisition of AC Energy Philippines, Inc. The Company’s Chief Executive Officer, Chief Financial Officer and other members of management were requested to attend the Committee meeting. External subject matter experts, such as the appointed external auditors were also invited to the meeting;
- The previous Audit Committee members approved and we noted, the appointment of SGV & Co. as the Company’s 2019 external auditors and the related audit fee;
- We have reviewed and discussed the quarterly unaudited financial statements as of September 30, 2019 and the annual audited parent and consolidated financial statements as of December 31, 2019 of AC Energy Philippines, Inc. and subsidiaries, including the Management’s Discussion and Analysis of Financial Condition and Results of Operations and the significant impact of new accounting standards, with management, internal auditors and SGV & Co. The review and discussions were performed in the following context:
 - a) Management has the primary responsibility for the financial statements and the financial reporting process; and
 - b) SGV & Co. is responsible for expressing an opinion on the conformity of the relevant audited financial statements with Philippine Financial Reporting Standards.
- We have discussed and approved the proforma financial statements as of September 30, 2019 and December 31, 2019 for AC Energy Philippines, Inc.’ stock rights offering;
- We have approved the overall scope and the respective audit plans of the Company’s internal auditors and SGV & Co. We have reviewed the adequacy of resources, the competencies of staff and the effectiveness of the internal auditors to execute the audit plans ensuring that resources are reasonably allocated to the areas of highest risks. We have also discussed the results of the audits of internal auditors and SGV & Co. and their assessment of the Company’s internal controls and the overall quality of the financial reporting process including their management letter comments. Based on the assurance provided by the internal audit as well as SGV & Co. as a result of their audit activities, the Committee assessed that the Company’s systems of internal control and governance processes are adequate;

- We have reviewed and approved all audit, audit-related and permitted non-audit services provided by SGV & Co. to AC Energy Philippines, Inc. and the related fees for such services. We have also assessed the compatibility of non-audit services with the auditors' independence to ensure that such services will not impair their independence;
- We have conducted an assessment of our performance, in accordance with Securities and Exchange Commission guidelines, and confirmed that the Committee had satisfactorily performed its responsibilities based on the requirements of its Charter; and
- We have reviewed the Audit Committee Charter to ensure that it is aligned with regulatory requirements.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit Committee recommends to the Board of Directors the approval of the parent and consolidated audited financial statements for the year ended December 31, 2019 and filing of relevant financial statements with the Securities and Exchange Commission. We are also recommending to the Board of Directors the re-appointment of SGV & Co, as AC Energy Philippines, Inc.'s external auditor and the related audit fee for 2020 based on the review of their performance and qualifications.

02 April 2020

Signed by:



MA. AURORA D. GEOTINA-GARCIA

Chairman



CONSUELO D. GARCIA

Member

† **JESUS P. FRANCISCO**

Member

EXHIBIT A

AC ENERGY PHILIPPINES, INC. and SUBSIDIARIES

Consolidated Financial Statements

December 31, 2019 and 2018
And Years Ended December 31, 2019, 2018 and 2017

AC ENERGY PHILIPPINES, INC.
Financial Highlights
(In Thousand Pesos Except Ratios)

	2019	2018	2017
Current Assets	12,680,836	5,165,264	7,222,938
Total Assets	39,720,805	18,924,695	20,758,533
Current Liabilities	4,472,904	2,963,271	3,043,539
Total Liabilities	28,615,987	10,553,247	11,618,974
Total Equity	11,104,818	8,371,449	9,139,560
Paid-in Capital	7,605,543	4,973,543	4,973,543
Total Revenues	15,306,663	15,123,392	17,020,233
Net Income (Loss)	(416,903)	(593,156)	347,168
Earnings Per Share	(0.05)	(0.11)	0.07
Current Ratio	2.84:1	1.74:1	2.37:1
Acid Test Ratio	2.55:1	1.49:1	1.97:1
Debt/Equity Ratio	2.58:1	1.26:1	1.27:1
Asset-to-Equity Ratio	3.58:1	2.26:1	2.27:1
Interest Rate Coverage Ratio	0.36:1	0.03:1	1.08:1
Net Debt to Equity Ratio	1.80:1	1.05:1	.091:1
Return on Equity	-4.28%	-6.77%	3.83%
Return on Assets	-1.42%	-2.99%	1.68%
Asset turnover	52.20%	76.22%	82.25%

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

0	6	9	-	0	3	9	2	7	4
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COMPANY NAME

A	C		E	N	E	R	G	Y		P	H	I	L	I	P	P	I	N	E	S	,		I	N	C	.			
(F	o	r	m	e	r	l	y		P	H	I	N	M	A		E	n	e	r	g	y		C	o	r	p	o	r
a	t	i	o	n)		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S							

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

4	t	h		F	l	o	o	r	,		6	7	5	0		O	f	f	i	c	e		T	o	w	e	r	,
A	y	a	l	a		A	v	e	n	u	e	,		M	a	k	a	t	i		C	i	t	y				

Form Type

A	C	F	S
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Department requiring the report

S	E	C	
---	---	---	--

Secondary License Type, If Applicable

N	/	A	
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COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number

7-730-6300

Mobile Number

—

No. of Stockholders

3,192

Annual Meeting (Month / Day)

April 11

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Mariejo P. Bautista

Email Address

bautista.mp@acenergy.com.ph

Telephone Number/s

7-730-6300

Mobile Number

—

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.



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.

(Page 2 of Statement of Management's
Responsibility for Parent Company Financial Statements)

A handwritten signature in black ink, appearing to read 'Fernando M. Zobel de Ayala', written in a cursive style.

FERNANDO M. ZOBEL DE AYALA
Chairman of the Board

A handwritten signature in black ink, appearing to read 'John Eric T. Francia', written in a cursive style.

JOHN ERIC T. FRANCIA
President and
Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Maria Corazon G. Dizon', written in a cursive style.

MARIA CORAZON G. DIZON
Treasurer and
Chief Financial Officer

Signed this 25th day of March 2020

(Page 3 of Statement of Management's
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

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

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.

Accounting for the Adoption of PFRS 16

Effective January 1, 2019, the Group adopted PFRS 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Group's accounting policy for leases. The Group's adoption of PFRS 16 is significant to our audit because the recorded amounts are material to the consolidated financial statements, and the adoption involved application of significant judgments and estimation in determining the lease term and the incremental borrowing rate. This resulted in the recognition of right-of-use assets and lease liabilities amounting to ₱548.45 million and ₱572.30 million, respectively, and a charge to retained earnings of ₱90.72 million as at January 1, 2019, and the recognition of depreciation expense and interest expense of ₱65.62 million and ₱56.56 million, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low value assets exemption, the selection of the transition approach and any election of available practical expedients.

We inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements), identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.

For selected lease contracts with renewal and/or termination options, we reviewed management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.



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.

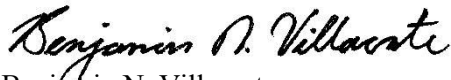
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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)	(P416,903)	(P593,156)	P347,168
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods</i>			
Net changes in the fair market value of AFS investments	—	—	(23,049)
Income tax effect	—	—	(393)
	—	—	(23,442)
<i>Other comprehensive income (loss) not to be reclassified directly to profit or loss in subsequent periods</i>			
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)	(P466,498)	(P586,164)	P326,022
Total Comprehensive Income (Loss) Attributable To:			
Equity holders of the Parent Company	(P380,606)	(P553,504)	P332,618
Non-controlling interests (Note 34)	(85,892)	(32,660)	(6,596)
	(P466,498)	(P586,164)	P326,022

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	P4,889,775	P83,768	P18,338	P—	P85,924	(P3,130)	(P3,413)	P4,018,980	(P28,793)	P9,061,449	P78,110	P9,139,559
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	P4,889,775	P83,768	P18,338	P59,772	P—	P536	(P2,193)	P3,303,708	(P27,706)	P8,325,998	P45,450	P8,371,448
BALANCES AT DECEMBER 31, 2016	P4,885,898	P81,209	P18,338	P—	P109,366	(P8,562)	(P277)	P3,859,659	(P28,793)	P8,916,838	P84,706	P9,001,544
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	P4,889,775	P83,768	P18,338	P—	P85,924	(P3,130)	(P3,413)	P4,018,980	(P28,793)	P9,061,449	P78,110	P9,139,559

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	(P565,722)	(P421,553)	P43,490
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.



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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except When Otherwise Indicated)

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 Endeavor, Inc.'s ("ACE Endeavor" 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 preferred shares 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:

Subsidiaries	Principal Activities	Percentage of Ownership (%)			
		December 31, 2019		December 31, 2018	
		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 reclassified 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:

	Land and Easement Rights	Right-of-use assets			Total	Lease liabilities
		Land with Power plants	Office Space and Parking Slots	Leasehold Rights		
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.

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its 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).

Derivative financial instruments and hedge accounting

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 reassessed 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 unlikelihood 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.

Estimates

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, IEMOP, 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						
	Total	Neither Past Due nor Impaired	Past Due but not Impaired				Past Due and Impaired
			<30 Days	30–60 Days	61–90 Days	More than 90 Days	
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						
	Total	Neither Past Due nor Impaired	Past Due but not Impaired				Past Due and Impaired
			<30 Days	30–60 Days	61–90 Days	More than 90 Days	
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 (P37.93 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 P39.37 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	P247,570	P315,737
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
	P855,275	P413,673

Fuel charged to "Cost of sale of electricity" in the consolidated statements of income amounted to P2,568.33 million, P766.48 million and P763.87 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 P5.55 million, P0.16 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 P71.83 million and P2.19 million, respectively.

The carrying amount of the spare parts - at net realizable value as at December 31, 2019 and 2018 amounted to P326.62 million and P11.50 million, respectively.

9. Other Current Assets

	2019	2018
Deposits	P77,284	P100,185
Prepaid expenses	62,225	82,577
Derivative assets (see Notes 36 and 37)	33	4
Others	373	—
	P139,915	P182,766



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	P252,241	P476,418	P6,881,019	P38,869	P54,662	P60,750	P419	P7,764,378
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	P251,005	P124,311	P5,321,801	P18,329	P34,778	P10,320	P419	P5,760,963



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	(P2,193)	(P3,413)
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	P723,165	P4,322,684

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	P1,101,966	P997,778
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	P685,133	P629,965

Summarized Statement of Income for the Years Ended December 31:

	2019	2018	2017
Revenue from sale of electricity	P1,139,163	P1,110,004	P832,084
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	P320,673	P377,845	P280,340



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 PNOG 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	₱–
<i>Changes upon adoption of PFRS 9 - net of tax:</i>		
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
<i>Petroleum and gas:</i>		
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
<i>Geothermal - SC 8 (Mabini, Batangas)</i>	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.

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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.

Pililia Hydropower Service Contract (HSC) (Rizal)

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:

	Land and Easement Rights	Right-of-Use Assets			Total
		Land and Power plants	Office Space and Parking Slots	Leasehold Rights	
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 4 th 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 4 th to until before the 10 th Interest Payment Date, from after the 10 th to until before the 14 th Interest Payment Date, from the 14 th to until before the 16 th Interest Payment Date, from the 16 th to until before the 18 th Interest Payment Date, and from the 18 th to until before the 20 th 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 7 th 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 7 th 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 (8 th 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:

Drawdown date	Tranche A (DBP)		Tranche B (SBC)	
	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

^aNet of prepayments made in 2016 and 2017

^bNet of unamortized debt issue costs.

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

Payment date	Tranche A (DBP)		Tranche B (SBC)	
	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.

SLTEC

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

- 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).
- 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%.
- 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).
- 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:

Date of Declaration	Type	Dividend 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 reclassified 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		
<i>Deferred tax asset:</i>		
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
<i>Deferred tax liabilities:</i>		
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 Incurred	NOLCO					Expiry Date
	Beginning	Additions	Application	Expiration	Ending	
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 Incurred	MCIT					Expiry Date
	Beginning	Additions	Application	Expiration	Ending	
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)	P—	(P7,786)	P7,786
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	P154,912	P126,518	P28,394

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	P47,248	P89,409	P79,382
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)
	P97,062	P142,498	P126,518

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 P1.15 million as at December 31, 2019 and 2018 respectively. The shares were acquired at a cost of P0.03 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%	(P10,466)	8.34%	(P6,040)
	(Actual – 1.00%)	4.92%	12,416	6.34%	6,911
Salary increase rate	(Actual + 1.00%)	6.00%	P12,906	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 P17.28 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	P27,173	P82,379
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:

Company	Amount/ Volume	Nature	As at and for the Year Ended December 31, 2019			
			Outstanding Balance		Terms	Conditions
			Receivable	Payable		
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						
Company	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
			Receivable	Payable		
<u>Associates</u>						
<u>MGI</u>						
Cost of sale of electricity	₱758,974	Purchase of electricity	₱–	(₱157,965)	30-day, non-interest bearing	Unsecured; no impairment
<u>Asia Coal</u>						
Due to related parties	–	Advances	–	(254)	Non-interest bearing	Unsecured
<u>Entities Under Common Control</u>						
<u>Direct Power Services, Inc.</u>						
Revenue from sale of electricity	193,644	Sale of electricity	–	–	30-day, non-interest bearing	Unsecured; no impairment
<u>Ingrid Power Holdings, Inc.</u>						
Advances to affiliates	150,000	Advances	150,000	–	Subsequently on demand	Unsecured
<u>SolarAce1 Energy Corp.</u>						
Advances to affiliates	26,000	Advances	26,000	–	Subsequently on demand	Unsecured
<u>Parent</u>						
<u>Other Related Parties</u>						
<u>Directors</u>						
General and administrative expenses	8,993	Directors' fee and annual incentives	–	(50)	On demand	Unsecured
<u>Stockholders</u>						
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						
Company	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
			Receivable	Payable		
<u>Ultimate Parent</u>						
<u>PHINMA, Inc.</u>						
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
<u>Joint Ventures</u>						
<u>SLTEC</u>						
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
<u>PHINMA Solar</u>						
Due to related parties	—	Advances	—	(90,000)	Non-interest bearing	Unsecured

(Forward)



As at and for the Year Ended December 31, 2018						
Company	Amount/ Volume	Nature	Outstanding Balance		Terms	Conditions
			Receivable	Payable		
<u>Associates</u>						
<i>MGI</i>						
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
<i>Asia Coal</i>						
Due to related parties	—	Advances	—	(253)	Non-interest bearing	Unsecured
<u>Entities Under Common Control</u>						
<i>PHINMA Property Holdings Corporation (PPHC)</i>						
Due to related parties	—	Advances	—	(171)	30-60 day, non-interest bearing	Unsecured
<i>PHINMA Corporation</i>						
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
<i>Union Galvasteel Corp. (UGC)</i>						
Due from related parties/ Receivables	619	Rental income and advances	123	—	30-60 day, non-interest bearing	Unsecured, no impairment
	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
<i>T-O Insurance, Inc.</i>						
Due to related parties/ General and administrative expenses	59,146	Insurance expense and membership fees	—	(32,857)	30-60 day, non-interest bearing	Unsecured
<u>Other Related Parties</u>						
<i>Directors</i>						
General and administrative expenses	10,145	Directors' fee and annual incentives	—	—	On demand	Unsecured
<i>Stockholders</i>						
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
	<i>(In Thousands, Except for Number of Shares and Per Share Amounts)</i>		
(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:

Name	Percentage of Ownership (%)	
	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:

<i>Enexor</i>	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

<i>Palawan55</i>	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:

<i>Enexor</i>	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)

<i>Palawan55</i>	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:

<i>SLTEC</i>	
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:

<i>SLTEC</i>	
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:

<i>SLTEC</i>	
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	Total
	Class A	Class B	Class C			
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	Total
	Class A	Class B	Class C	Impaired	Impaired	
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
<i>Financial Assets at Amortized Cost (Portfolio 1)</i>		
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					
Grade	Lifetime ECL				Total
	12 month Stage 1	Stage 2	Stage 3	Simplified Approach	
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					
Grade	Lifetime ECL				Total
	12 month Stage 1	Stage 2	Stage 3	Simplified Approach	
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		Total
				More than 1 Year to 5 Years	More than 5 Years	
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					Total
	On Demand	Less than 3 Months	3 to 12 Months	More than 1 Year to 5 Years	More than 5 Years	
Accrued directors' and annual incentives	P50	P-	P-	P-	P-	P50
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
	P54,488	P1,503,007	P2,430,291	P10,230,373	P13,664,582	P27,882,741

^a Excluding current portion of vacation and sick leave accruals amounting to P6.94 million (see Note 30).

^b Excluding payable to officers and employees amounting to P9.21 million (see Note 18)

^c Gross contractual payments.

^d Including contractual interest payments.

	2018					Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	
Accounts payable and other current liabilities:						
Trade and nontrade accounts payable	P-	P569,534	P134,106	P7,940	P-	P711,580
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
	P1,159,882	P1,740,131	P917,208	P2,971,954	P3,480,228	P10,269,403

^a Excluding current portion of vacation and sick leave accruals amounting to P6.50 million (see Note 30).

^b Excluding payable to officers and employees amounting to P3.53 million.

^c Gross contractual payments.

^d Including contractual interest payments.

^e Excluding noncurrent portion of finance lease obligation amounting to P72.30 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				Total
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	
Loans and receivables:					
Current:					
Cash and cash equivalents	P8,581,663	P-	P-	P-	P8,581,663
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				Total
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	
Financial assets at FVTPL	P—	P—	P—	P—	P—
Derivative assets	—	33	—	—	33
Financial assets at FVOCI:					
Quoted	—	—	—	21	21
Unquoted	—	—	—	1,230	1,230
	P11,859,741	P809,872	P77,284	P534,375	P13,281,272

	2018				Total
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	
Loans and receivables:					
<i>Current:</i>					
Cash and cash equivalents	P1,022,366	P—	P—	P—	P1,022,366
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
<i>Noncurrent:</i>					
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
	P3,485,355	P2,217,419	P69,056	P861,607	P6,633,437

*Excluding nonrefundable deposits amounting to nil and P13.52 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:

	Interest Rates	2019					Total
		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	
Long-term loans							
<u>PHINMA Renewable</u>							
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
<u>ACEPH</u>							
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 (25)	(P15,615) 15,615
SDA	25 (25)	(980) 980
SSA	25 (25)	1,766 (1,766)
Short-term loan	25 (25)	980 (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 Effectiveness
	In Metric Tons (MT)	U.S. Dollar (US\$)	
Derivative Liabilities	135,000	(414,411)	100%
BAP closing rate		50.82	
Peso equivalent		(P21,060,367)	

The portion of gain or loss on the hedging instrument amounting to P21.06 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				
	Carrying Value	Fair 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				
	Carrying Value	Fair 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			Adjustments and	
	Power	Petroleum	Segment Total	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	(P173,049)	(P67,965)	P589,511
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	(P565,722)	(P421,544)	P43,490

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	P27,968,523	P16,155,385
<i>Current assets</i>		
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
<i>Noncurrent assets</i>		
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	P39,720,805	P18,924,695

Reconciliation of liabilities

	2019	2018
Segment operating liabilities	P18,585,441	P5,177,760
<i>Current liabilities</i>		
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
<i>Noncurrent liabilities</i>		
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.



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

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.
AND SUBSIDIARIES
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AND SUPPLEMENTARY SCHEDULES
FORM 17-A, ITEM 7

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<i>*These schedules are either not required, not applicable or the information required to be presented is included in the Company's consolidated financial statements or notes to consolidated financial statements.</i>	

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
<hr/>				
Investment in Treasury Bills		P -	P -	P -
<hr/>				
Investment in Unit Investment Trust Fund and Money		-	-	-
<hr/>				
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	-
<hr/>				
		1,250,573	1,250,573	-
<hr/>				
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
<hr/>				
		11,736,660,588	11,736,660,588	76,760,209
<hr/>				
Derivative Assets		32,817	32,817	-
<hr/>				
		P11,737,943,978	P11,737,943,978	P76,760,209
<hr/>				

Attachment I

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.

Attachment I

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

Attachment I

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	-	-	(48,262,794)	108,138,313
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)	-	-	46,040,652
Leasehold rights	24,959,644	499,976,001	-	-	(524,935,645)	-
Goodwill	234,152,394	-	-	-	-	234,152,394
	₱320,219,101	₱519,402,165	(₱34,492,575)	₱ -	(₱524,935,645)	₱280,193,046

Attachment I

AC ENERGY PHILIPPINES, INC. AND SUBSIDIARIES
Schedule E. Long-Term Debt
December 31, 2019

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
<u>ACEPH</u>	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			
<u>PREC</u>	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			
<u>SLTEC</u>	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			

Attachment I

AC ENERGY PHILIPPINES, INC. AND SUBSIDIARIES

Schedule F. Indebtedness 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.		

Attachment I

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.				

Attachment I

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

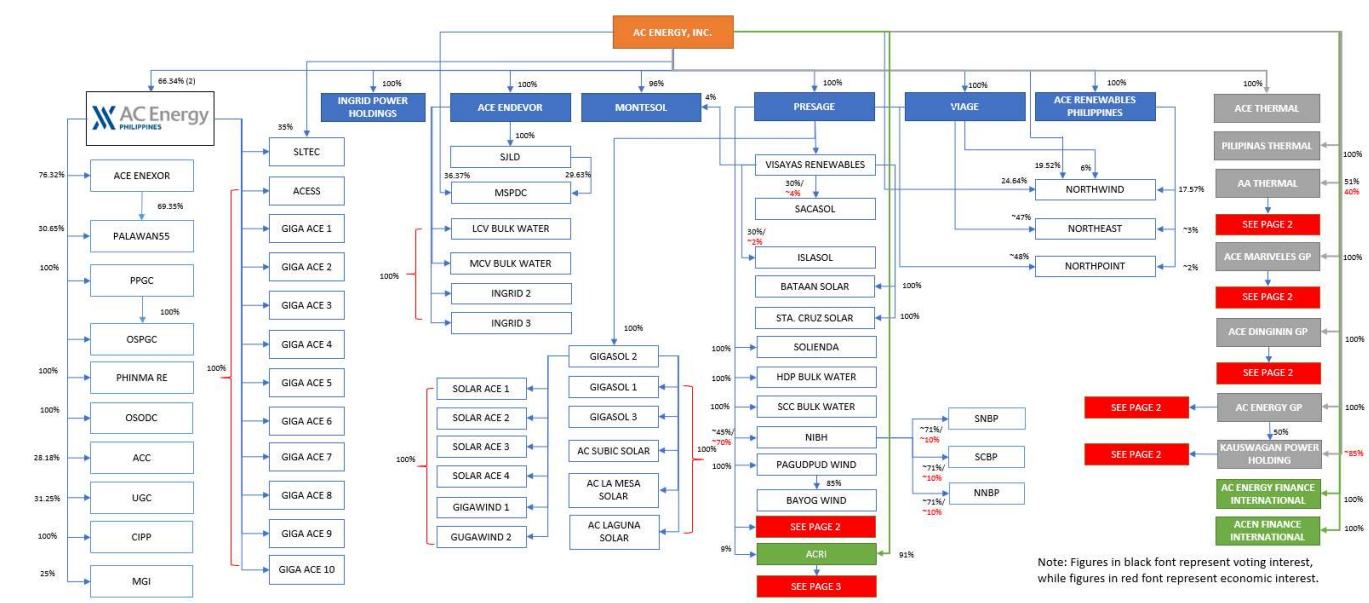
**AC ENERGY PHILIPPINES, INC.
AND SUBSIDIARIES**

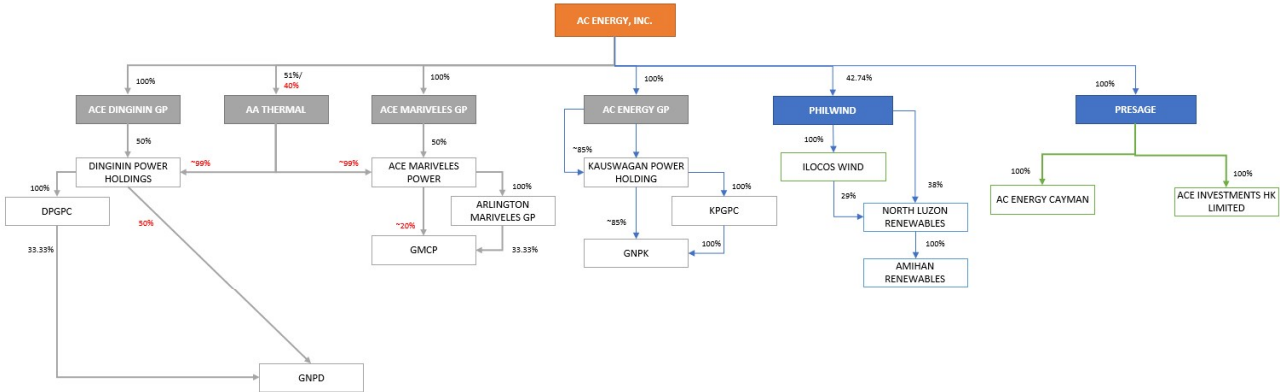
**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2019
(Amounts in Thousands)**

Retained earnings, beginning	₱2,473,184
Adjustment:	
Deferred income tax asset as at December 31, 2018	(258,741)
Unrealized FV gain of FVPL as at December 31, 2018	(409)
Derivative asset as at December 31, 2018	(4)
Retained earnings, beginning, as adjusted to amount available for dividend declaration, beginning	2,214,030
Add: Net loss actually realized during the year	
Net loss during the year closed to retained earnings	(109,091)
Add (deduct):	
Unrealized fair value gains on financial asset through FVPL and derivative assets	380
Gain on sale of financial assets at FV through FVPL charged to retained earnings	45,064
Movement of recognized deferred income tax assets	(337,839)
Net loss actually realized during the year	(401,486)
Less: Dividends declared during the year	-
Retained earnings available for dividend declaration, end	₱1,812,544

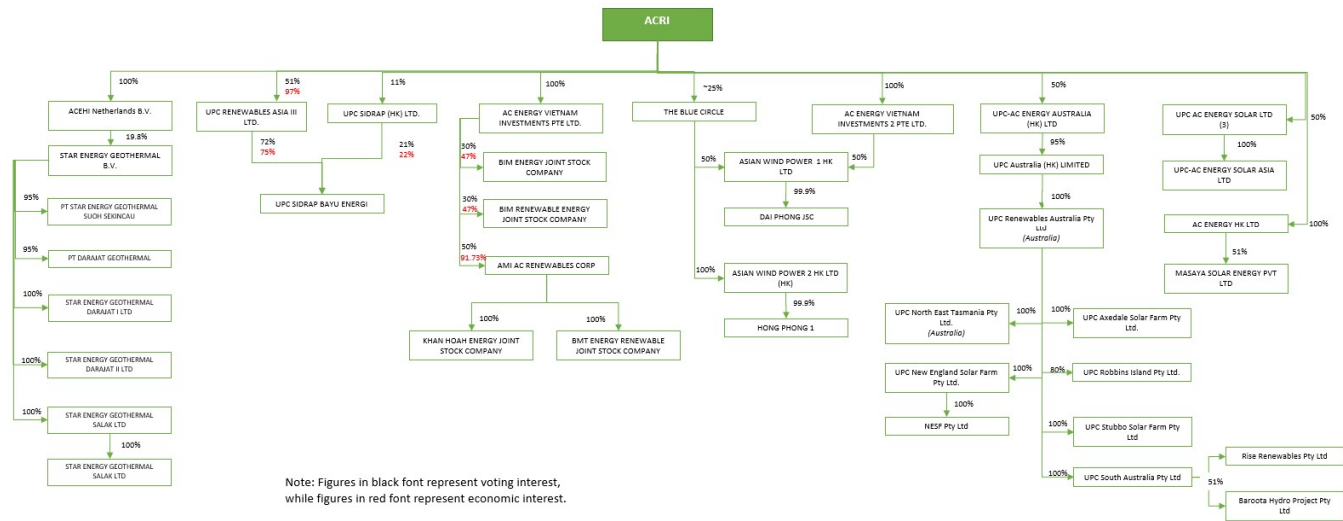
Page 1 of 3

Conglomerate Map As of December 31, 2019





Note: Figures in black font represent voting interest, while figures in red font represent economic interest.



Note: Figures in black font represent voting interest, while figures in red font represent economic interest.

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.



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



ATTACHMENT IV

AC ENERGY PHILIPPINES, INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE REQUIRED
UNDER REVISED SRC RULE 68

KPI	Formula	31-Dec-19 Audited	31-Dec-18 Audited	Increase (Decrease)	
				Difference	%
<i>Liquidity Ratios</i>					
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	2.84	1.74	1.09	63
Acid test ratio	$\frac{\text{Cash + Short-term investments +Receivables +Financial assetsat FVTPL}}{\text{Current liabilities}}$	2.55	1.49	1.06	71
<i>Solvency Ratios</i>					
Debt/Equity ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	2.58	1.26	1.32	105
Asset to equity ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	3.58	2.26	1.32	58
Interest coverage ratio	$\frac{\text{Earnings before interest \& tax (EBIT)}}{\text{Interest expense}}$	0.36	0.03	0.33	1,100
Net debt to equity ratio	$\frac{\text{Debt - Cash \& cash equivalents,short-term investments \&financial assetsat FVTPL}}{\text{Total equity}}$	1.80	1.05	0.75	71

KPI	Formula	31-Dec-19 Unaudited	31-Dec-18 Unaudited	Increase (Decrease)	
				Difference	%
<i>Profitability Ratios</i>					
Return on equity	Net income after taxes	-4.28%	-6.77%	2.49	(3,681)
	Average stockholder's equity				
Return on assets	Net income after taxes	-1.42%	-2.99%	1.57	53
	Average total assets				
Asset turnover	Revenues	52.20%	76.22%	(24.02)	(32)
	Average total assets				

EXHIBIT B

AC ENERGY PHILIPPINES, INC.

Parent Financial Statements

December 31, 2019 and 2018
And Years Ended December 31, 2019, 2018 and 2017

(with BIR Filing Reference Number)



Bureau of Internal Revenue
Republic of the Philippines

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REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

FILING REFERENCE NO.

TIN	: 000-506-020-000
Name	: AC ENERGY PHILIPPINES, INC.
RDO	: 121
Form Type	: 1702
Reference No.	: 122000035493788
Amount Payable (Over Remittance)	: -900,339,874.00
Accounting Type	: C - Calendar
For Tax Period	: 12/31/2019
Date Filed	: 04/29/2020
Tax Type	: IT

[[BIR Main](#) | [eFPS Login](#) | [User Menu](#) | [Help](#)]

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

0	6	9	-	0	3	9	2	7	4
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COMPANY NAME

A	C		E	N	E	R	G	Y		P	H	I	L	I	P	P	I	N	E	S	,		I	N	C	.			
(F	o	r	m	e	r	l	y		P	H	I	N	M	A		E	n	e	r	g	y		C	o	r	p	o	r
a	t	i	o	n)																								

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

4	t	h		F	l	o	o	r	,		6	7	5	0		O	f	f	i	c	e		T	o	w	e	r	,
A	y	a	l	a		A	v	e	n	u	e	,		M	a	k	a	t	i		C	i	t	y				

Form Type

A	P	F	S
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Department requiring the report

--	--	--	--

Secondary License Type, If Applicable

--	--	--	--

COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number

7-730-6300

Mobile Number

—

No. of Stockholders

3,192

Annual Meeting (Month / Day)

April/11

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Mariejo P. Bautista

Email Address

bautista.mp@acenergy.com.ph

Telephone Number/s

7-730-6300

Mobile Number

—

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.



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.**, formerly PHINMA Energy Corporation, (the "Company") is responsible for the preparation and fair presentation of the parent company 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 parent company 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 parent company 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.

(Page 2 of Statement of Management's
Responsibility for Parent Company Financial Statements)

A handwritten signature in black ink, appearing to read 'Fernando M. Zobel de Ayala'.

FERNANDO M. ZOBEL DE AYALA
Chairman of the Board

A handwritten signature in black ink, appearing to read 'John Eric T. Francia'.

JOHN ERIC T. FRANCIA
President and
Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Maria Corazon G. Dizon'.

MARIA CORAZON G. DIZON
Treasurer and
Chief Financial Officer

Signed this 25th day of March 2020

(Page 3 of Statement of Management's
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	01-2219	DFA-Manila
John Eric T. Francia	P3923362B	11-21-19	DFA-Manila
Maria Corazon G. Dizon	P6253635A	03-02-18	DFA-NCR-East

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of AC Energy Philippines, Inc. (formerly PHINMA Energy Corporation.) (the Company), which comprise the parent company statements of financial position as at December 31, 2019 and 2018, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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



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

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company 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 parent company 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 parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



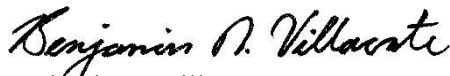
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 40 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of AC Energy Philippines, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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)

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 34 and 35)	₱6,102,639	₱612,358
Short-term investments (Notes 34 and 35)	100,000	–
Financial assets at fair value through profit or loss (FVTPL; Notes 6, 34 and 35)	–	471,818
Receivables - net (Notes 7, 31, 34 and 35)	2,618,920	2,180,555
Fuel and spare parts (Note 8)	124,657	328,418
Other current assets (Notes 9, 34 and 35)	92,360	81,072
	9,038,576	3,674,221
Asset held for sale (Note 10)	–	30,711
Total Current Assets	9,038,576	3,704,932
Noncurrent Assets		
Property, plant and equipment (Note 11)	489,636	527,387
Investments in subsidiaries, associates and joint ventures (Note 12)	11,864,846	9,036,323
Financial assets at:		
Fair value through other comprehensive income (FVOCI; Notes 13, 34 and 35)	950	204,136
FVTPL (Notes 6, 34 and 35)	–	5,452
Deferred exploration costs (Note 15)	–	31,723
Right-of-use asset (Note 16)	26,430	–
Deferred income tax assets - net (Note 29)	458,605	247,284
Other noncurrent assets (Notes 17, 34 and 35)	2,354,436	1,679,436
Total Noncurrent Assets	15,194,903	11,731,741
TOTAL ASSETS	₱24,233,479	₱15,436,673

LIABILITIES AND EQUITY

Current Liabilities

Accounts payable and other current liabilities (Notes 18, 34 and 35)	₱2,990,224	₱2,040,724
Income and withholding taxes payable	15,729	4,231
Due to stockholders (Notes 22, 31, 34 and 35)	16,594	16,651
Short-term loan (Notes 19, 34 and 35)	–	400,000
Current portion of lease liability (Note 20)	10,333	–
Current portion of long-term loans (Notes 19, 34 and 35)	219,173	157,684
Total Current Liabilities	3,252,053	2,619,290

Noncurrent Liabilities

Long-term loans - net of current portion (Notes 19, 34 and 35)	8,357,377	4,546,463
Lease liability – net of current portion (Note 20)	13,775	–
Pension and other employee benefits - net of current portion (Note 30)	24,137	19,587
Other noncurrent liabilities (Notes 21, 34 and 35)	2,604,451	753,982
Total Noncurrent Liabilities	10,999,740	5,320,032
Total Liabilities	14,251,793	7,939,322

(Forward)



	December 31	
	2019	2018
Equity		
Capital stock (Note 22)	₱7,521,775	₱4,889,775
Additional paid-in capital	83,768	83,768
Unrealized fair value gains (losses) on equity instruments at FVOCI (Note 13)	(16,468)	52,339
Unrealized fair value losses on derivative instrument designated under hedge accounting (Note 34)	(14,742)	—
Remeasurement losses on defined benefit plan - net of tax (Note 30)	(1,804)	(1,715)
Retained earnings (Note 22)	2,409,157	2,473,184
Total Equity	9,981,686	7,497,351
TOTAL LIABILITIES AND EQUITY	₱24,233,479	₱15,436,673

See accompanying Notes to Parent Company Financial Statements.



AC ENERGY PHILIPPINES, INC.
(Formerly PHINMA ENERGY CORPORATION)
PARENT COMPANY STATEMENTS OF INCOME
(Amounts in Thousands)

	Years Ended December 31	
	2019	2018
REVENUES		
Revenue from sale of electricity (Notes 23 and 33)	₱14,403,839	₱14,233,977
Dividend income (Notes 12 and 13)	180,539	818,009
Rental income	1,467	854
	14,585,845	15,052,840
COSTS AND EXPENSES		
Cost of sale of electricity (Notes 24, 26 and 27)	14,472,555	14,591,924
General and administrative expenses (Notes 25, 26 and 27)	463,741	465,574
	14,936,296	15,057,498
INTEREST AND OTHER FINANCIAL CHARGES (Note 28)	(331,473)	(301,580)
OTHER INCOME - NET (Note 28)	370,296	43,554
LOSS BEFORE INCOME TAX	(311,628)	(262,684)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)	(202,537)	167,026
NET LOSS	(₱109,091)	(₱429,710)
Basic/Diluted Loss Per Share (Note 32)	(₱0.02)	(₱0.09)

See accompanying Notes to Parent Company Financial Statements.



AC ENERGY PHILIPPINES, INC.
(Formerly PHINMA ENERGY CORPORATION)

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands, Except Per Share Figures)

	Years Ended December 31	
	2019	2018
NET LOSS	(₱109,091)	(₱429,710)
OTHER COMPREHENSIVE INCOME (LOSS)		
Net changes in fair market value of equity instruments at FVOCI (Note 13)	(26,171)	(1,467)
Unrealized fair value losses on derivative instrument designated under hedge accounting (Note 34)	(21,060)	—
Remeasurement gains (losses) on defined benefit plan (Note 30)	(126)	(3,148)
Income tax effect	8,783	1,078
OTHER COMPREHENSIVE LOSS, NET OF TAX	(38,574)	(3,537)
TOTAL COMPREHENSIVE LOSS	(₱147,665)	(₱433,247)

See accompanying Notes to Parent Company Financial Statements.



AC ENERGY PHILIPPINES, INC.
(Formerly PHINMA ENERGY CORPORATION)
PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Amounts in Thousands)

	Capital Stock (Note 22)	Additional Paid-in Capital	Unrealized Fair Value Gains (Losses) on AFS Investments - net of tax (Note 13)	Unrealized Fair Value Gains (Losses) on Equity Instruments at FVOCI (Note 13)	Unrealized Fair Value Losses on Derivative Instruments designated under hedge accounting (Note 34)	Remeasurement Gains (Losses) on Defined Benefit Obligation - net of tax (Note 30)	Retained Earnings (Note 22)	Total
BALANCES AT JANUARY 1, 2019	₱4,889,775	₱83,768	₱—	₱52,339	₱—	(₱1,715)	₱2,473,184	₱7,497,351
Net loss	—	—	—	—	—	—	(109,091)	(109,091)
Other comprehensive loss	—	—	—	(23,743)	(14,742)	(89)	—	(38,574)
Total comprehensive loss	—	—	—	(23,743)	(14,742)	(89)	(109,091)	(147,665)
Sale of equity investments at FVOCI (Note 13)	—	—	—	(45,064)	—	—	45,064	—
Issuance of shares of stocks (Note 22)	2,632,000	—	—	—	—	—	—	2,632,000
	2,632,000	—	—	(45,064)	—	—	45,064	2,632,000
BALANCES AT DECEMBER 31, 2019	₱7,521,775	₱83,768	₱—	(₱16,468)	(₱14,742)	(₱1,804)	₱2,409,157	₱9,981,686
BALANCES AT JANUARY 1, 2018, AS PREVIOUSLY REPORTED	₱4,889,775	₱83,768	₱81,603	₱—	₱—	₱489	₱3,059,296	₱8,114,931
Changes on initial application of PFRS 9 (Notes 3 and 13)	—	—	(81,603)	95,192	—	—	(9,614)	3,975
BALANCES AT JANUARY 1, 2018, AS ADJUSTED	4,889,775	83,768	—	95,192	—	489	3,049,682	8,118,906
Net loss	—	—	—	—	—	—	(429,710)	(429,710)
Other comprehensive loss	—	—	—	(1,333)	—	(2,204)	—	(3,537)
Total comprehensive loss	—	—	—	(1,333)	—	(2,204)	(429,710)	(433,247)
Sale of equity investments at FVOCI (Note 13)	—	—	—	(41,520)	—	—	48,803	7,283
Dividends declared (Note 22)	—	—	—	—	—	—	(195,591)	(195,591)
	—	—	—	(41,520)	—	—	(146,788)	(188,308)
BALANCES AT DECEMBER 31, 2018	₱4,889,775	₱83,768	₱—	₱52,339	₱—	(₱1,715)	₱2,473,184	₱7,497,351

See accompanying Notes to Parent Company Financial Statements.



AC ENERGY PHILIPPINES, INC.
(Formerly PHINMA ENERGY CORPORATION)
PARENT COMPANY STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	(P311,628)	(P262,684)
Adjustments for:		
Interest and other financial charges (Note 28)	331,473	301,580
Depreciation and amortization (Note 27)	61,686	74,768
Movement in pension and other employee benefits (Note 30)	4,424	3,394
Dividend income (Notes 12 and 13)	(180,539)	(818,009)
Interest and other financial income (Note 28)	(58,248)	(44,377)
Provisions for:		
Probable losses (Notes 15 and 25)	34,493	–
Inventory obsolescence (Note 25)	5,554	159
Credit losses (Notes 7 and 25)	1,163	12,737
Unrecoverable input tax (Note 28)	–	43,712
Impairment of property, plant and equipment (Note 25)	–	933
Loss on derivatives - net (Note 28)	6,851	13,180
Unrealized foreign exchange gain	(144)	(609)
Loss (gain) on sale of:		
Investments (Note 28)	6,652	–
Property, plant and equipment (Note 28)	(294,100)	(254)
Asset held for sale (Note 10)	(14,289)	–
Inventories	461	–
Operating loss before working capital changes	(406,191)	(675,470)
Decrease (increase) in:		
Receivables	(430,889)	773,013
Fuel and spare parts	197,746	(80,711)
Deposit receivables	(15,885)	(179,120)
Other current assets	(685,483)	23,479
Increase (decrease) in accounts payable and other current liabilities	(190,548)	(688,753)
Net cash used in operations	(1,531,250)	(827,562)
Income taxes paid, including creditable withholding taxes	11,498	–
Net cash used in operating activities	(1,519,752)	(827,562)

CASH FLOWS FROM INVESTING ACTIVITIES

Additions to:		
Financial assets at FVTPL (Note 6)	(4,368,530)	(13,796,715)
Investments in subsidiaries, associates and joint venture (Note 12)	(503,636)	(351,013)
Short-term investments	(100,000)	–
Property and equipment (Note 11)	(17,177)	(20,874)
Deferred exploration costs (Note 15)	(2,770)	(2,985)
Receivables from third parties	–	(10,200)
Financial assets at FVOCI	–	(32)

(Forward)



	Years Ended December 31	
	2019	2018
Proceeds from:		
Sale of investments financial assets at FVTPL (Note 6)	₱4,853,332	₱13,942,299
Sale of investment/ redemption of preferred shares in subsidiaries (Note 12)	543,348	422,498
Sale of property and equipment (Notes 11)	335,276	261
Sale of asset held for sale (Note 10)	45,000	–
Sale of financial assets at FVOCI	177,016	49,833
Termination of short-term investments	–	478,932
Insurance claims (Note 11)	–	90,146
Cash dividends received (Notes 12 and 13)	180,539	548,100
Interest received	42,078	32,556
Net cash from (used in) investing activities	1,184,476	1,382,806
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Long-term loans (Note 19)	5,000,000	923,025
Issuance of capital stock (Note 22)	2,632,000	–
Short-term loans (Note 19)	–	400,000
Payments of:		
Long-term loans (Note 19)	(1,094,058)	(1,357,420)
Short-term loans (Note 19)	(400,000)	–
Interest	(249,555)	(354,183)
Debt issuance cost	(43,003)	–
Principal portion of lease liability	(3,215)	–
Cash dividends	–	(194,240)
Increase in other noncurrent liabilities	(16,756)	(427,816)
Net cash from (used in) financing activities	5,825,413	(1,010,634)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	144	609
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,490,281	(454,781)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	612,358	1,067,139
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	₱6,102,639	₱612,358

See accompanying Notes to Parent Company Financial Statements.



AC ENERGY PHILIPPINES, INC.
(Formerly PHINMA ENERGY CORPORATION)

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

(Amounts in Thousands, Except When Otherwise Indicated)

1. Corporate Information and Status of Operations

AC Energy Philippines, Inc., formerly PHINMA Energy Corporation (“ACEPH” or the “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 Company is a licensed Retail Electricity Supplier (“RES”). As a RES, the Company can supply electricity to the contestable market pursuant to the Electric Power Industry Reform Act. Other activities of the 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. 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 at December 31, 2019, AC Energy directly owns 66.34% of the 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.

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 of incorporation 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 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 at March 25, 2020.

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

- i) The swap between the Company and AC Energy and the issuance of shares of stock in the 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 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 the 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 Philippine Investment Alliance for Infrastructure (PINAI) 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 Endeavor, Inc.'s ("ACE Endeavor" or formerly AC Energy Development, Inc.), wholly owned project company, Gigasol3, Inc.

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 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 North Luzon Renewable Energy Corporation (NLREC).



Authorization for Issuance of Parent Company Financial Statements

The parent company financial statements of the Company were approved and authorized for issuance by the Parent Company's BOD on March 25, 2020.

2. Basis of Preparation and Statement of Compliance

The parent company financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

The parent company 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 financial assets at fair value through other comprehensive income (FVOCI) that are measured at fair value. The parent company financial statements are presented in Philippine peso (₱) which is the Company's functional and presentation currency. All values are rounded to the nearest thousands (000), except when otherwise indicated.

The accompanying parent company financial statements are the Company's separate financial statements prepared for submission with the Bureau of Internal Revenue (BIR) and Securities and Exchange Commission (SEC). The Company also prepares and issues consolidated financial statements for the same period as the parent company financial statements presented in compliance with PFRS 10, *Consolidated Financial Statements*. The consolidated financial statements are filed with and may be obtained from the SEC.

3. Summary of Significant Accounting Policies and Disclosures

Changes in Accounting Policies and Disclosures

The Company has adopted the following new accounting pronouncements. Adoption of these pronouncements either did not have any significant impact on the Company's financial position or performance unless otherwise indicated. The Company 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 Company applies, for the first time, PFRS 16, *Leases*. The nature and effect of these changes are disclosed below.

PFRS 16 supersedes Philippine Accounting Standards (PAS) 17, *Leases*, International Financial Reporting Interpretations Committee (IFRIC) 4, *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and Standards Interpretations Committee (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 Company is the lessor. The Company adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied



retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company 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 Company 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').

As at January 1, 2019, the Company had no lease arrangements. In 2019, the Company entered into a lease agreement for office space and parking lots and accounted this contract under PFRS 16.

a. Summary of new accounting policies

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

- *Right-of-use assets*

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized and lease payments made at or before the commencement date less any lease incentives received. Unless the Company 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 Company 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 Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

In calculating the present value of lease payments, the Company 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.

- *Deferred taxes*

Upon adoption of PFRS 16, the Company recognize the deferred income tax assets and liabilities pertaining to right-of-use assets and lease liabilities on a gross basis.



b. Amounts recognized in the parent company statement of financial position, statement of income and statement of comprehensive income

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

	Office Space and Parking Slots	Lease liabilities
As at January 1, 2019	₱–	₱–
New lease agreement	30,075	27,323
Amortization expense	(3,645)	–
Interest expense	–	454
Payments	–	(3,669)
As at December 31, 2019	₱26,430	₱24,108

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

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions. The Company determined, based on its tax compliance and assessment, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the parent company financial statements of the Company.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Company, 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 parent company financial statements of the Company.

- 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 parent company financial statements of the Company 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 parent company financial statements as the Company does not have long-term interests in its associate and joint venture.



- *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 parent company financial statements of the Company 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 parent company financial statements of the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

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

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

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

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



Standards Issued but not yet Effective

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

Effective beginning on January 1, 2020

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

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

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

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

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

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

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

Effective beginning on 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.

Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the Company's parent company financial statements, unless otherwise indicated.

Presentation of Financial Statements

The Company has elected to present all items of recognized income and expense in two statements: a statement displaying components of profit or loss (parent company statement of income) and a second statement beginning with profit or loss and displaying components of OCI (parent company statement of comprehensive income).

Current versus Noncurrent Classification

The Company presents assets and liabilities in the parent company 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 Company 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 parent company statement 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 Company measures financial assets at FVTPL, financial assets at 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 35
- Investment properties, see Note 14
- Financial instruments (including those carried at amortized cost), see Note 35

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 Company.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the parent company financial statements are categorized within the fair value hierarchy, described in Note 35, 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 parent company financial statements on a recurring basis, the Company 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 Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.



Financial Instruments – Classification and Measurement

Classification of Financial Assets

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

- financial assets measured at amortized cost
- financial assets measured at 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 Company assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

Business Model

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

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

Financial Assets at Amortized Cost

A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at



amortized cost using the Effective Interest Rate (EIR) method, less any impairment in value.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in “Other income - net” in the parent company 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 parent company statement of income.

As at December 31, 2019 and 2018, the Company’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 34).

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 at December 31, 2019 and 2018, the Company does not have debt instruments at FVOCI.

Equity instruments

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

Dividends are recognized in profit or loss only when:

- the Company’s right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Company; and
- the amount of the dividend can be measured reliably.

As at December 31, 2019 and 2018, the Company’s investments in quoted and unquoted equity securities and golf club shares are classified as financial asset at FVOCI under PFRS 9 (see Notes 13 and 34).



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 parent company statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the parent company statement of income.

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

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

As at December 31, 2019 and 2018, the Company's investments in Unit Investment Trust Funds (UITF) and Fixed Interest Treasury Notes (FXTN) and derivative assets are classified as financial assets at FVTPL under PFRS 9 (see Notes 6 and 34).

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Company 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 Company 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 Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.



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

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 parent company 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 parent company 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 profit or loss.

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 parent company 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 Company 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 Company 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 Company uses a coal swap contract as a hedge of its exposure to coal price risk on its coal purchases (see Notes 18 and 34).

Classification of Financial Liabilities

Financial liabilities are measured at amortized cost, except for the following:

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

A financial liability may be designated at 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 Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

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

The Company's accounts payable and other current liabilities (excluding derivative liability and statutory payables), due to stockholders, short-term and long-term loans, lease liabilities, deposit payables and other noncurrent liabilities are classified as financial liabilities measured at amortized cost under PFRS 9 (see Notes 18, 19, 20, 21, 31 and 34).



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 parent company statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or,
- the Company 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 Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company 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 Company 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 Company 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 Company recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the parent company statement of comprehensive 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 parent company statement of income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the parent company statement of financial position if there is a currently enforceable legal right to offset the



recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

The Company 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 Company 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 parent company financial statements as at December 31, 2019 and 2018.

Impairment of Financial Assets

The Company 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 Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognized a loss allowance based on lifetime ECLs at each reporting date. The Company 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 Company 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 Company's policy to measure ECLs on such instruments on a 12-month basis based on available probabilities of defaults and loss given defaults. The Company 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 Company 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 Company 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 Company 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 Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

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

Write-off policy

The Company 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 Company 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 parent company 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 Company 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 parent company 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 Company's property, plant and equipment are as follows:

Category	Years
Buildings and improvements	6-25
Machinery and equipment:	
Power plant	20
Power barges	10
Others	10-15
Transportation equipment	3-5
Tools and other miscellaneous assets	10
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 parent company statement of income when the asset is derecognized.

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 Company 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.

Company 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 Company 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 parent company statement of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company 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 parent company statement of income on a straight-line basis over the lease term.



Company as a Lessor

Leases in which the Company 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 Company 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 Company'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 parent company 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 Company's service contracts (SC) are assessed as joint operations.



Investments in Subsidiaries, Associates and Joint Ventures

A subsidiary is an entity which the Company has control. An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee. An investor controls the investee and has the ability to affect those returns through its power over the investee. Thus, an investor controls an investee if, and only if, the investor has all of the following:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect the amount of the investors returns

An associate is an entity over which the Company 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 considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in subsidiaries, associates and interests in joint ventures are accounted for and presented at cost less any impairment in value. Under the cost method, the Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated profit of the subsidiary, associate and joint venture. The Company recognized dividend income from its subsidiaries, associates and joint ventures when its right to receive the dividend is established.

An investment in a subsidiary, an associate or interest in a joint venture 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 assets (calculated as the difference between the net disposal proceeds and the net carrying amount of the investment) is included in the parent company statement of income in the year the investment is derecognized.

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 parent company 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 Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.



Deferred Exploration Costs

The Company 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 Company 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 Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (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 Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company'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 parent company statement of income in expense categories consistent with the function of the impaired asset.

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 Company 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 parent company 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 Company 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 Company 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.

Right-of-Use Assets

Right-of-use assets 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 Company 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 Company 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 Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and, a reliable estimate can be made of the amount of the obligation. When the Company 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 parent company 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 - net” in the parent company statement of income.

Asset Retirement Obligation

The Company 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 Company 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 parent company statement of income.

Pension and Other Post-employment Benefits

Defined Benefit Plan

The Company operates a defined benefit pension plan in the Philippines, which requires contributions to be made to a separately administered fund. 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 parent company 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 parent company statement of income in subsequent periods.

Past service costs are recognized in the parent company statement of income on the earlier of:

- the date of the plan amendment or curtailment; or,
- the date that the Company recognizes related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognizes the following changes in the net defined benefit obligation under “Cost of sale of electricity” and “General and administrative expenses” accounts in the parent company 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 Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the parent company 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.

Retained Earnings

Retained earnings include all current and prior period results of operations as reported in the parent company 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 to Equity Holders of the Parent Company

The Company recognizes a liability to make cash distributions to equity holders of the Company when the distribution is authorized and the distribution is no longer at the discretion of the Company. 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 Company expects to be entitled in exchange for those goods or services. The Company 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 Company 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.

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 Company 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 Company concluded that the revenue should be recognized overtime since the customers simultaneously receives and consumes the benefits as the Company 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 parent company statement of income.

Dividend Income

Dividend income is recognized when the Company’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 parent company statement of income due to its operating nature.

Other Income

Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company 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 Company 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 parent company 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 and associates and interests in 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 and associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable 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.

Creditable Withholding Taxes

Creditable withholding taxes represent amounts withheld by the Company's customers and is deducted from the Company'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 parent company 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 "Accounts payable and other current liabilities" account in the parent company 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 Company 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 Company'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 36 of the parent company financial statements.

Contingencies

Contingent liabilities are not recognized in the parent company financial statements but are disclosed in the notes to the parent company 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 parent company financial statements.

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

Events After the Reporting Period

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

The Company believes the following represent a summary of these significant judgments and estimates and related impact and associated risks in its parent company financial statements.

Judgments

Revenue Recognition

Identifying Performance Obligations

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

The Company assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if (i) each distinct good or 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 Company determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

For ancillary services, the Company determined that the output method is the best method in measuring progress since actual energy is supplied to customers. The Company 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 Company uses the actual kwh dispatched which are also billed on a monthly basis.

Determining Method to Estimate Variable Consideration and Assessing the Constraint

The Company includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Company considers both likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the Company will subject to constraint. Factors such as (i) highly susceptible to factors outside of the Company'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 Company is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. The expected value method of estimation takes into account a range of possible outcomes while most likely amount is used when the outcome is binary.

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

Before including any amount of variable consideration in the transaction price, the Company considers whether the amount of variable consideration is constrained. The Company determined that the estimates of variable consideration are to be fully constrained based on its historical experience (i.e., prompt payment discounts), the range of possible outcomes (i.e., unspecified quantity of energy), and the unpredictability of other factors outside the Company's influence (i.e., 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 (ESAs) (see Note 33). The Company has evaluated the arrangements and the terms of the ESAs 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 the Company's Power Purchase Agreement (PPA) with SLTEC and Maibarara Geothermal Inc. (MGI), ACEPH agreed to purchase all of SLTEC and MGI's output (see Note 33). The Company has evaluated the arrangements and the terms of the PPA and determined that the agreements do not qualify as leases. Accordingly, fees paid to SLTEC and MGI are recognized under "Cost of sale of electricity" (see Note 24).

Classification of Leases - the Company as Lessee (Prior to adoption of PFRS 16)

The Company exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Company. Lease agreements, which transfer to the Company 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 33).

The 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.

The 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 33.

Classification of Leases - the Company as Lessor

The Company had a lease agreement for the lease of its investment property. The Company had determined that the risks and rewards of ownership of the underlying property were retained by the Company. Accordingly, the leases are classified as an operating lease (see Note 33).

Determination of lease term of contracts with renewal and termination options – the Company as Lessee

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

The Company did not include the renewal period as part of the lease term for leases of office space and parking slots because as at commencement date, the Company 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 Company.



PFRS 9 Identification of Business Models and Impairment

Identification of Business Models

The Company 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 Company'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 Company'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 Company'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 Company'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 34.

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 Company 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 Company'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 34.

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 Company 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 Company.

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 Company 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 34.

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 Company believes that there is a credit deterioration of the issuer.

Definition of Default and Credit-impaired Financial Assets

The Company 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 Company's definition of default.
- *Qualitative criteria*
The borrower meets unlikelihood 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 Company, 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 Company 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 Company's expected loss calculation.

Joint Arrangements

Determining and Classifying Joint Arrangements

Judgment is required to determine when the Company 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 Company 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 Company to assess their rights and obligations arising from the arrangement. Specifically, the Company 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 Company 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 Company's SCs are joint arrangements in the form of a joint operation.

The Company's joint control arrangements in which the Company has rights to the net assets of the investees are classified as joint ventures. Under the contractual agreements, the Company 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 Note 12).

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

Estimates

Estimating the incremental borrowing rate

The Company 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 Company 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 Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company 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 Company's lease liabilities amounted to ₱24.11 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 Company in accordance with the contract and the cash flows that the Company expects to receive.



- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.

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

Inputs, Assumptions and Estimation Techniques

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 Company's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD.

- *Exposure at Default*

EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

Simplified Approach for Trade Receivables

The Company 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 Company's historical observed default rates. The Company will calibrate the matrices to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation rate, gross domestic product (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 Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

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

Incorporation of Forward-Looking Information

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

To do this, the Company 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 Company 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 Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

The Company 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 short term interest rate from Macroeconomics Indicators. As at December 31, 2018, the Company 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 Company has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

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 Company to be statistically credible. Where sufficient information is not available internally, the Company 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 ₱2,752.27 million, respectively.

The carrying values of receivables and the related allowance for credit losses of the Company are disclosed in Note 7. In 2019 and 2018, provision for doubtful accounts amounted to ₱1.16 million and ₱12.74 million, respectively (see Note 25).

As at December 31, 2019 and 2018, allowance for credit losses on receivables amounted to ₱112.52 million and ₱111.36 million, respectively (see Notes 7 and 17).

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 Company. The Company is also allowed to recover excess input VAT by filing a claim for refund or tax credit certificate with the BIR.

The Company has written-off ₱21.90 million of input VAT in 2018 as these are considered no longer recoverable. The Company also provided provisions for unrecoverable input tax amounting to nil and ₱43.71 million in 2019 and 2018, respectively (see Note 28). The carrying amounts of input VAT as at December 31, 2019 and 2018 amounted to ₱341.07 million and ₱335.60 million, respectively (see Note 9).

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 Company amounted to ₱596.58 million and ₱258.92 million, respectively (see Note 29). The Company'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, Right-of-Use Assets and Investment Properties

The Company estimates the useful lives of property, plant and equipment, right-of-use assets and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, right-of-use assets and investment properties 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 and 2018, 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 and investment properties amounted to ₱61.69 million and ₱74.77 million in 2019 and 2018, respectively (see Notes 11, 14, 16 and 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 Company measures, presents and discloses the resulting impairment loss in accordance with PAS 36.

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

The Company recognized impairment losses on deferred exploration costs amounting to ₱34.49 million and nil in 2019 and 2018, respectively. The carrying value of deferred exploration costs amounted to nil and ₱31.72 million as at December 31, 2019 and 2018, respectively (see Notes 15 and 25).

Impairment of Non-financial Assets, Other than Deferred Exploration Costs

The Company assesses whether there are any indicators of impairment for all non-financial assets, other than deferred exploration costs, at each reporting date in accordance with PAS 36. These non-financial assets (investments in subsidiaries, associates and interests in joint ventures, property, plant and equipment, right-of-use assets and investment property) 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 Company 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 Company's non-financial assets other than deferred exploration costs as at December 31 are as follows:

	2019	2018
Investments in subsidiaries, associates and joint ventures (see Note 12)	₱11,864,846	₱9,036,323
Property, plant and equipment (see Note 11)	489,636	527,387
Right-of use assets (see Note 16)	26,430	—

No impairment loss was recognized on these non-financial assets in 2019. Impairment loss on property, plant and equipment amounted to ₱0.93 million in 2018.

Accumulated impairment losses on investments in subsidiaries and associates amounted to ₱46.74 million as at December 31, 2019 and 2018 (see Note 12).

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 ₱24.14 million and ₱19.59 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 Company is currently involved in various legal proceedings and assessments for local and national taxes (see Note 39). 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 parent company financial statements.



5. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand and in banks	₱234,999	₱99,223
Short-term deposits	5,867,640	513,135
	₱6,102,639	₱612,358

Cash in banks earn interest at its applicable bank deposit rates for its peso and dollar accounts. Short-term deposits are made for varying periods between one day and three (3) months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

Interest income earned on cash in banks in 2019 and 2018 amounted to ₱0.68 million and ₱0.12 million, respectively. Interest income earned on short-term deposits in 2019 and 2018 amounted to ₱41.40 million and ₱21.78 million, respectively (see Note 28).

6. Financial Assets at Fair Value Through Profit or Loss

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

Current:	
UITFs	₱471,818
Noncurrent:	
UITF	5,452
	₱477,270

On January 1, 2018, the Company reclassified all of its investments held for trading to financial assets at FVTPL. Further, investment in a UITF previously recorded under Available For Sale (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 parent company statements of income, amounted to ₱7.53 million and ₱11.25 million in 2019 and 2018, respectively (see Note 28).

In 2019, the Company invested in financial assets at FVTPL amounting to ₱4,369 million. As at December 31, 2019, the Company 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 - net

This account consists of:

	2019	2018
Trade	₱2,034,496	₱1,876,861
Due from related parties (see Note 31)	608,159	334,688
Receivables from:		
Assignment of Mineral Production Sharing Agreement (MPSA)	39,366	39,366
Consortium - SC 52 (see Note 15)	19,443	19,443
Employees	1,945	2,541
Others	21,032	12,014
	2,724,441	2,284,913
Less: Allowance for credit losses	105,521	104,358
	₱2,618,920	₱2,180,555

Trade receivables mainly represent receivables from IEMOP, NGCP and the Company's bilateral customers. Trade receivables consist of interest-bearing and noninterest-bearing receivables. The terms are generally thirty (30) to sixty (60) days.

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

	2019						Past Due and Impaired
	Total	Neither Past Due nor Impaired	Past Due but not Impaired				
			<30 Days	30-60 Days	61-90 Days	More than 90 Days	
Trade	₱2,034,496	₱1,460,970	₱46,824	₱65,801	₱19,999	₱408,840	₱32,062
Due from related parties	608,159	597,899	—	—	—	—	10,260
Others	81,786	10,849	—	11	7,427	300	63,199
	₱2,724,441	₱2,069,718	₱46,824	₱65,812	₱27,426	₱409,140	₱105,521
	2018						Past Due and Impaired
	Total	Neither Past Due nor Impaired	Past Due but not Impaired				
			<30 Days	30-60 Days	61-90 Days	More than 90 Days	
Trade	₱1,876,861	₱1,524,063	₱20,140	₱10,488	₱12,707	₱278,564	₱30,899
Due from related parties	334,688	321,754	—	—	—	2,674	10,260
Others	73,364	2,949	80	96	59	6,981	63,199
	₱2,284,913	₱1,848,766	₱20,220	₱10,584	₱12,766	₱288,219	₱104,358

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	₱30,899	₱73,459	₱104,358
Provisions for the year – net (see Note 25)	1,163	—	1,163
Balances at end of year	₱32,062	₱73,459	₱105,521



	2018		
	Trade	Others	Total
Balances at beginning of year	₱19,874	₱62,079	₱81,953
Effect of adoption of PFRS 9 (see Note 3)	9,668	–	9,668
Provisions for the year – net (see Note 25)	1,357	11,380	12,737
Balances at end of year	₱30,899	₱73,459	₱104,358

Mineral Production Sharing Agreement (MPSA) 252-2007-V (Camarines Norte)

On July 28, 2007, the 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 Distribution Corporation (One Subic Oil), then TA Gold, and the Company, entered into an Operating Agreement where the 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 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 Company filed a Motion for Reconsideration.

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

The 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 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 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 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 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

This account consists of:

	2019	2018
Fuel - at cost	₱7,994	₱302,430
Fuel - at net realizable value	66,217	2,027
Spare parts - at cost	50,446	23,961
	₱124,657	₱328,418

Fuel charged to “Cost of sale of electricity” account in the parent company statement of income amounted to ₱1,153.24 million and ₱721.79 million in 2019 and 2018, respectively (see Note 24).

In 2019 and 2018, the Company recognized provision for impairment of fuel inventory amounting to ₱5.55 million and ₱0.16 million, respectively. No such provision was recognized for spare parts.

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

9. Other Current Assets

This account consists of:

	2019	2018
Deposits	42,882	72,088
Current portion of CWT (see Note 17)	40,716	—
Prepaid expenses	8,729	8,980
Derivative asset (see Note 35)	33	4
	₱92,360	₱81,072

Input VAT is recognized when the Company purchases goods and services from a VAT-registered supplier.

Deposits pertain to advance payments to suppliers and deposits to distribution utilities.

Creditable withholding taxes represent amounts withheld by the Company’s customers and are deducted from the Company’s income tax payable.

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

Derivative assets pertain to freestanding forward currency contracts.



10. Asset Held for Sale

On August 7, 2018, the BOD approved the management decision to sell the Company's Guimaras Power Plant located in Jordan, Guimaras. Since the approval, the management has been actively looking for interested buyers. As at December 31, 2018, the Guimaras Power Plant was classified as "Assets held for sale" in the parent company statement 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.

As at December 31, 2018, no impairment loss was recognized as the carrying value amounting to ₱30.71 million was 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 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).



11. Property, Plant and Equipment

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

	2019					
	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Tools and Other Miscellaneous Assets	Office Furniture, Equipment and Others	Total
Cost						
Balance at beginning of year	₱215,157	₱579,597	₱24,202	₱16,818	₱40,922	₱876,696
Additions	473	41,775	1,789	14,048	3,452	61,537
Disposals and retirement	(209,095)	–	(9,415)	(23)	(30,393)	(248,926)
Balance at end of year	6,535	621,372	16,576	30,843	13,981	689,307
Accumulated Depreciation						
Balance at beginning of year	164,048	117,505	14,259	14,476	38,088	348,376
Depreciation and amortization (see Notes 24, 25 and 27)	8,009	43,230	3,812	1,494	1,496	58,041
Disposals and retirement	(170,389)	–	(7,615)	(14)	(29,661)	(207,679)
Balance at end of year	1,668	160,735	10,456	15,956	9,923	198,738
Accumulated Impairment Loss						
Balance at beginning and end of year	933	–	–	–	–	933
Net Book Value	₱3,934	₱460,637	₱6,120	₱14,887	₱4,058	₱489,636



2018

	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Tools and Other Miscellaneous Assets	Office Furniture, Equipment and Others	Total
Cost						
Balance at beginning of year	₱212,966	₱653,693	₱25,490	₱16,294	₱42,821	₱951,264
Additions	346	16,050	896	2,145	1,437	20,874
Disposals	—	—	(2,184)	(1,125)	(3,336)	(6,645)
Reclassifications	—	(90,146)	—	—	—	(90,146)
Transfer to asset held for sale (see Note 10)	—	—	—	(496)	—	(496)
Transfer from investment property (see Note 14)	1,845	—	—	—	—	1,845
Balance at end of year	215,157	579,597	24,202	16,818	40,922	876,696
Accumulated Depreciation						
Balance at beginning of year	148,207	74,505	11,674	12,919	38,711	286,016
Depreciation and amortization (see Notes 24, 25 and 27)	15,841	43,000	4,769	3,178	2,706	69,494
Disposals	—	—	(2,184)	(1,125)	(3,329)	(6,638)
Transfer to asset held for sale (see Note 10)	—	—	—	(496)	—	(496)
Balance at end of year	164,048	117,505	14,259	14,476	38,088	348,376
Accumulated Impairment Loss						
Balance at the beginning of the year	—	—	—	—	—	—
Impairment loss for the year	933	—	—	—	—	933
	933	—	—	—	—	933
Net Book Value	₱50,176	₱462,092	₱9,943	₱2,342	₱2,834	₱527,387



Insurance Claims

In 2018, the Company 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.

Sale of Properties

The Company executed Deeds of Sale with PHINMA Inc. and Mariposa Properties, Inc. (MPI) on July 4, 2019 for the sale of the Company's share in the office spaces at PHINMA Plaza amounting to ₱333.25 million. The Company also sold its transportation and office equipment amounting to ₱2.03 million. The sale of these assets resulted in a gain of ₱294.10 million (see Note 28).

12. Investments in Subsidiaries, Associates and Joint Ventures

This account consists of investments in the following investee companies:

Investee	Principal Activity	Percentage of Direct Ownership	
		2019	2018
Subsidiaries:			
PHINMA Renewable	Renewable energy generation	100.00	100.00
PHINMA Power	Power generation	100.00	100.00
ACEX	Oil and gas exploration	75.92	50.74
CIPP	Power generation	100.00	100.00
One Subic Oil	Distribution of petroleum products	100.00	100.00
SLTEC	Power generation	65.00	—
Palawan55	Oil and gas exploration	30.65	30.65
Associates:			
Union Aggregates Corporation (UAC) (a)		31.25	31.25
Asia Coal Corporation (Asia Coal) (b)		28.18	28.18
MGI	Power generation	25.00	25.00
Joint ventures:			
ACTA	Power generation	50.00	50.00
SLTEC	Power generation	—	45.00
PHINMA Solar	Renewable energy generation	—	50.00

(a) Ceased commercial operations.

(b) Shortened corporate life to October 31, 2009.

All of the above investee companies were incorporated and are domiciled in the Philippines.

The carrying values of the Company's investments in subsidiaries, associates and joint ventures as at December 31 are as follows:

	2019	2018
Investments in subsidiaries:		
SLTEC	₱6,439,360	₱—
PHINMA Renewable	3,827,502	4,152,502
PHINMA Power	701,722	701,722
ACEX ^a	277,186	123,550
CIPP	151,530	151,530
One Subic Oil ^b	12,661	12,661
BCHC	10,000	—
Palawan55	3,065	3,065
ACES	250	—
	11,423,276	5,145,030

(Forward)



	2019	2018
Investments in associates:		
MGI	₱404,550	₱404,550
Asia Coal ^c	620	620
UAC ^d	—	—
	405,170	405,170
Interests in joint ventures:		
ACTA	36,400	36,400
SLTEC	—	3,224,723
PHINMA Solar	—	225,000
	36,400	3,486,123
	₱11,864,846	₱9,036,323

^a Net of accumulated impairment loss amounting to ₱3.29 million.

^b Net of accumulated impairment loss amounting to ₱17.34 million.

^c Net of accumulated impairment loss amounting to ₱13.89 million.

^d Net of accumulated impairment loss amounting to ₱12.22 million.

Movements in the costs of investments in subsidiaries, associates and joint ventures for the years ended December 31 are as follows:

	2019			
	Subsidiaries	Associates	Joint Ventures	Total
Cost:*				
Balance at beginning of year	₱5,145,030	₱405,170	₱3,486,123	₱9,036,323
Additions	3,378,523	—	—	3,378,523
Reclassification to subsidiary	3,224,723	—	(3,224,723)	—
Redemption of preferred shares (see Note 31)	(325,000)	—	—	(325,000)
Investment sold	—	—	(225,000)	(225,000)
	₱11,423,276	₱405,170	₱36,400	₱11,864,846

	2018			
	Subsidiaries	Associates	Joint Ventures	Total
Cost:*				
Balance at beginning of year	₱5,458,665	₱392,670	₱3,256,473	₱9,107,808
Additions (see Note 31)	333,863	12,500	4,650	351,013
Redemption of preferred shares	(197,498)	—	—	(197,498)
Investment sold	(225,000)	—	—	(225,000)
Reclassification to JV	(225,000)	—	225,000	—
	₱5,145,030	₱405,170	₱3,486,123	₱9,036,323

*Movement of cost is gross of accumulated impairment losses in investments in subsidiaries and associates amounting to ₱46.74 million as at December 31, 2019 and 2018.

No additional impairment was recognized or reversed for the years ended December 31, 2019 and 2018. As at December 31, 2019 and 2018, the allowance for impairment losses amounted to ₱46.74 million.

Dividend income earned from subsidiaries, associates and joint ventures amounted to ₱175.00 million and ₱810.94 million in 2019 and 2018, respectively.



Investments in Subsidiaries

SLTEC

On June 29, 2011, the Company entered into a 50-50 joint venture agreement with AC Energy Holdings, Inc. (AC Energy) to form SLTEC, the primary purpose of which is to generate, supply and sell electricity to the public through the operation of a 2 x 135 MW Circulating Fluidized Bed (CFB) Coal-fired Power Plant in Calaca, Batangas. SLTEC was incorporated and registered on July 29, 2011. The registered office address of SLTEC is KM. 117 National Road, Phoenix Industrial Park Phase II Puting Bato West, Calaca, Batangas.

On October 29, 2011, SLTEC signed the Omnibus Loan and Security Agreement with its local third-party creditor banks with the Company and AC Energy as Project Sponsors.

Under the terms of the Agreement, the Company shall:

- enter into supply agreements with end users sufficient to cover such capacity required by SLTEC to break-even for two years, within 18 months from first drawdown. The consequence of failure is a draw-stop, which means SLTEC will not be able to draw on the loan;
- commit to provide advances to SLTEC in proportion to the Company's equity interest in SLTEC to fund the project cost of the SLTEC power plant project;
- guarantee jointly with AC Energy to redeem the loan in the event that SLTEC defaults on the loan, and lenders are not able to consolidate title to the project site because title to the properties have not been issued; and,
- pledge its shares in SLTEC as security, and assign its offtake contracts to the lenders sufficient to cover such capacity required by SLTEC to break-even.

On April 24, 2015, Unit 1 commenced its commercial operations. Unit 2 of the power plant commenced its commercial operations on February 21, 2016.

The Company earned dividend from SLTEC in 2018 amounting to ₱492.42 million of which ₱222.51 million was received in 2018 and the balance, ₱269.91 million, in 2019.

On July 10, 2019, AC energy and 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 gained control of SLTEC over said date.

On November 5, 2019, the Company signed a deed of assignment with AC Energy whereby AC Energy transferred its right to purchase APHPI's 20% ownership stake to the Company. As a result of the assignment of right, the Company exercised its right and purchased Axia's 20% interest in SLTEC for a total consideration of ₱3.40 billion. The Company gained control of SLTEC as a result of the business combination and SLTEC became a subsidiary. As at December 31, 2019, ACEPH owns 65% of SLTEC.

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 preferred shares with a par value of ₱1.00 per share. The increase in authorized capital stock was approved by the SEC on March 31, 2017. On January 30, 2017, PHINMA Renewable's BOD approved the amendment of the Articles of Incorporation to change the corporate name to PHINMA Renewable Energy Corporation. The amended Articles of Incorporation were issued by the SEC on June 13, 2017 while the Certificate of Registration was issued by the BIR on June 21, 2017.

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

In 2019, the Company redeemed a portion of its preferred shares in PHINMA Renewable amounting to ₱325.00 million.

PHINMA Power and its subsidiary, One Subic 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 PEMC approved PHINMA Power's application for registration as trading participant for both generation and customer categories in the WESM. Both ACEPH and PHINMA Power obtained membership in the WESM which allows them to participate in electricity trading managed by PEMC, including selling of excess generation to the WESM. Effective December 26, 2013, PHINMA Power entered into a Power Administration and Management Agreement (PAMA) valid for ten (10) years with ACEPH for the administration and management by ACEPH of the entire capacity and net output of PHINMA Power starting 2014. In addition to the capacity fee, ACEPH is billed by PHINMA Power for transmission and fuel costs. On January 12, 2018, PHINMA Power and the Company amended the PAMA, providing for a higher capacity rate based on nominated capacity and billing of fuel recovery and utilization fee. The new PAMA became effective starting March 26, 2018.

On July 23, 2019, the BDO and the stockholders approved the change of the corporate name to "Bulacan Power Generation Corporation". The amendment is pending SEC approval.

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, PHINMA Energy and One Subic Power entered into a PAMA wherein ACEPH 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.

AC Enexor (ACEX) and its subsidiary Palawan55

ACEX was incorporated and registered with the SEC on September 28, 1994. ACEX is engaged in oil exploration and well development.

On June 24, 2019, ACEPH purchased PHINMA Inc.'s and PHINMA Corporation's combined stake in ACEX amounting to ₱153.64 million representing 25.28% ownership. This increased the Company's effective ownership in ACEX from 50.74% to 75.92%.



As at March 25, 2020, ACEX has not started commercial operations.

As at December 31, 2019 and 2018, the Company's investment in ACEX has an allowance for impairment loss amounting to ₱3.29 million.

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 commercial operations.

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 Company's BOD and stockholders, respectively, approved the proposed merger of the 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 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 Company amended the PAMA, providing for the same capacity rate based on nominated capacity and billing of fuel recovery and utilization fee. The new PAMA became effective starting March 26, 2018. As at March 25, 2020, the Company and CIPP have not filed their application for merger with the SEC and have deferred their plan for merger.

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 August 9, 2017. As at March 25, 2020, One Subic Oil has not started commercial operations for its petroleum distribution business.

As at December 31, 2019 and 2018, the Company's investment in One Subic Oil has an allowance for impairment loss amounting to ₱17.34 million.

Buendia Christiana Holdings Corp. ("BCHC")

On December 12, 2019, the 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 is non-operating as of date. BCHC has an existing land located in the province of Zambales amounting to ₱273.5 million. As at December 31, 2019, the Company has recorded investment in BCHC amounting to ₱10.00 million and advances to BCHC amounting to ₱315.00 million (representing excess of the subscription paid by the Company over the authorized capital stock of BCHC as at December 31, 2019).



ACE Shared Services, Inc. (“ACES”)

On November 18, 2019, the 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.

Investments in Associates

MGI

The 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.

On September 16, 2011, the Company entered into an ESA with MGI under which the 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 33). Commercial operations of MGI started in February 2014.

The 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 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 Company;
- assign its rights and/or interests in the Joint Venture Agreement executed on May 19, 2010 with PNOG 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 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 advances of ₱45.00 million granted by the Company in 2015 were converted to investments in associates in 2017. The Company invested additional capital amounting to nil and ₱80.25 million and received dividend of ₱25 million and ₱12.50 million in 2019 and 2018, respectively.

UAC

As at December 31, 2019 and 2018, the Company's entire investment in UAC amounting to ₱12.22 million was fully provided with allowance for impairment loss due to cessation of UAC's operations.

Asia Coal

On March 19, 2009, the BOD and stockholders of Asia Coal approved the shortening of its corporate life to October 31, 2009. Asia Coal shall be dissolved and liquidated, the date of which is subject to the approval of the SEC. 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. Asia Coal has not engaged in any activity since filing for the shortening of its corporate life.

As at December 31, 2019 and 2018, allowance for impairment loss on the Company's investment in Asia Coal amounted to ₱13.89 million.

Interests in Joint Ventures

ACTA

The 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 Company made additional investment in ACTA's capital stock amounting to nil and ₱4.65 million in 2019 and 2018, respectively.

PHINMA Solar

PHINMA Solar 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. The amended Articles of Incorporation were issued by the SEC on June 27, 2017 while the Certificate of Registration was issued by the BIR on June 30, 2017.

In 2018, the Company paid its remaining subscription to PHINMA Solar amounting to ₱333.86 million. On December 11, 2018, the Company and Union Galvasteel Corporation (UGC), a company under common control of PHINMA Inc., entered into a Deed of Sale for the sale of the Parent Company's 50% interest to UGC, thus classifying its interest in PHINMA Solar from a subsidiary to a joint venture.

On December 11, 2018, the Company and UGC, a subsidiary of PHINMA Inc., entered into a Deed of Sale for the sale of the 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 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.

13. Fair Value Through Other Comprehensive Income

The Company's financial assets at FVOCI consisted of the following as at December 31, 2019 and 2018:

	2019	2018
Shares of stock (see Note 34):		
Listed	₱10	₱91,887
Unlisted	—	102,319
Golf club shares (see Note 34)	940	9,930
	₱950	₱204,136

The movements in net unrealized gain on financial assets at FVOCI for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Balance at the beginning of year - net of tax	₱52,339	₱—
Cumulative unrealized gain on disposal of equity instruments at FVOCI transferred to retained earnings	(45,064)	(41,520)
Unrealized loss recognized in other comprehensive income	(23,743)	(1,333)
Changes upon adoption of PFRS 9 - net of tax:		
Unrealized gain on AFS equity securities transferred to FVOCI	—	81,603
Remeasurement gain of unlisted equity securities (Note 3)	—	13,643
Unrealized gain of investment in a UITF closed to retained earnings due to change in classification (Note 3)	—	(54)
Balance at end of year - net of tax	(₱16,468)	₱52,339

Dividend income earned from financial assets at FVOCI amounted to ₱5.54 million and ₱7.07 million in 2019 and 2018, respectively.



14. Investment property

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

Cost	
Balance at beginning	₱106,902
Transfer to PPE (see Note 11)	(9,005)
Transfer to asset held for sale (see Note 10)	(97,897)
Less accumulated depreciation:	
Balance at beginning of year	69,072
Transfer to PPE (see Note 11)	(7,160)
Transfer to asset held for sale (see Note 10)	(67,186)
Depreciation (see Note 27)	5,274
Balance at end of year	—
Net book value	₱—

Revenue from the property and equipment amounted to ₱16.44 million in 2018 which was recognized in the parent company statement of income as part of “Revenue from sale of electricity”, while related direct costs and expenses amounted to ₱15.68 million in 2018 which was included as part of “Cost of sale of electricity” account in the parent company statement of income.

15. Deferred Exploration Costs

Details of deferred exploration costs are as follows:

	2019	2018
Geothermal - SC 8 (Mabini, Batangas)	₱34,493	₱31,723
Petroleum/gas - SC 52 (Cagayan Province)	10,994	10,994
	45,487	42,717
Allowance for impairment losses	(45,487)	(10,994)
Net book value	₱—	₱31,723

Changes in the deferred exploration costs for the years ended December 31 are as follows:

	2019	2018
Cost:		
Balance at beginning of year	₱42,717	₱39,732
Cash calls	2,770	2,985
Balance at end of year	45,487	42,717
Accumulated impairment:		
Balance at beginning and end of year	10,994	10,994
Impairment	34,493	—
Balance at the end of the year	45,487	10,994
Net book value	₱—	₱31,723

The foregoing deferred exploration costs represent the Company’s share in the expenditures incurred under petroleum and geothermal SCs with the 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:

a. *SC 8 (Batangas – Mabini Geothermal Service Contract)*

In 2018, the Consortium held continuing 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 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 Company’s share of attendant costs. The Company expressed its willingness to consider the said proposal and requested Basic Energy’s key terms for the 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.

b. *SC 52 (Cagayan Province)*

In 2016, the Company reclassified to receivables the option fee of ₱19.44 million recoverable upon expiration of the SC. The option fee was fully provided with an allowance for doubtful account.

Also, 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.

Pililia Hydropower Service Contract (HSC) (Rizal)

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 is as follows:

	Office Space and Parking Slots
As at January 1, 2019	₱–
New lease agreements	30,075
Amortization expense (Notes 25 and 27)	(3,645)
As at December 31, 2019	₱26,430



The Company's right-of-use asset arose from the rental of office space in the 22nd Floor of Ayala Tower together with 8 parking slots entered into in 2019.

At year-end, there was no indication of impairment on the right-of-use asset of the Company.

17. Other Noncurrent Assets

This account consists of:

	2019	2018
CWT - net of current portion	₱860,026	₱704,726
Trade receivable - net (see Note 21)	571,714	571,714
Advances to affiliates (Notes 31 and 33)	491,000	—
Receivables from third parties (see Note 34)	333,333	317,954
Deposits (see Note 34)	98,363	85,042
	₱2,354,436	₱1,679,436

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

Multilateral Agreement

Due to its interpretation of the WESM Rules, the PEMC allocates its uncollected receivables due from power purchasers in the WESM to the generators who sold power to the WESM. On December 23, 2013, the Supreme Court 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 Company the full amount of its electricity sales. On April 22, 2014, the Supreme Court 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 ERC, PEMC recalculated the regulated prices and issued WESM adjusted power bills in March 2014 which the Company recorded resulting to 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 Company signed the Agreement on June 23, 2014. From 2014 to 2016, ACEPH recorded collections amounting to ₱571.71 million against “Trade payable” presented under “Other noncurrent liabilities” pending the resolution of cases filed by certain market players with the Supreme Court.

In June 2016, the 24-month period of repayment prescribed; hence, the Company provided an allowance for credit losses related to the receivables under the Multilateral Agreement amounting to ₱7.00 million.



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

Advances to affiliates consist of advances to BCHC, Ingrid Power Holdings, Inc. (Ingrid) and SolarAce1 Energy Corp. (SolarAce1) amounting to ₱315.00 million, ₱150.00 million and ₱26.00 million, respectively, intended for the purchase of shares (see Note 31).

Receivables from third parties include interest-bearing receivables 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%.

Deposits pertain to deposits to distribution utilities.

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2019	2018
Nontrade	₱1,333,384	₱110,072
Deferred output VAT - net	296,380	113,985
Due to related parties (see Note 31)	625,195	792,546
Trade payables	589,045	490,461
Accrued interest payable	105,173	46,507
Derivative liability (see Note 34)	21,060	—
Accrued expenses (see Note 34)	16,754	93,301
Current portion of deferred revenues	—	387,289
Others	3,233	6,563
	₱2,990,224	₱2,040,724

Nontrade payables include liabilities for various purchases such as acquisition of 20% interest in SLTEC (see Note 12) and additions to property, plant and equipment and spare parts.

Deferred output VAT represents output VAT not yet collected as at year-end.

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

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

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

Accrued expenses include accruals for retirement benefits, sick and vacation leave, incentive pay and professional fees. This account also includes reimbursement to a customer.

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



Others consist of liabilities to employees, statutory payables, deferred rent income and deposit payables.

19. Loans

Long-term loans

As at December 31, this account consists of:

	2019	2018
Cost	₱8,634,812	₱4,728,870
Add premium on long-term loans (embedded derivative)	2,429	4,247
Less unamortized debt issue costs	60,691	28,970
	8,576,550	4,704,147
Less current portion of long-term loans (net of unamortized debt issue costs)	219,173	157,684
Noncurrent portion	₱8,357,377	₱4,546,463

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

	Embedded Derivative	Debt Issue Costs
As at January 1, 2018	₱6,009	₱28,251
Additions	—	6,975
Amortization/ accretion for the year*	(1,762)	(6,256)
As at December 31, 2018	4,247	28,970
Additions	—	43,003
Amortization/accretion for the year*	(1,818)	(11,282)
As at December 31, 2019	₱2,429	₱60,691

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

The relevant terms of the Company's long-term loans follow:

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	₱—

(Forward)



Description	Interest Rate (per annum)	Terms	2019	2018
₱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	₱1,358,728	₱1,388,693
₱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	965,455
₱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	965,468
₱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	461,469
₱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	—	923,062
Carrying value*			₱8,576,550	₱4,704,147

*Net of unamortized debt issue costs and embedded derivative of ₱58.26 million and ₱24.72 million in 2019 and 2018, respectively.



In 2019 and 2018, principal repayments made relative to Company's loans amounted to ₱1,094.06 million and ₱147.42 million, respectively. The Company paid ₱43.00 million debt issue costs for the ₱5 billion additional loans in 2019.

The long-term loans of the Company 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 4 th 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 4 th to until before the 10 th Interest Payment Date, from after the 10 th to until before the 14 th Interest Payment Date, from the 14 th to until before the 16 th Interest Payment Date, from the 16 th to until before the 18 th Interest Payment Date, and from the 18 th to until before the 20 th 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 7 th year from Issue date. Prepayment amount is at par. Transaction cost is minimal.
₱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 7 th 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 (8 th 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 ₱930.00 million of its long term debt in 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, the Company 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.

The Company was in compliance with loan covenants as at December 31, 2018. The Company 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. The Company, therefore, classified the loans amounting to ₱8.36 billion as noncurrent as at December 31, 2019.

Total interest expense recognized on long-term loans amounted to ₱301.95 million and ₱292.05 million in 2019 and 2018, respectively (see Note 28).

Short-term loan

As at December 31, 2018, the Company has outstanding short-term loan amounting to ₱400 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 Company has paid out its short-term loan.

In 2019 and 2018, the Company recognized interest expense amounting to ₱7.02 million and ₱8.11 million, respectively (see Note 28).



20. Lease Liabilities

The rollforward analysis of lease liabilities follows:

As at January 1, 2019	₱-
New lease agreements	27,323
Interest expense	454
Payments	(3,669)
As at December 31, 2019	₱24,108

As at December 31, 2019, the current portion of lease liability amounts to ₱10.33 million and the noncurrent portion amounts to ₱13.78 million.

21. Other Noncurrent Liabilities

This account consists of:

	2019	2018
Nontrade payable (Note 12)	₱1,870,755	₱-
Trade payable (Notes 17 and 18)	571,714	571,714
Deposit payables (Note 33)	154,175	174,370
Accrued expenses	7,807	7,898
	₱2,604,451	₱753,982

Nontrade payable amounting to ₱1,870.76 million 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 the Company 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.

Accrued expenses pertain to accrual of asset retirement obligation.

22. Equity

Capital Stock

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

	Number of Shares	
	2019	2018
Authorized capital stock - ₱1 par value	8,400,000,000	8,400,000,000
Issued and outstanding -		
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 and Paid-in Capital

The Company's retained earnings balance amounted to ₱2,409.16 million and ₱2,473.18 million as at December 31, 2019 and 2018, respectively, while paid-in capital is ₱7,521.77 million and ₱4,889.78 million as at December 31, 2019 and 2018, respectively. Retained earnings available for dividend declaration amounted to ₱1,812.54 million and ₱2,214.03 million as at December 31, 2019 and 2018, respectively

Dividends

Information on cash dividends declared are as follows:

Date of Declaration	Type	Rate	Amount	Record Date
February 28, 2018	Cash	₱0.04 per share	195,591	March 14, 2018

As at December 31, 2019 and 2018, unpaid cash dividends amounting to ₱16.59 million and ₱16.65 million, respectively, comprise the "Due to stockholders" account in the parent company statement of financial position (see Note 31). There were no dividends declared in 2019.

23. Revenue from Sale of Electricity

The table presents the Company's revenue from different revenue streams.

	2019	2018
Revenue from power supply contracts	₱13,510,271	₱13,422,058
Revenue from power generation and trading and ancillary services	893,568	811,919
	₱14,403,839	₱14,233,977



24. Cost of Sale of Electricity

This account consists of:

	2019	2018
Costs of power purchased (see Note 33)	₱13,086,857	₱13,702,458
Fuel (see Note 8)	1,153,243	721,790
Station use	85,621	12,807
Depreciation and amortization (see Notes 11 and 27)	45,038	50,472
Repairs and maintenance	30,576	21,501
Contractor's fee	25,200	33,381
Market fees	13,271	22,098
Insurance	12,052	9,920
Salaries (see Note 26)	2,601	5,200
Taxes and licenses	2,471	2,979
Rent	1,175	831
Pension and other employee benefits (see Notes 26 and 30)	221	1,209
Others	14,229	7,278
	₱14,472,555	₱14,591,924

25. General and Administrative Expenses

This account consists of:

	2019	2018
Taxes and licenses	₱119,424	₱136,317
Salaries and directors' fees (see Notes 26 and 31)	108,469	112,384
Management and professional fees (see Note 31)	72,341	44,645
Provision for probable losses on deferred exploration costs (see Note 15)	34,493	—
Bank charges	32,035	11,225
Insurance, dues and subscriptions	21,636	8,086
Depreciation and amortization (see Notes 11, 16 and 27)	16,648	24,296
Pension and other employee benefits (see Notes 26 and 30)	15,781	16,925
Building maintenance and repairs	13,608	18,332
Provision for inventory obsolescence (see Note 8)	5,554	159
Communications	3,033	3,653
Transportation and travel	2,972	7,086
Meetings and conferences	2,932	2,272
Office supplies	2,841	2,981
Advertising	2,501	1,276
Provision for credit losses (see Note 7)	1,163	12,737
Rent (see Note 31)	1,065	2,856
Plug and abandonment	202	37,819
Provision for PPE impairment (see Note 11)	—	933
Donation and contribution	—	600
Others	7,043	20,992
	₱463,741	₱465,574



Others include Christmas expenses, entertainment, amusement and recreation expenses, corporate social responsibilities and sponsorship expenses, input VAT written off and other miscellaneous expenses.

26. Personnel Expenses

This account consists of:

	2019	2018
Salaries and directors' fees included under:		
Cost of sale of electricity (see Note 24)	₱2,601	₱5,200
General and administrative expenses (see Note 25)	108,469	112,384
Pension and other employee benefits included under:		
Cost of sale of electricity (see Notes 24 and 30)	221	1,209
General and administrative expenses (see Notes 25 and 30)	15,781	16,925
	₱127,072	₱135,718

27. Depreciation and Amortization

This account consists of:

	2019	2018
Property, plant and equipment (see Notes 11)	₱58,041	₱69,494
Right-of-use assets (see Note 16)	3,645	—
Investment property (see Note 14)	—	5,274
	₱61,686	₱74,768
Cost of sale of electricity (see Note 24)	₱45,038	₱50,472
General and administrative expenses (see Note 25)	16,648	24,296
	₱61,686	₱74,768

28. Other Income (Charges)

This account consists of:

	2019	2018
Interest and other financial income (see Notes 5, 6 and 7)	₱58,248	₱44,377
Loss on derivatives - net (see Note 35)	(6,851)	(13,180)
Foreign exchange gain - net	1,636	24,829
Gain (loss) on sale of:		
Property, plant and equipment (see Note 11)	294,100	254
Asset held for sale (see Note 10)	14,289	—
Investments	(6,652)	—
Inventories	(461)	—
Provision for unrecoverable input tax	—	(43,712)
Others	15,987	30,986
	₱370,296	₱43,554



In 2019, Others included an adjustment to take up the directors bonus from PHINMA Power amounting to ₱2.83 million, adjustment to take up accrual for retirement and sick leave and vacation leave amounting to ₱8.37 million and ₱2.82 million resulting from the sale of assets not used in operations or not held for investments.

In 2018, Others included reimbursement of feasibility costs amounting to ₱28.63 million.

Interest and Other Financial Income

The details of interest and other financial income are as follows:

	2019	2018
Interest income on:		
Short-term deposits (see Note 5)	₱41,398	₱21,782
Receivables from third parties	7,161	9,632
Cash in banks (see Note 5)	680	116
Net gains on changes in fair value of financial assets at FVTPL (see Note 6)	7,532	11,251
Interest income not subject to final tax	1,477	1,596
	₱58,248	₱44,377

Interest and Other Financial Charges

The details of interest and other financial charges are as follows:

	2019	2018
Interest expense on:		
Long-term loans* (see Note 19)	₱300,128	₱290,289
Short-term loans (see Note 19)	7,019	8,114
Nontrade payable	16,118	—
Amortization of debt issue cost (see Note 19)	11,282	6,256
Receivables from third parties**	(3,579)	(3,487)
Asset retirement obligation	—	372
Lease obligation (see Note 20)	454	—
Others	51	36
	₱331,473	₱301,580

*Net of ₱1.82 million and ₱1.76 million in 2019 and 2018, respectively, representing the amortization of embedded derivative on long-term loans (see Note 19).

**Refers to the day 1 difference on the receivables from third parties included under "Other noncurrent assets" (see Note 17).



29. Income Taxes

- a. The provision for current income tax amounted to nil in 2019 and 2018.
- b. The components of the Company's net deferred income tax assets as at December 31 are as follows:

	2019	2018
Deferred income tax assets on:		
NOLCO	₱459,737	₱81,306
Accrued expenses	61,814	8,211
Allowance for credit losses	32,189	32,426
Allowance for probable losses on deferred exploration costs	13,646	3,298
Pension and other employee benefits	6,716	7,092
Lease liability	7,233	—
Asset retirement obligation - liability	2,342	2,369
Allowance for impairment on property and equipment	2,550	280
Unamortized discount on long-term receivables	1,852	2,926
Derivative liability on long-term loans	729	1,274
Unamortized past service cost	660	793
Deferred revenue	—	116,187
Others	21	47
	589,489	256,209
Deferred income tax liabilities on:		
Accrual of trading revenue	(63,584)	—
Unamortized interest cost on payable to Axia	(50,773)	—
Unamortized debt issue cost	(14,557)	(6,235)
Right-of-use asset	(7,929)	—
Asset retirement obligation - asset	(274)	(274)
Others	(858)	(596)
Unrealized foreign exchange gain	—	(183)
	(137,975)	(7,288)
Presented in other comprehensive income		
<i>Deferred tax asset:</i>		
Derivative liability on hedging - OCI	6,318	—
Remeasurement	773	735
Unrealized fair value loss on financial assets at FVOCI	—	1,979
	7,091	2,714
<i>Deferred tax liability:</i>		
Unrealized fair value gains on financial assets at FVOCI	—	(4,351)
Deferred income tax assets - net	₱458,605	₱247,284



The Company recognized deferred income tax assets to the extent that it is probable that sufficient taxable income will be available to allow all or part of deferred income tax assets to be utilized. Deferred income tax not recognized by the Company pertains to excess MCIT over RCIT and portion of NOLCO amounting to ₱377.38 million and ₱8.33 million and ₱486.74 million and ₱8.33 million as at December 31, 2019 and 2018, respectively.

The details of the Company's NOLCO and MCIT as at December 31, 2019 and 2018 are as follows:

Year Incurred	Valid Until	NOLCO		Excess MCIT	
		2019	2018	2019	2018
2017	2020	₱455,862	₱455,862	₱8,325	₱8,325
2018	2021	1,409,873	1,409,873	—	—
2019	2022	924,654	—	—	—
		₱2,790,389	₱1,865,735	₱8,325	₱8,325

- c. The reconciliation between the effective income tax rates and the statutory income tax rate follows:

	2019	2018
Applicable statutory income tax rate	(30.00%)	(30.00%)
Decrease in tax rate resulting from:		
Dividend income exempt from income tax	(17.38)	(93.42)
Interest income subjected to final tax	(4.78)	(3.74)
Movement in unrecognized DTA	(14.59)	55.51
Nondeductible expenses	1.73	8.09
Others	0.02	(0.02)
Effective income tax rate	(65.00%)	(63.58%)

- d. 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 Company. Management has considered the impact of TRAIN in managing the operation hours of its power plants.



30. Pension and Other Employee Benefits

The Company has a funded, noncontributory defined benefit retirement plan covering all of its regular and full-time employees.

Pension and other employee benefits consist of:

	2019	2018
Pension liability	₱17,761	₱10,306
Vacation and sick leave accrual	7,201	15,784
	24,962	26,090
Less current portion of vacation and sick leave accrual*	825	6,503
	₱24,137	₱19,587

*Included in "Accrued expenses" under "Accounts payable and other current liabilities" account in the parent company statement of financial position (see Note 18).

Pension and other employee benefits included under "Cost of sale of electricity" and "General and administrative expenses" accounts in the parent company statement of income:

	2019	2018
Pension expense	₱7,329	₱7,605
Vacation and sick leave accrual	(8,368)	4,595
	(₱1,039)	₱12,200

A. 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	₱75,104	₱64,798	₱10,306
Pension expense in parent company statement of income:			
Current service cost	6,951	—	6,951
Net interest	3,804	3,426	378
	10,755	3,426	7,329
Remeasurement loss (gain) in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	—	(1,877)	1,877
Experience adjustments	(9,482)	—	(9,482)
Changes in demographic assumptions	(4,801)	(4,801)	—
Actuarial changes arising from changes in financial assumptions	7,731	—	7,731
	(6,552)	(6,678)	126
Benefits paid	(42,685)	(42,685)	—
At December 31, 2019	₱36,622	₱18,861	₱17,761



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	₱67,781	₱59,806	₱7,975
Pension expense in parent company statement of income:			
Current service cost	7,145	—	7,145
Net interest	2,847	2,387	460
	9,992	2,387	7,605
Remeasurement loss (gain) in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	—	(2,208)	2,208
Experience adjustments	8,560	—	8,560
Changes in demographic assumptions	(1,323)	—	(1,323)
Actuarial changes arising from changes in financial assumptions	(6,297)	—	(6,297)
	940	(2,208)	3,148
Contributions	—	8,422	(8,422)
Benefits paid	(3,609)	(3,609)	—
At December 31, 2018	₱75,104	₱64,798	₱10,306

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 is as follows:

	2019	2018
Investments in:		
Equity instruments	₱11,579	₱28,750
Government securities	1,855	25,733
UITFs	5,465	3,523
Cash and cash equivalents	—	194
Allowance for probable losses	—	(3)
Receivables	18	6,815
Liabilities	(56)	(214)
	₱18,861	₱64,798

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 5% of plan assets; all other equity securities are transacted over the counter.

The plan assets include shares of stock of the Company with fair value of nil and ₱0.03 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 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	5.07%	7.41%
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 December 31, 2019, assuming all other assumptions were held constant:

		2019		2018
		Increase (Decrease) in Pension Liability		Increase (Decrease) in Pension Liability
Discount rate	(Actual + 1.00%)	(P3,726)	8.41%	(P3,064)
	(Actual – 1.00%)	4,548	6.41%	3,608
Salary increase rate	(Actual + 1.00%)	4,672	6.00%	4,079
	(Actual – 1.00%)	(3,894)	4.00%	(3,536)

The management performs an Asset-Liability Matching (ALM) Study annually. The overall investment policy and strategy of the Company'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 risks of the plans. The Company's current strategic investment strategy consists of 66% of equity instruments, 35% fixed income instruments and 1% of debt instruments.

The Company expects to contribute P6.81 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:

	2019	2018
Less than one year	P8,145	P46,483
More than one year to five years	15,157	12,379
More than five years to 10 years	21,388	30,841
More than 10 years to 15 years	27,494	21,372
More than 15 years to 20 years	31,864	53,405
More than 20 years	213,710	228,512



The average duration of the expected benefit payments at the end of the reporting period is 19.41 years.

On October 1, 2017, the retirement plan was amended to include a voluntary defined contribution (DC) program where a regular full-time employee may contribute either 0.6%, 1.2%, 1.8% or 2.4% of his monthly basic salary every month which shall be matched by the Company with 0.4%, 0.8%, 1.2% or 1.6% of the employee's basic salary, respectively. The contributions and earnings shall be paid to the employee (or his beneficiary in case of death) only in the event of the employee's separation from the Company. Each contributing employee shall be allowed to change the amount of his voluntary contributions only once a year, done on a common date and in the manner to be specified by the Retirement Committee. However, the Company reserves the right, whenever economic conditions may warrant, to discontinue or suspend its contributions. There are separate sub-funds for the defined contribution and benefit plans which will not be commingled with each other or be used to fulfill the funding requirements of both retirement plans. The Company contributed ₱0.83 million and ₱0.98 million to the DC fund which were recognized as expense in 2019 and 2018, respectively.

B. Vacation and Sick Leave

The following tables summarize the components of vacation and sick leave expense (income) recognized in the parent company statement of income and the amounts recognized in the parent company statement of financial position.

	2019	2018
Current service costs	₱472	₱1,456
Interest costs	1,147	654
Actuarial (gain) loss	(9,987)	2,485
	(₱8,368)	₱4,595

Changes in present value of the vacation and sick leave obligation are as follows:

	2019	2018
Balance at the beginning of year	₱15,784	₱11,571
Current service cost	473	1,456
Net interest	1,147	654
Actuarial (gain) loss	(9,987)	2,485
Benefits paid	(216)	(382)
Balance at the end of year	₱7,201	₱15,784

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 expected to be settled in cash. 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 and ₱10.26 million for 2019 and 2018, 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 Company transacts with subsidiaries, 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 balances of accounts and transactions pertaining to related parties as at and for the years ended December 31 are as follows:

2019					
Company	Amount/ Volume	Nature	Outstanding Balance Receivable (Payable)	Terms	Conditions
<u>Parent</u>					
AC Energy Inc.					
General and administrative expenses	₱31,700	Management fee and other expenses	(₱8,399)	30-day, noninterest-bearing	Unsecured
Miscellaneous income	9	Travel and Transportation Expenses	9	30-day, noninterest-bearing	Unsecured
General and administrative expenses	638	Miscellaneous-guarantee fee	(354)	30-day, non-interest bearing	Unsecured
Investment in subsidiaries	340,000	Reimbursement of down payment to Axia	–	Noninterest-bearing	Unsecured
<u>Subsidiaries</u>					
PHINMA Power					
Revenue from sale of electricity	98,953	Sale of electricity	22,751	30-day, noninterest-bearing	Unsecured, no impairment
Miscellaneous income	2,828	Directors' bonus	2,828	30-day, noninterest-bearing	Unsecured, no impairment
Accounts receivable and other current asset	–	Share in expenses	1,096	30-day, noninterest-bearing	Unsecured, no impairment
Accounts receivable and other current asset	108	Rental income	–	30-day, noninterest-bearing	Unsecured, no impairment
Cost of sale of electricity	239,570	Purchase of electricity	(39,030)	30-day, noninterest-bearing	Unsecured
CIPP					
Cost of sale of electricity	74,336	Purchase of electricity	(16,884)	30-day, noninterest-bearing	Unsecured
One Subic Power					
Due from related parties	550,000	Accommodation	550,000	Noninterest-bearing	Unsecured
Cost of sale of electricity	170,837	Purchase of electricity	(24,851)	30-day, noninterest-bearing	Unsecured
SLTEC					
Revenue from sale of electricity	38,527	Sale of electricity, rent, dividend and share in expenses	23,898	30-day, noninterest-bearing	Unsecured, with impairment
Accounts receivable and other current asset	520	Miscellaneous income	–	30-day, noninterest-bearing	Unsecured, with impairment
Accounts receivable and other current asset	19	Rental income	–	30-day, noninterest-bearing	Unsecured, with impairment
Cost of sale of electricity	4,734,906	Purchase of electricity	(377,208)	30-day, noninterest-bearing	Unsecured
Palawan55					
Due from related parties	7,477	Advances	7,477	30-day, noninterest-bearing	Unsecured
BCHC					
Advances to affiliates - subscription	315,000	Advances	315,000	Subsequently on demand	Unsecured; unimpaired
(Forward)					



2019					
Company	Amount/ Volume	Nature	Outstanding Balance Receivable (Payable)	Terms	Conditions
ACES					
Payable to affiliates	₱250	Advances	(₱250)	On demand	Unsecured
ACEX					
Due from related parties	100	Advances	100	30-day, noninterest-bearing	Unsecured
<u>Associates</u>					
Asia Coal					
Accounts payable and other current liabilities	—	Advances	(254)	Noninterest-bearing	Unsecured
MGI					
Cost of sale of electricity	1,139,163	Purchase of electricity	(157,965)	30-day, noninterest-bearing	Unsecured
<u>Other Related Parties</u>					
Ingrid Power Holdings, Inc.					
Advances to affiliates	150,000	Advances	150,000	Subsequently on demand	Unsecured; unimpaired
SolarAce1 Energy Corp.					
Advances to affiliates	26,000	Advances	26,000	Subsequently on demand	Unsecured; unimpaired
Directors					
General and administrative expenses	6,165	Directors' fees and annual incentives	—	On demand	Unsecured
Stockholders					
Due to stockholders	—	Cash dividend	(16,594)	Payable on March 31, 2020; subsequently on demand	Unsecured
Due from related parties (see Note 7)			₱608,159		
Advances to affiliates (see Note 17)			491,000		
Due to related parties (see Note 18)			(625,195)		
Due to stockholders (see Note 22)			(16,594)		

2018					
Company	Amount/ Volume	Nature	Outstanding Balance Receivable (Payable)	Terms	Conditions
<u>Ultimate Parent</u>					
PHINMA, Inc.					
Rental and other income	₱103	Rent and share in expenses	₱—	30-60 day, noninterest-bearing	Unsecured
General and administrative expenses	27,968	Management fees and share in expenses	(1,341)	30-day, noninterest-bearing	Unsecured
Accounts payable and other current liabilities	—	Rental deposit	(186)	End of lease term	Unsecured
Accounts payable and other current liabilities	49,308	Cash dividend	—	Payable on April 05, 2018; subsequently on demand	Unsecured
<u>Subsidiaries</u>					
PHINMA Power					
Revenue from sale of electricity, dividend, rental and other income	262,457	Sale of electricity dividend, rent and share in expenses	1,112	30-day, noninterest-bearing	Unsecured, no impairment

(Forward)



2018					
Company	Amount/ Volume	Nature	Outstanding Balance Receivable (Payable)	Terms	Conditions
Cost of sale of electricity, capital expenditures and other expenses	₱170,234	Purchase of electricity, operations and maintenance (O&M) fees, and share in expenses	(₱25,559)	30-day, noninterest-bearing	Unsecured
Accounts payable and other current liabilities	993	Cash dividend	–	Payable on April 05, 2018; subsequently on demand	Unsecured
Accounts payable and other current liabilities	157,633	Pass through charges	–	30-day, noninterest-bearing	Unsecured
CIPP Revenue	20,133	Electricity sold & dividend income	–	30-day, noninterest-bearing	Unsecured
Cost of sale of electricity	39,078	Purchase of electricity	(216)	30-day, noninterest-bearing	Unsecured
PHINMA Renewable Accounts payable and other current liabilities	106,022	Cash dividend	–	Payable on April 05, 2018; subsequently on demand	Unsecured
Receivable	197,498	Redemption of a portion of preferred shares	–	30-day, noninterest-bearing	Unsecured
One Subic Power Cost of sale of electricity	207,455	Purchase of electricity	(16,778)	30-day, noninterest-bearing	Unsecured
PHINMA Solar Accounts payable and other current liabilities	90,000	Advances	(90,000)	30-day, noninterest-bearing	Unsecured
<u>Joint Ventures</u>					
SLTEC 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, noninterest-bearing	Unsecured, with impairment
Cost of sale of electricity	6,283,516	Purchase of electricity	(508,808)	30-day, noninterest-bearing	Unsecured
Accounts payable and other current liabilities	–	Rental deposit	(497)	End of lease term	Unsecured
ACTA Investments and advances (see Note 12)	4,650	Additional investment	–	Noninterest-bearing	Unsecured
<u>Associates</u>					
Asia Coal Accounts payable and other current liabilities	–	Advances	(254)	Noninterest-bearing	Unsecured
MGI Dividend income	12,500	Dividend received	–	Noninterest-bearing	Unsecured
Cost of sale of electricity	1,142,885	Purchase of electricity	(144,225)	30-day, noninterest-bearing	Unsecured
Investments and advances (see Note 12)	12,500	Additional investment	–	Noninterest-bearing	Unsecured
<u>Entities Under Common Control</u>					
PHINMA Corporation Deposit receivable	460	Rental deposit	460	Noninterest-bearing	Unsecured, no impairment
Dividend and other income	3,853	Dividends received and share in expenses	–	Noninterest-bearing	Unsecured
(Forward)					



2018					
Company	Amount/ Volume	Nature	Outstanding Balance Receivable (Payable)	Terms	Conditions
General and administrative expenses	₱3,534	Share in expenses	(₱419)	30-day, noninterest-bearing	Unsecured
Accounts payable and other current liabilities	51,293	Cash dividend	—	Payable on April 05, 2018; subsequently on demand	Unsecured
PHINMA Property Holdings Corporation (PPHC)					
Accounts payable and other current liabilities	—	Advances	(171)	30-60 day, noninterest-bearing	Unsecured
Union Galvasteel Corporation (UGC)					
Dividend income	3,458	Dividend received	—	Noninterest-bearing	Unsecured
Receivables	225,000	Sale of 50% Interest in PHINMA Solar	45,000	Noninterest-bearing	Unsecured, no impairment
Rent and other income	619	Rent and share in expenses	123	End of lease term	Unsecured; no impairment
Accounts payable and other current liabilities	—	Rental deposit	(158)	End of lease term	Unsecured
T-O Insurance, Inc. (T-O Insurance)					
General and administrative expenses	6,270	Insurance expense	(3,934)	30-60 day, noninterest-bearing	Unsecured
Receivables	8	Refund of overpayment	—	30-60 day, noninterest-bearing	Unsecured
Emar Corporation					
Other income	64	Share in expenses	—	30-60 day, noninterest-bearing	Unsecured
Accounts payable and other current liabilities	4,279	Cash dividend	—	Payable on April 05, 2018; subsequently on demand	Unsecured
<u>Other Related Parties</u>					
Directors					
General and administrative expenses	₱7,876	Directors' fees and annual incentives	₱—	On demand	Unsecured
Stockholders					
Due to stockholders	89,718	Cash dividend	(16,651)	Payable on March 31, 2017; subsequently on demand	Unsecured
Due from related parties (see Note 7)			₱334,688		
Deposits			460		
Due to related parties (see Note 18)			(792,546)		
Accrued directors' bonus and annual incentives (see Note 18)			—		
Due to stockholders (see Note 22)			(16,651)		



AC Energy

The Company has a management contract with PHINMA, Inc. This Management Contract was 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.

Also, for each coal swap transaction which the Company enters, AC Energy charges guarantee fee. It is payable 30 days post the confirmation of the transaction.

CIPP

Effective January 1, 2013, CIPP granted the Company the right to utilize its generator node for the purpose of purchasing electricity that will be sold to the Company's customers. Sales of electricity are based on WESM prices. On June 26, 2013, a PAMA valid for ten (10) years was entered into by and between CIPP as generator and the Company as administrator, for the administration and management by the Company of the entire capacity and net output of CIPP. On January 12, 2018, CIPP and the Company amended the PAMA, providing for the same capacity rate based on nominated capacity and billing of fuel recovery and utilization fee. The new PAMA became effective starting March 26, 2018 and valid for ten years and is subject to regular review.

PHINMA Renewable

The Company granted advances to PHINMA Renewable for its operating and working capital requirements. The Company sells US Dollars to PHINMA Renewable for payment of the latter's various expenses through the Company's banking facilities and accommodation of expenses.

In 2019 and 2018, the Company redeemed a portion of its preferred shares in PHINMA Renewable amounting to ₱325.00 million and ₱197.50 million, respectively (see Note 12).

One Subic Power

On November 18, 2010, the Company and One Subic Power entered into a PAMA. Under the terms of the PAMA, the Company will administer and manage the entire generation output of the 116 MW diesel power plant in Subic Bay Freeport Zone, Olongapo City.

PHINMA Solar

In 2018, PHINMA Solar granted advances to the Company amounting to ₱90.00 million for its working capital requirements.

PHINMA Petroleum

The Company sells U.S. dollars to PHINMA Petroleum for payment of the latter's various expenses through the Company's banking facilities and accommodation of expenses.

SLTEC

The transactions with SLTEC include the sale and purchase of electricity (see Note 33), reimbursements of expenses and receipt of dividends (see Note 12). SLTEC became a subsidiary effective July 1, 2019.

SLTEC leased and occupied part of the office space owned by the Company. Monthly rent is based on a pre-agreed amount subject to 5% escalation rate per annum. The lease agreement is for a period of five years commencing on October 10, 2011. The contract ended on October 15, 2016 and it was not renewed.



MGI

The Company purchases the entire net electricity output of MGI (see Note 34). Other transactions with MGI include reimbursements of expenses and advances for future subscriptions. In 2018, the Company invested additional capital to MGI amounting to ₱12.50 million (see Note 12).

PPHC/UGC /Asian Plaza, Inc./Asia Coal/ACTA

PPHC, UGC, Asian Plaza, Inc. and Asia Coal are entities under common control while ACTA is a joint venture of the Company. The transactions for these companies include cash dividends and/or advances.

In 2019 and 2018, the Company made additional investments in ACTA's capital stock amounting to nil and ₱4.65 million, respectively (see Note 12).

Indebtedness of or Advances to Related Parties

The Company, in the normal course of business, has transactions with its related parties consisting principally of advances for working capital requirement.

As at December 31, 2019, the Company's advances to related parties arise from the acquisition of shares of Ingrid Power Holdings, Inc. and Solar Ace1 Energy, Corp. of the Company.

PHINMA, Inc.

The Company has a management contract with PHINMA, Inc. up to August 31, 2023, renewable thereafter upon mutual agreement. Under this contract, PHINMA, Inc. has a general management authority with corresponding responsibility over all operations and personnel of the Company including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance, and other business activities of the Company. Under the existing management agreement, the Company pays PHINMA, Inc. a fixed monthly management fee plus an annual incentive based on a certain percentage of the Company's net income. Other expenses PHINMA, Inc. bills to the Company include rent and share in expenses. The Company also bills PHINMA, Inc. for rent and the latter's share in common expenses.

PHINMA, Inc. received cash dividend of ₱49.31 million in 2018 for its investments in the Company's stocks traded in the stock market.

PHINMA Power

PHINMA Power leases and occupies part of the office space owned by the Company. On November 3, 2011, PHINMA Power granted the Company the right to utilize its generator node for the purpose of purchasing electricity that will be sold to a customer. Sales of electricity are based on WESM prices. On December 26, 2013, a PAMA valid for (10) ten years was entered into by and between PHINMA Power as generator and the Company as administrator, for the administration and management by the Company of the entire capacity and net output of PHINMA Power. On October 8, 2015, the Company entered into an O&M Agreement with PHINMA Power whereby in consideration for a fixed fee, PHINMA Power will provide technical services, expertise, management and manpower for the Company's power barges. On January 12, 2018, PHINMA Power and the Parent Company amended the PAMA, providing for a higher capacity rate based on nominated capacity and billing of fuel recovery and utilization fee. The new PAMA became effective starting March 26, 2018 and valid for ten years and is subject to regular review.

PHINMA Power received cash dividend of ₱0.99 million in 2018 for its investments in the Company's stocks traded in the stock market.



PHINMA Corporation

PHINMA Corporation is likewise controlled by PHINMA, Inc. through a management agreement. PHINMA Corporation bills the Company for its share in expenses. The Company also receives cash dividends from PHINMA Corporation.

PHINMA Corporation received cash dividend of ₱51.29 million in 2018 for its investments in the Company's stocks traded in the stock market.

T-O Insurance

T-O Insurance, Inc. is likewise controlled by PHINMA, Inc. through a management agreement. The Company insures its properties through T-O Insurance, Inc. The Company's transaction with T-O insurance, Inc. includes payment of insurance and membership fees, the receipt of refund for overpayment and purchase of dollars.

Emar Corporation

The Company bills Emar Corporation for its share on expenses which is collected within the year.

Directors

The Company recognized bonus to directors computed based on net income before the effect of the application of the equity method of accounting.

Retirement Fund

The fund is managed by a trustee under the PHINMA Jumbo Retirement Plan (see Note 30).

Stockholders

Dividends payable under "Due to stockholders" account in the statement of financial position amounted to ₱16.59 million and ₱16.65 million as at December 31, 2019 and 2018, respectively (see Note 22).

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 Company 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 Company are as follows:

	2019	2018
Short-term employee benefits	₱33,460	₱39,388
Post-employment benefits	2,917	2,857
	₱36,377	₱42,245

The management fees billed by ACEI in 2019 include ₱15.60 million which pertain to compensation of officers.

32. Loss per Share

Basic and diluted earnings (loss) per share are computed as follows:

	2019	2018
	<i>(In Thousands, Except for Number of Shares and Per Share Amounts)</i>	
(a) Net income (loss)	(₱109,091)	(₱429,710)
Common shares outstanding at beginning of year (Note 22)	4,889,774,922	4,889,774,922
Weighted average number of shares issued during the year	1,316,000,000	—
(b) Weighted average common shares outstanding	6,205,774,922	4,889,774,922
Basic/Diluted Earnings (Loss) per share (a/b)	(₱0.02)	(₱0.09)

In 2019 and 2018, the Company does not have any potential common shares or other instruments that may entitle the holder to common shares. Consequently, diluted loss per share is the same as basic loss per share in 2019 and 2018.

33. Significant Laws, Contracts and Commitments

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 Company, 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 Company 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 Company, 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 Company 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 No. 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. The Company is subject to this cap.

Power Purchase Agreement / Contract to Purchase Generated Electricity

The Company entered into contracts with SLTEC, MGI and third parties where the 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)

The Company entered into contract with SLTEC where the 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)

The Company entered into PAMAs with its subsidiaries PHINMA Power, CIPP and One Subic Power. Under the terms of the PAMA, the Company 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 or quarterly. 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 Subic Bay Metropolitan Authority.

On January 12, 2018, the PAMAs of the Company 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

On December 10, 2012, the Company executed an ASPA 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, the Company signed an ESA with GUIMELCO, under which the Company 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, the Company shall supply, for a period of ten (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 December 27, 2017, Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN Law) was signed into law. The TRAIN Law, includes among others, the inclusion of additional taxes on fuel. The TRAIN Law modifies the fuel computation and electric fee structure under the CSE, which would result to GUIMELCO shouldering additional and increased electricity fees and the need for the conduct of another Competitive Selection Process and re-application with the ERC. Thus, on February 1, 2018, PHINMA Energy has invoked a change in circumstances under the CSE considering that the passage of 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 the Company was declared as one of the best bids of MERALCO's 1200 MW. The 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 the Company was declared as one of the best bids of MERALCO's 500 MW. The 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.

ESA / Power Supply Agreement (PSA) with Other Electric Cooperatives

The Company entered into contracts with cooperatives for a period of one (1) to five (5) years with ERC approval. The agreements ended on December 25, 2016 with the expiry of the Company's WA license.

ESAs / CSEs with Customers

The Company signed contracts to supply the energy requirements of various bilateral and RES contestable customers with a duration ranging from one to 15 years.

Administration Agreement for the 40 MW Strips of the Unified Leyte Geothermal Power Plant (UL GPP)

On February 6, 2014, the Company was officially declared a winning bidder of a 40 MW Strip of the UL GPP. Consequently, PSALM and the Company, with conformity of the National Power Corporation entered into an Administration Agreement for the Selection and Appointment of the IPPAs for the Strips of Energy of the UL GPP. The agreement will expire on July 25, 2021.

On December 28, 2017, the Company and PSALM have agreed to mutually terminate the Administration Agreement for the 40MW strip of energy of the UL GPP. The Company also withdrew the case it filed earlier and no further claims will be pursued. As at March 21, 2019, the Company has settled all its obligations with PSALM.



Service Contracts with the DOE

SC 14 (North Matinloc)

The Company 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 producing 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 Company covering certain areas in Mabinay, Negros Oriental. The contract provides for a two-year Pre-Development Stage during which the Company shall evaluate the commercial feasibility of the project. Upon Declaration of Commerciality, the project shall proceed to the Development Stage which is valid for 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 Company, which grants the 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 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 21, 2019, 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 Company, which grants the 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 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 21, 2019, 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

Operating Lease Agreement with GUIMELCO

The 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 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 Company also terminated the lease with GUIMELCO in 2019.

Agreement on Assignment of Contract of Lease

On November 20, 2019, the Company, AC Energy, Ayala Land, Inc. (ALI) and Ayala Land 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, the Company recognized finance charges on the lease liabilities amounting to ₱0.46 million, included under “Interest and Other Financial Charges” account (see Note 28).

Subscription Agreements

The Company’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 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.

The Company’s Agreement with PINAI for ISLASOL and SACASOL shares

On December 3, 2019 the 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."

The Company’s Agreement with Ingrid

On December 19, 2019, the 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 ₱4.9 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.

34. Financial Risk Management Objectives and Policies

Objectives and Investment Policies

The funds of the entities held directly by the Company are managed by AC Energy’s Risk, Corporate Finance, Investor Relations and Treasury Group (RCIT). All Cash investments of the Company 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.

RCIT manages the funds of the Company 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 Company's financial assets that finance the Company's operations and investments in enterprises.

RCIT 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 Company.

Risk Management Process

Foreign Exchange Risk

The Company 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 Company 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 Company's significant foreign currency-denominated financial assets and financial liabilities as at December 31, 2019 and 2018 are as follows:

	2019		2018
	US Dollar (US\$)	Sing. Dollar (S\$)	US Dollar (US\$)
Financial Assets			
Cash and cash equivalents	\$13,565	\$-	\$411
Short-term investments	-	-	-
Foreign currency-denominated assets	\$13,565	\$-	\$411
Financial Liabilities			
Accounts payable and other current liabilities	-	(\$34)	-
	-	(\$34)	-
Net foreign currency denominated assets (liabilities)	\$13,565	(\$34)	\$411
Philippine peso equivalent	₱688,288	₱1,275	₱21,610

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 and ₱37.49 to S\$1.00 as at December 31, 2019 and ₱52.58 to US\$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 Company'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 Company'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\$	Sing\$
2019	(₱0.50)	(₱6,783)	(₱16.80)
	(1.00)	(13,565)	(33.61)
	0.50	6,783	16.80
	1.00	13,565	33.61
2018	(0.50)	(205.30)	-
	0.50	205.30	-
	(1.00)	(410.60)	-
	1.00	410.60	-

Credit or Counterparty Risk

The Company defines Credit or Counterparty Risk as the risk of sustaining a loss resulting from a counterparty's default to a transaction entered with the Company.

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 Company, the Company'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	Total
	Class A	Class B	Class C	Impaired	Impaired	
Receivables:						
Current						
Trade	₱1,460,970	₱–	₱–	₱541,465	₱32,061	₱2,034,496
Due from related parties	597,899	–	–	–	10,260	608,159
Others	10,849	–	–	7,738	63,199	81,786
Noncurrent						
Trade	–	–	–	571,714	6,998	578,712
Receivables from affiliates	–	491,000	–	–	–	491,000
Receivables from third parties	–	333,333	–	–	–	333,333
	₱2,069,718	₱824,333	₱–	₱1,120,917	₱112,518	₱4,127,486

	2018					
	Neither Past Due nor Impaired			Past Due but not Impaired	Past Due Individually Impaired	Total
	Class A	Class B	Class C			
Receivables:						
Current						
Trade	₱1,524,063	₱—	₱—	₱321,899	₱30,899	₱1,876,861
Due from related parties	321,754	—	—	2,674	10,260	334,688
Others	2,949	—	—	7,216	63,199	73,364
Noncurrent						
Trade	—	—	—	571,714	6,998	578,712
Receivables from third parties	—	317,954	—	—	—	317,954
	₱1,848,766	₱317,954	₱—	₱903,503	₱111,356	₱3,181,579

The Company 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 Company, which comprise cash and cash equivalents, short-term investments, financial assets at FVTPL, financial assets at FVOCI and derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company's assessments of the credit quality of its financial assets are as follows:

- Cash and cash equivalents, short-term investments, financial assets at FVTPL and derivative assets 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 Company.

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 Company's maximum exposure to credit risk, as follows:

	2019	2018
Financial Assets at FVTPL	P—	₱477,270
Financial Assets at FVOCI	950	204,136
	₱950	₱681,406

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
<i>Financial Assets at Amortized Cost (Portfolio 1)</i>		
Cash and cash equivalents	₱5,867,640	₱513,135
Short-term investments	100,000	—
Under “Receivables”:		
Trade receivables	2,034,496	1,876,861
Due from related parties	608,159	334,688
Others	81,786	73,364
Under “Other Current Assets”:		
Refundable deposits	42,882	72,088
Under “Other Noncurrent Assets”:		
Trade receivables	571,714	571,714
Receivables from third parties	333,333	317,954
Refundable deposits	98,363	85,042
	₱9,738,373	₱3,844,846

The Company's maximum exposure to credit risk are as follows:

	2019				2018	
	12-month	Lifetime ECL		Total	Total	
Grade	Stage 1	Stage 2	Stage 3	Simplified Approach		
High	₱5,967,640	₱—	₱—	₱2,235,644	₱8,203,284	₱2,461,124
Standard	—	—	—	—	—	317,954
Substandard	—	—	—	—	—	903,503
Default	—	—	—	110,568	110,568	111,356
Gross carrying amount	5,967,640	—	—	2,346,212	8,313,852	3,793,937
Less loss allowance	—	—	—	112,518	112,518	111,356
Carrying amount	₱5,967,640	₱—	₱—	₱2,233,694	₱8,201,334	₱3,682,581



Liquidity Risk

Liquidity risk is defined as the risk that the Company 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 Company.
- Investment maturities being spread on a weekly, monthly, and annual basis as indicated in the Company'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 Company's financial liabilities as at December 31 based on contractual undiscounted payments:

	2019					Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 years	
Accounts payable and other current liabilities ^(a) :						
Trade and nontrade accounts payable	P-	P896,322	P1,026,107	P-	P-	P1,922,429
Due to related parties	-	625,195	-	-	-	625,195
Accrued interest	-	105,174	-	-	-	105,174
Accrued expenses ^(b)	-	10,704	5,225	-	-	15,929
Derivative liability	-	21,060	-	-	-	21,060
Due to stockholders	16,594	-	-	-	-	16,594
Long-term loans ^(d)	-	99,378	631,385	4,574,502	6,987,736	12,293,001
Lease liability	-	2,752	8,577	13,918	-	25,247
Other noncurrent liabilities	-	-	-	2,604,451	-	2,604,451
	P16,594	P1,760,585	P1,671,294	P7,192,871	P6,987,736	P17,629,080

^(a) Excludes output VAT amounting to P296.38 million as at December 31, 2019 (see Note 18).

^(b) Excludes current portion of vacation and sick leave accruals amounting to P0.83 million as at December 31, 2019 (see Note 18).

^(c) Excludes payable to employees amounting to P3.23 million (see Note 18).

^(d) Includes contractual interest payments.

	2018					Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 years	
Accounts payable and other current liabilities ^(a) :						
Trade and nontrade accounts payable	P-	P598,204	P2,182	P-	P147	P600,533
Due to related parties	-	792,546	-	-	-	792,546
Accrued interest	-	46,507	-	-	-	46,507
Accrued expenses ^(b)	-	86,798	-	-	-	86,798
Others ^(c)	-	-	4,603	-	-	4,603
Due to stockholders	16,651	-	-	-	-	16,651
Short-term loans ^(d)	-	5,425	410,033	-	-	415,458
Long-term loans ^(d)	-	115,830	355,154	4,540,692	1,189,018	6,200,694
Other noncurrent liabilities	-	-	-	753,981	-	753,981
	P16,651	P1,645,310	P771,972	P5,294,673	P1,189,165	P8,917,771

^(a) Excludes output VAT amounting to P113.96 million and current portion of deferred revenue amounting to P387.29 million as at December 31, 2018 (see Note 18).

^(b) Excludes current portion of vacation and sick leave accruals amounting to P6.50 million as at December 31, 2018 (see Note 18).

^(c) Excludes payable to employees amounting to P0.78 million (see Note 18).

^(d) Includes contractual interest payments.



As at December 31, the profile of financial assets used to manage the Company's liquidity risk is as follows:

	2019				Total
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	
Loans and receivables:					
<i>Current</i>					
Cash and cash equivalents	₱5,867,640	₱—	₱—	₱—	₱5,867,640
Short term investments	—	100,000	—	—	100,000
Receivables:					
Trade	573,526	1,460,970	—	—	2,034,496
Due from related parties	10,260	597,899	—	—	608,159
Others	70,937	10,849	—	—	81,786
Refundable deposits*	—	—	42,882	—	42,882
<i>Noncurrent</i>					
Trade receivables	578,712	—	—	—	578,712
Receivables from third parties	—	—	—	333,333	333,333
Refundable deposits**	—	—	—	98,363	98,363
Derivative asset*	—	33	—	—	33
Financial assets at FVOCI:					
Quoted	—	—	—	10	10
Unquoted	—	—	—	940	940
	₱7,101,075	₱2,169,751	₱42,882	₱432,646	₱9,746,354

*Included in "Other current assets" account.

**Included in "Other noncurrent assets" account.

	2018				Total
	On Demand	Less than 3 Months	3 to 12 Months	Over 12 Months	
Loans and receivables:					
<i>Current</i>					
Cash and cash equivalents	₱513,135	₱—	₱—	₱—	₱513,135
Short term investments	—	—	—	—	—
Receivables:					
Trade	352,798	1,524,063	—	—	1,876,861
Due from related parties	12,934	321,754	—	—	334,688
Others	70,415	2,949	—	—	73,364
Refundable deposits*	—	—	72,088	—	72,088
<i>Noncurrent</i>					
Trade receivables	578,712	—	—	—	578,712
Receivables from third parties	—	—	—	317,954	317,954
Refundable deposits**	—	—	—	85,042	85,042
Financial assets at FVTPL	477,270	—	—	—	477,270
Derivative asset*	—	4	—	—	4
Financial assets at FVOCI:					
Quoted	—	—	—	101,817	101,817
Unquoted	—	—	—	102,319	102,319
	₱2,005,264	₱1,848,770	₱72,088	₱607,132	₱4,533,254

*Included in "Other current assets" account.

**Included in "Other noncurrent assets" account.

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 at December 31, 2019, the Company 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 Company has fixed rate financial instruments measured at fair value.

The Company's exposure to interest rate risk relates primarily to long-term debt obligations that bear floating interest rate. The Company 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:

In 2014, the Company also availed 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 Company 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 Company's objective to mitigate uncertainties in its earnings and cash flows.

The following table sets out the carrying amount, by maturity of the Company'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							
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
Special savings account (SSA) - Peso	2.75 - 4.10%	5,179,917	—	—	—	—	5,179,917
Special savings account (SSA) - Dollar	1.425 - 1.75%	13,550	—	—	—	—	13,550
Short-term investments	—	100,000	—	—	—	—	100,000
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							
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	27,947	1,272,277	1,388,692
SBC	4.84% - 4.95%	(4,541)	927,602	—	—	—	923,061
DBP	6.00% - 6.09%	61,435	66,383	71,136	75,893	690,622	965,469
SBC	6.50% - 6.59%	61,438	66,385	71,136	75,892	690,605	965,456
Short-term loans	5.25%	400,000	—	—	—	—	400,000
Special savings account (SSA) - Peso	1.125% - 4.25%	492,240	—	—	—	—	492,240
Special savings account (SSA) - Dollar	1.25%	19,843	—	—	—	—	19,843

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The other financial instruments of the Company that are not included in the above table are noninterest-bearing investments 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 Company'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 Company's equity other than those already affecting the profit or loss.

2019		
	Increase (Decrease) in Basis Points	Increase (Decrease) in Income Before Tax
Long-term loan	25 (25)	(P10,855) 10,855
SSA – Peso	25 (25)	12,950 (12,950)
SSA – Dollar	25 (25)	1,719 (1,719)
Short-term investments	25 (25)	250 (250)
2018		
	Increase (Decrease) in Basis Points	Increase (Decrease) in Income Before Tax
Long-term loan	25 (25)	(P7,277) 7,277
SSA	25 (25)	984 (984)
Short-term loan	25 (25)	980 (980)

Commodity Price Risk

The Company 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 Company 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 Company
- 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 Company's Chief Executive Officer and Chief Finance Officer are authorized to make coal hedging decisions for the Company. 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 Company'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 Company's outstanding coal hedge volumes and resulting derivative liability is as follows:

	2019	Test of Effectiveness
	In Metric Tons (MT)	U.S. Dollar (US\$)
Derivative Liabilities	135,000	(414,411)
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 Company's exposure to equity price risk relates primarily to its financial assets at FVOCI.

As at December 31, 2019, the Company 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 Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or acquire long-term debts. In 2018, the Company availed ₱0.93 billion loan agreement with SBC. In 2019, the Company availed P5.00 billion loan agreement with BDO. In relation to these agreements, the Company 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 Company as part of maintaining a strong credit rating with its creditors:

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

- (c) Minimum DSCR of 1.0 times after Grace Period up to Loan Maturity
- (d) Maximum Debt to Equity ratio of 2.0 times
- (e) Minimum Current ratio of 1.0 times

35. Fair Values

The table below presents the carrying values and fair values of the Company's financial assets and financial liabilities, by category and by class, as at December 31, 2019 and 2018.

2019				
	Carrying Value	Fair value		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable Input (Level 3)
Assets:				
Financial assets at FVOCI	₱950	₱10	₱940	₱-
Derivative assets*	33	-	33	-
Refundable deposits**	141,245	-	-	141,245
Receivables from third parties	333,333	-	-	333,333
	₱475,561	₱10	₱973	₱474,578
Liabilities:				
Long-term loans	₱8,576,550	₱-	₱8,576,550	₱-
Deposit payable & other liabilities***	157,408	-	-	157,408
Derivative liability	21,060	-	21,060	-
	₱8,755,018	₱-	₱8,597,610	₱157,408
2018				
	Carrying Value	Fair value		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Input (Level 2)	Significant Unobservable Input (Level 3)
Assets:				
Financial assets at FVTPL	₱477,270	₱-	₱477,270	₱-
Financial assets at FVOCI	204,136	91,887	9,930	102,319
Derivative assets*	4	-	4	-
Refundable deposits**	153,478	-	-	153,478
Receivables from third parties	317,954	-	-	317,954
	₱1,152,842	₱91,887	₱487,204	₱573,751
Liabilities:				
Short-term loan	₱400,000	₱-	₱-	₱400,000
Long-term loans	4,704,147	-	-	4,704,147
Deposit payable & other liabilities***	178,974	-	-	178,974
	₱5,283,121	₱-	₱-	₱5,283,121

* 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 Investment, Receivables, Accounts Payable and Other Current Liabilities (excluding Statutory Payables), Due to Stockholders and Short-term loan

The carrying amounts of cash and cash equivalents, short-term investments, receivables, accounts payable and other current liabilities (excluding statutory payables) and due to stockholders approximate their fair values due to the relatively short-term maturities of these financial instruments.

Financial Assets 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 Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: 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, Receivables from Third Parties, Deposits Payable, Lease Liabilities 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 Asset

Embedded Derivatives

The Company has bifurcated embedded derivatives from its fuel purchase contracts. The purchases are denominated in U.S. dollar but the Company 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.

The Company'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 Company's derivative instruments (both freestanding and embedded derivatives) are as follows:

	2019	2018
Balance at beginning of year	₱4	₱7,776
Net changes in fair value during the year	(6,851)	(13,180)
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 parent company statement of financial position (see Note 9).

36. Operating Segments

The Company 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 parent company financial statements.

	2019			Adjustments and	
	Power	Petroleum	Segment Total	Eliminations	Consolidated
Revenue	₱14,403,839	₱-	₱14,403,839	₱182,006	₱14,585,845
Costs and expenses	14,641,583	43,069	14,684,652	251,644	14,936,296
Other income (expense) - net					
Interest and other finance charges	-	-	-	(331,473)	(331,473)
Interest and other financial income	-	-	-	58,248	58,248
Loss on derivatives - net	(6,851)	-	(6,851)	-	(6,851)
Gain on sale of PPE	158	-	158	293,942	294,100
Gain on sale of asset held for sale	14,289	-	14,289	-	14,289
Loss on sale of investment	(6,652)	-	(6,652)	-	(6,652)
Loss on sale of inventories	(461)	-	(461)	-	(461)
Foreign exchange gain - net	-	-	-	1,636	1,636
Others	1,693	-	1,693	14,294	15,987
Segment loss	(₱235,568)	(₱43,069)	(₱278,637)	(₱32,991)	(₱311,628)
Operating assets	₱16,723,297	₱301,778	₱17,025,075	₱7,549,476	₱24,574,551
Operating liabilities	₱2,855,838	₱5,220	₱2,861,058	₱11,731,807	₱14,592,865
Capital expenditures	₱52,002	₱665	₱52,667	₱8,870	₱61,537
Capital disposals	10,966	63	11,029	237,872	248,901
Investments and advances	11,571,314	292,912	11,864,226	620	11,864,846
Depreciation and amortization	(47,086)	(435)	(47,521)	(14,165)	(61,686)
Benefit from income tax	-	-	-	202,537	202,537



	2018				
	Power	Petroleum	Segment Total	Adjustments and Eliminations	Consolidated
Revenue	₱14,233,977	₱–	₱14,233,977	₱818,863	₱15,052,840
Costs and expenses	14,794,926	42,920	14,837,846	219,652	15,057,498
Other income (expense) - net					
Interest and other finance charges	(371)	–	(371)	(301,209)	(301,580)
Interest and other financial income	–	–	–	44,377	44,377
Loss on derivatives - net	–	–	–	(13,180)	(13,180)
Gain on sale of PPE	–	259	259	2	261
Foreign exchange gain – net	–	–	–	24,829	24,829
Provision for unrecoverable input tax	(43,712)	–	(43,712)	–	(43,712)
Others	431	–	431	30,548	30,979
Segment profit (loss)	(₱604,601)	(₱42,661)	(₱647,262)	₱384,578	(₱262,684)
Operating assets	₱5,379,817	(₱2,244)	₱5,377,573	₱10,394,856	₱15,772,429
Operating liabilities	₱2,637,383	₱8,346	₱2,645,729	₱5,629,189	₱8,274,918
Capital expenditures	₱17,381	₱–	₱17,381	₱3,493	₱20,874
Capital disposals	–	–	–	556	556
Investments and advances	8,896,427	139,276	9,035,703	620	9,036,323
Depreciation and amortization	(54,332)	(452)	(54,784)	(19,984)	(74,768)
Provision for income tax	–	–	–	(167,026)	(167,026)

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 Company's associates and joint ventures.

Reconciliation of profit

	2019	2018
Segment total loss before adjustments and eliminations	(₱278,637)	(₱647,262)
Dividend income	180,539	818,009
Rent income	1467	854
General and administrative expense	(251,644)	(219,652)
Interest and other financial income	58,248	44,377
Interest and other financial charges	(331,473)	(301,209)
Other income - net	309,872	42,199
Income before income tax	(₱311,628)	(₱262,684)

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	₱17,025,075	₱5,377,573
<i>Current assets</i>		
Cash and cash equivalents	6,102,639	8,479,458
Receivables and other current assets	31,733	626,839
Financial assets at FVTPL	–	471,818
Short-term investments	100,000	–
<i>Noncurrent assets</i>		
Property, plant and equipment	6,425	47,021
Investments in subsidiaries, associates and joint ventures	620	620
Financial assets at FVOCI	950	209,588
Deferred income tax asset - net	458,605	247,284
Other noncurrent assets	848,504	312,228
Total assets	₱24,574,551	₱15,772,429

Reconciliation of liabilities

	2019	2018
Segment operating liabilities	₱2,645,729	₱2,645,729
<i>Current liabilities</i>		
Accounts payable and other current liabilities	1,203,977	484,575
Income and withholding taxes payable	15,729	4,231
Due to stockholders	16,594	16,651
Short-term loan	–	–
Current portion of lease liability	10,333	–
Current portion of long-term loans	219,173	157,684
Long-term loans - net of current portion	8,357,377	4,546,463
Lease liability – net of current portion	13,775	–
Pension and other employee benefits	24,137	19,587
Deferred income tax liabilities - net	–	–
Other noncurrent liabilities	2,086,041	399,998
Total liabilities	₱14,592,865	₱8,274,918



37. Supplemental Cash Flow Information

The following table shows the Company's non-cash investing and financing activities and corresponding transactions' amounts for the years ended December 31:

	2019	2018
Non-cash investing activities:		
Reclassifications to:		
Investments in subsidiaries	₱3,224,723	₱—
Other noncurrent assets	—	507,261
Asset held for sale	—	(30,710)
Property, plant and equipment	—	1,845
Payable to Axia for purchase of interest in SLTEC (Note 12)	2,890,755	—
Payable for additions to property, plant and equipment (Note 11)	44,360	—
Addition to right-of-use assets, net of amortization expense	26,430	—

Movement in the Company's liabilities from financing activities are as follows

	January 1, 2019	Availments	Payments	Others	December 31, 2019
Current portion of:					
Short-term loan	₱400,000	₱—	(₱400,000)	₱—	₱—
Long-term loans	157,684	—	(157,684)	219,173	219,173
Dividends payable	16,651	—	—	(57)	16,594
Lease liability	—	—	—	10,333	10,333
Interest payable	46,507	—	(249,555)	308,222	105,174
Noncurrent portion of:					
Long-term loans	4,546,463	5,000,000	(979,377)	(209,709)	8,357,377
Lease liability	—	—	(3,215)	16,990	13,775
Total liabilities from financing activities	₱5,167,305	₱5,000,000	(1,789,831)	₱344,952	₱8,722,426

Others includes the amortization of debt issue costs, interest expense and the effect of reclassification of non-current portion to current due to passage of time.

38. Events After the Reporting Period

Subscription Agreement with:

1. SolarAce1

On January 14, 2020, the 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 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 Company signed a subscription agreement with GigaAce1 for the subscription by the 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 of ACEPH was paid in cash the amount of ₱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 Company signed another subscription agreement with GigaAce1 for the subscription by the 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 Company signed a deed of transfer with GUIMELCO.

The 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 Company constructed on the leased premises a one (1) storey building.

Effective July 31, 2018, the Company stopped operating the Power Plant and subsequently sold its equipment and machineries. The Parent Company has outstanding lease payables as at 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 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..."

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 Company's financial position and performance as of and for the year ended December 31, 2019. Considering the evolving nature of this outbreak, the Company cannot determine at this time the impact to its financial position, performance and cash flows in 2020. The Company 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 Company to "AC Energy Corporation";
 - b. Increase of the Company's 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 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 Company in exchange for the issuance to ACEI of additional primary shares in the 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. Company's hedging policy, additional hedging counterparties, and guarantee fee arrangement with AC Energy;
 - b. Company's oil and diesel hedging transactions with Macquarie Bank Limited;
 - c. Company's guarantee arrangement with AC Energy for the Company's oil and fuel hedging transactions;
 - d. Payment of employee and employer shares under the Company's old defined contribution plan to covered employees as part of their transition to the new 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 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 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.

39. Contingencies

On August 20, 2014, the Company distributed cash and property dividends in the form of shares in PHINMA Petroleum (see Note 22) after securing SEC's approval of the registration and receipt of Certificate Authorizing Registration (CAR) from the BIR.

On October 22, 2014, the Company received from the BIR a Formal Letter of Demand (FLD), assessing the Company 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, the Company 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 the Company 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 the Company;
- 2) The Company 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 the Company.

On May 27, 2015, the Company received from the BIR a Final Decision on Disputed Assessment (FDDA) dated May 26, 2015, denying the protest.

On June 25, 2015, the Company 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 24, 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.

40. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

In compliance with this Bureau of Internal Revenue (BIR) RR No. 15-2010, following are the information on the taxes and licenses fees that the Company reported and/or paid for the year (presented in full amounts):

a. VAT

Details of the Company’s net sales/receipts, output VAT and input VAT accounts are as follows:

Output VAT

Net sales/receipts and output VAT declared in the Company’s VAT returns filed for the period follows:

	Net Sales/Receipts	Output VAT
Taxable sales:		
Sale of services	₱11,024,265,931	₱1,322,911,912
Sale of goods	381,539,155	45,784,698
Rental income	1,595,733	191,488
	11,407,400,819	1,368,888,098
Zero-rated sales	2,344,560,944	—
Exempt sales	100,418,184	—
	₱13,852,379,947	₱1,368,888,098

Zero-rated sales consist of sale of power to PEZA and sale of power generated from renewable sources of energy under Republic Act (R.A.) No. 9513.

Exempt sales represent collections allocated to universal charges, franchise tax and benefits to host communities and sales under Presidential Decree No. 87 which are not subject to VAT.



The Company's sale of services and rental income which are subjected to VAT are based on actual collections received, hence, may not be the same as amounts accrued in the statement of income.

Input VAT

The amount of VAT Input taxes claimed broken down into:

Beginning of the year	₱159,675,614
Deferred on capital goods exceeding 1 million from previous period	568,421
Current year's purchases:	
Services under cost of goods sold	1,113,469,975
Goods other than for resale or manufacture	113,903,823
Importations other than capital goods	1,586,312
Capital goods subject to amortization	454,425
Total available input tax	1,389,658,570
Less:	
Deferred on capital goods exceeding 1 million for the succeeding period	714,242
Input VAT applied against output VAT	1,368,888,098
Allocable to exempt sales	98,586
Balance at December 31, 2019	₱19,957,644

b. Landed Costs of Importation

Total landed costs of importation amounted to ₱22,858,695 in 2019, ₱691,333 of which pertain to customs duties, tariff and other fees. These were all paid as at December 31, 2019.

c. Other Taxes and Licenses

This includes all other taxes, local and national, including real property taxes, licenses and permit fees.

Details of other taxes and license fees are as follows:

Local

Business permits	₱108,115,790
Real property taxes	2,387,480
Mayor's permit fees & other licenses	8,317
Community tax certificates	21,000
Professional tax	5,700
Other taxes and licenses	211,167
	₱110,749,454

National

Gross receipts taxes on loans	₱6,970,599
Documentary stamp taxes (DST)	3,346,222
Fringe benefits tax	829,080
BIR Annual Registration	500
	₱11,146,401



d. DST

The Company's DST for the year ended December 31, 2019 is as follows:

DST on:	
Loans	₱1,479,452
Purchase of insurance	1,692,951
Advances	7,500
Lease	59,254
Others	107,065
	<u>₱3,346,222</u>

DST on the ₱5 billion long term debt availed on November 15, 2019 amounting to P37.5 million is recorded as debt issue costs which is deducted from the loan balance for reporting purposes and amortized over the term of the loan.

e. Withholding Taxes

Details of withholding taxes are as follows:

	Paid	Balance as at December 31, 2019
Withholding taxes on compensation and benefits	₱18,398,993	₱992,883
Expanded withholding taxes	95,598,517	14,590,138
Fringe benefits	683,319	145,761
	<u>₱114,680,829</u>	<u>₱15,728,782</u>

f. Tax Assessments and Cases

- i. The Company was assessed by the local government of Makati City in the amount of ₱2,436,220 for alleged deficiency taxes, fees and charges for the calendar years 2004 to 2007. The Company filed a complaint for the cancellation of the assessment on December 17, 2009. The Makati City Regional Trial Court (RTC) issued a decision dismissing the Company's complaint, to which the Company timely filed a Motion for Reconsideration on December 12, 2013. In an Order dated May 2, 2014, the Makati City RTC reconsidered its decision and cancelled the assessment. Local government of Makati City filed a Motion for Reconsideration of the said Order, which was denied by the Makati City RTC. Since Makati City has not appealed the Order, it has become final and executory.
- ii. On August 20, 2014, the Company 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, the Company received from the BIR a Formal Letter of Demand (FLD), assessing the Company 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, the Company and its independent legal counsel filed an administrative protest in response to the FLD, on the following grounds:

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